



Annual report for the year 2012





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# 2012 Management Report

»One of our strengths is our ability to make fast decisions. The fact that the vast majority of credit-related decisions are made in the Czech Republic maximizes both the benefits of head office's extensive expertise and authority as well as our local ability to make quick decisions while taking into account local considerations.«

Although last year saw the economies of our main trading partners grow, the Czech Republic recorded an unexpected and relatively deep slump, as the economy shrunk by 1.2%. Moreover, the fourth quarter brought a deepening of the recession throughout the Eurozone, exacerbating the risk of further negative developments.

For the Prague Branch of Commerzbank, 2012 was a year in which it celebrated its 20th year anniversary on the Czech market. At the same time, the Branch went through a period of restructuring, as Commerzbank's business in the Czech Republic and Slovakia was transferred to the 'Mittelstandsbank International' segment, which caters exclusively to medium-size enterprises. Both the Prague and Bratislava Branches now follow the Mittelstandsbank International business model, which has proven to be highly successful in both Western Europe and Asia. In addition to German and international corporations, we will concentrate on local medium-sized firms in both the Czech and Slovak markets, with a view to developing productive business partnerships.

In 2012, Prague Branch expanded its activities with the addition of Financial Engineering, a service that provides medium-sized businesses with innovative structured solutions for their operational and investment financing needs. This new business service builds on the tradition of our Structured Finance Department in the Czech Republic and Slovakia, incorporating new approaches and products that have been well-received by Financial Engineering's clients in Germany. In addition to large corporations, being the typical users of these services, we will also focus on medium-sized Czech and Slovak companies.



Prague Branch recorded solid earnings in 2012 despite the unfavorable market situation and our own internal restructuring efforts. The balance sheet total was mainly affected by a redefinition of the strategic clients portfolio and a slight reduction of the credit portfolio, which necessitated the closure of the Hradec Králové office as well as a minor reduction in sales staff.

Factors that had a positive effect on economic results in 2012 included a decrease in provisions and reserves as well as a reduction in the volume of classified loans, which improved the quality of our credit portfolio. Furthermore, we registered a year-on-year rise in earnings from documentary collection and letter of credit transactions, as well as an increase in client deposits. One of our strengths is our ability to make fast decisions. The fact that the vast majority of credit-related decisions are made in the Czech Republic maximizes both the benefits of head office's extensive expertise and authority as well as our local ability to make quick decisions while taking into account local considerations.

For 2013, Commerzbank analysts forecast a slight GDP growth in both the Czech Republic and key Eurozone countries.

In the current market environment, our primary objective is to maintain our level of competitiveness, and to enlarge our strategic client portfolio in the Czech Republic and Slovakia. In addition to first-rate services, we will rely on these three qualities in achieving this goal: competency, fairness, and trust.

Beate Simon  
General Manager



# Commerzbank AG

## Commerzbank worldwide

Commerzbank is a leading bank in Germany and Poland. It is also present worldwide in all markets for its customers as a partner to the business world. With the business areas Private Customers, Mittel-standsbank, Corporates & Markets and Central & Eastern Europe, it offers its private and corporate clients as well as institutional investors the banking and capital market services they need. With some 1,200 branches Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts nearly 14 million private customers, as well as 1 million business and corporate clients. In 2012, it generated revenues of just under EUR 10 billion with approximately 53,601 employees on average.



## Commerzbank in the Czech republic

Commerzbank has been present in the Czech Republic since 1992, when it opened its first branch in Prague. Given our attractive line of services and strong international background, Commerzbank is considered one of the leading foreign banks in the Czech Republic.

Commerzbank specializes in serving large and medium-sized companies, with its clients including both German & other international firms as well as local Czech corporates. In addition to all standard corporate banking services, ranging from overdraft accounts and electronic banking to more complex financing structures, our extensive trade financing services are unrivalled on the market, including documentary collections and export financing.

Our clients benefit from the unique combination of our detailed local market knowledge and extensive know-how available from across the global Commerzbank network.



# Organisation structure

## Prague branch

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### General Managers:



**Kristztina Bogdán** (until 01. 04. 2012)



**Beate Simon** (since 01. 04. 2012)

### Heads of departments:

#### **Ludovít Bán**

Corporate Banking Department

#### **Margaret Dvorak** (since 01. 06. 2012)

Head of Branches

#### **Daniel Steinmetz**

Credit Office

#### **Leona Blehová** (since 01. 06. 2012)

Financial Engineering

#### **Jaromír Hronek**

Treasury

#### **Branko Sušič** (since 01. 12. 2012)

Corporate & Markets FIC Sales

#### **Luboš Křen**

Cash Management  
& International Business (CMIB)

#### **Eva Collardová**

Finance

#### **Renata Kloubek**

Personnel Department

#### **Iva Gottliebová**

Marketing and Communication

#### **Pavel Čurilla**

GS – OR IU Prague

#### **Jens Hohmann**

COO Prague

#### **Petr Nentvich**

Corporate Banking Department,  
Brno Office

#### **Ondřej Eliáš**

Corporate Banking Department,  
Plzeň Office

#### **Roman Zedníček**

Corporate Banking Department,  
Ostrava Office





## *Independent auditor's report*

**to the shareholders of COMMERZBANK Aktiengesellschaft, pobočka Praha**

We have audited the financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha, identification number 47610921, with registered office at Jugoslávská 1, Praha 2 ("the Bank") for the year ended 31 December 2012 disclosed in the annual report on pages 11-36 and issued the opinion dated 8 March 2013 and disclosed on page 10.

### **Report on the Annual Report**

We have verified that the other information included in the annual report of the Bank for the year ended 31 December 2012 is consistent with the financial statements. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

### *Auditor's Responsibility*

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

### *Opinion*

In our opinion, the other information included in the annual report of the Bank for the year ended 31 December 2012 is consistent, in all material respects, with the financial statements.

15 April 2013

  
represented by partner



Petr Kříž  
Statutory Auditor, Licence No. 1140

### Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40785521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.



## *Independent auditor's report*

### **to the management of COMMERZBANK Aktiengesellschaft, pobočka Praha**

We have audited the accompanying financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha, identification number 47610921, with registered office at Jugoslávská 1, Praha 2 ("the Bank"), which comprise the balance sheet as at 31 December 2012, the income statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

#### *Management's Responsibility for the Financial Statements*

Management of the Bank is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012 and its financial performance for the year then ended in accordance with Czech accounting legislation.

8 March 2013

*Richard Konecny* Auditor  
represented by partner

*Petr Kříž*

Petr Kříž FCCA  
Statutory Auditor, Licence No. 1140

#### Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

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# Financial statements

## Balance sheet as at 31 December 2012

Assets:	Note	31 December 2012 CZK mil.	31 December 2011 CZK mil.
<b>Cash and cash deposits with central banks</b>	3	181	539
<b>Due from banks</b>	4	8,989	17,003
a) repayable on demand		2,483	9,603
b) other receivables		6,506	7,400
<b>Due from customers</b>	5	18,897	29,814
a) repayable on demand		3,003	3,294
b) other receivables		15,894	26,520
<b>Debt securities</b>	6	229	439
a) issued by government institutions		-	199
b) issued by other entities		229	240
<b>Long-term intangible assets</b>	7	7	12
<b>Long-term tangible fixed assets</b>	7	34	40
of which: land and buildings for operating activities		24	26
<b>Other assets</b>	8	223	1,529
<b>Prepayments and accrued income</b>		10	15
<b>Total assets</b>		<b>28,570</b>	<b>49,391</b>

Liabilities and Equity:	Note	31 December 2012 CZK mil.	31 December 2011 CZK mil.
<b>Due to banks</b>	10	12,021	33,131
a) repayable on demand		4,042	2,524
b) other payables		7,979	30,607
<b>Due to customers</b>	11	15,456	13,559
a) repayable on demand		7,321	5,266
b) other payables		8,135	8,293
<b>Other liabilities</b>	12	376	1,662
<b>Accruals and deferred income</b>		36	45
<b>Provisions</b>	9	79	231
b) provisions for taxes		-	34
c) other provisions for potential liabilities		79	196
<b>Revaluation differences on fair value of securities</b>		(2)	7
<b>Retained earnings from previous periods</b>		132	203
<b>Profit for the accounting period</b>	13	472	553
<b>Total liabilities and equity</b>		<b>28,570</b>	<b>49,391</b>

## Off-balance sheet as at 31 December 2012

Off-balance sheet assets:	Note	31 December 2012	31 December 2011
		CZK mil.	CZK mil.
Commitments and guarantees given	14	9,008	8,815
Receivables from spot transactions		187	1,385
Receivables from term instruments	23.4	22,084	32,607
Receivables from option instruments	23.4	266	2,245
Receivables written-off		-	4
<b>Total off-balance sheet assets</b>		<b>31,545</b>	<b>45,056</b>

Off-balance sheet liabilities:	Note	31 December 2012	31 December 2011
		CZK mil.	CZK mil.
Commitments and guarantees received		17,502	18,807
Collateral received and pledges	5	1,593	2,986
Payables from spot transactions		187	1,382
Payables from term instruments	23.4	22,023	32,328
Payables from option instruments	23.4	266	2,245
Assets held under custody and managed by a third party	14	35,835	32,416
Assets under management	14	-	514
<b>Total off-balance sheet liabilities</b>		<b>77,406</b>	<b>90,678</b>

## Income statement for the year ended 31 December 2012

	Note	31 December 2012 CZK million	31 December 2011 CZK million
<b>Interest and similar income</b>	<b>15</b>	<b>958</b>	<b>1,639</b>
of which: from debt securities		13	22
<b>Interest and similar expense</b>	<b>16</b>	<b>(211)</b>	<b>(420)</b>
<b>Fee and commission income</b>	<b>17</b>	<b>253</b>	<b>304</b>
<b>Fee and commission expense</b>	<b>18</b>	<b>(26)</b>	<b>(98)</b>
<b>Gains less losses from financial transactions</b>	<b>19</b>	<b>(72)</b>	<b>(36)</b>
<b>Other operating income</b>	<b>20</b>	<b>347</b>	<b>328</b>
<b>Other operating expense</b>		<b>(8)</b>	<b>(15)</b>
<b>Administrative expense</b>	<b>21</b>	<b>(703)</b>	<b>(780)</b>
of which: a) staff costs		(389)	(418)
of which: aa) wages and salaries		(293)	(310)
ab) social and health insurance		(84)	(94)
ac) other staff costs		(12)	(14)
b) other administrative expenses		(314)	(361)
<b>Depreciation for long-term tangible and intangible fixed assets</b>	<b>7</b>	<b>(17)</b>	<b>(25)</b>
<b>Release of allowances and provisions for loans and guarantees, income from receivables already written-off</b>	<b>9</b>	<b>171</b>	<b>223</b>
<b>Write-offs, additions and utilisation of allowances and provisions for loans and guarantees</b>	<b>9</b>	<b>(177)</b>	<b>(354)</b>
<b>Release of other provisions</b>	<b>9</b>	<b>120</b>	<b>-</b>
<b>Additions to and utilisation of other provisions</b>		<b>(2)</b>	<b>(118)</b>
<b>Profit on ordinary activities before taxation</b>		<b>633</b>	<b>648</b>
<b>Income tax</b>	<b>22</b>	<b>(161)</b>	<b>(95)</b>
<b>Profit for the accounting period</b>	<b>13</b>	<b>472</b>	<b>553</b>

## Statement of changes in equity for the year ended 31 December 2012

	Revaluation differences*	Retained earnings	Profit of the current year	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Balance as at 1 January 2011</b>	<b>(9)</b>	<b>405</b>	<b>281</b>	<b>677</b>
Allocation of 2010 profit to Commerzbank AG	-	-	(441)	(441)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2010	-	(160)	160	-
Revaluation differences not included in profit net of tax	16	-	-	16
Other changes	-	(46)	-	(46)
Foreign exchange differences in equity as at 31 December 2011	-	4	-	4
Net profit for the accounting period	-	-	553	553
<b>Balance as at 31 December 2011</b>	<b>7</b>	<b>203</b>	<b>553</b>	<b>763</b>
Allocation of 2011 profit to Commerzbank AG	-	-	(649)	(649)
Revaluation differences not included in profit net of tax	(9)	-	-	(9)
Net profit for the accounting period	-	-	472	472
Other changes	-	25	-	25
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2011	-	(96)	96	-
<b>Balance as at 31 December 2012</b>	<b>(2)</b>	<b>132</b>	<b>472</b>	<b>602</b>

\* Changes in fair values of available for sale securities after effect of deferred tax.

# Notes to the financial statements for the year ended 31 December 2011

## 1 General information

COMMERZBANK Aktiengesellschaft, pobočka Praha (hereinafter referred to as “the Bank”) was incorporated on 24 November 1992 as a branch of Commerzbank AG, which is headquartered in Frankfurt am Main, Germany. The Bank has its registered office in Praha and a sub-branch in Brno and offices in Ostrava, Plzeň, and Hradec Králové (until August 2012). In 2011, the Bank was managed by Dr. Jutta Walter (until 14 October 2011) and Krisztina Bogdan (since 14 October 2011 till 31 December 2012) and Mrs Beate Simon (since 1 April 2012).

The Bank’s operations primarily consist of:

- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currency;
- accepting current and term accounts denominated in Czech and foreign currency;
- rendering of general banking services through a network of branches and agencies;
- providing foreign exchange transactions on the inter-bank money market;
- providing foreign trade finance and related banking services; and
- trading in securities and portfolio management.

## 2 Accounting policies

### 2.1 Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompa-

nying notes, are prepared in accordance with the Act on accounting and the applicable accounting rules set by the Ministry of Finance of the Czech Republic and Czech accounting standards for financial institutions. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values. Management believes that the Bank has adequate resources to continue its business activities in the foreseeable future. As a result, these financial statements are prepared on a going concern basis.

The financial statements are rounded to millions of Czech Crowns (“CZK million” or “CZK m”) unless otherwise stated and are not consolidated.

### 2.2 Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank (“CNB”) effective at the balance sheet date. Resulting foreign exchange gains and losses are recognised in Gains less losses from financial transactions.

### 2.3 Fair value of securities

The fair value of a security is determined as the market mid-price quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by the risk adjusted net present value of cash flows taking into account consideration the credit and liquidity risk for bonds.

The Bank uses only observable market data in its models used for determining of the fair value of securities. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement

date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

#### **2.4 Recognition and derecognition of the financial assets and liabilities**

The following rules apply for the recognition of the financial assets and liabilities:

A regular way purchase or sale of financial assets shall be recognised and derecognised using settlement date accounting.

The following rules apply for the derecognition of the financial assets and liabilities:

The Bank derecognises a financial asset or its part when it loses control over the asset or its part.

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for is recognised net in profit or loss for the period.

#### **2.5 Available-for-sale securities**

Available-for-sale securities are securities that the Bank designates into this category or does not meet the terms of any other category. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management.

Available-for-sale securities are initially recognized at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value.

As at 31 December 2012, the fair value of the available-for-sale securities has been determined by valuation technique using market data, credit risk of the securities' issuer and taking into account the liquidity of the market.

Any subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (net of any tax effect) until the financial asset is derecognized or impaired at which

time the cumulative gain or loss previously recognized in equity should be recognized in the income statement.

#### **2.6 Derivative financial instruments and hedging**

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised on balance sheet at cost and subsequently are remeasured at their fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models or options pricing models as appropriate. All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative respectively.

Changes in the fair value of derivatives held for trading are included in Gains less losses from financial transactions.

The Bank designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

- (i) the derivative is in compliance with the Bank's risk management strategy;
- (ii) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- (iii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- (iv) the hedge is effective on an ongoing basis; and
- (v) the hedged item is not a security classified as at fair value through the profit or loss.

Changes in the fair value of derivatives that qualify as effective fair value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk. As the Bank hedges the fair value of its loans against interest rate risk, the changes in the fair value of the appropriate hedging derivatives and relevant hedged items are recognised net in Interest expense or Interest income.



If the fair value hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, is amortised to profit or loss over the period to maturity of hedged item.

### 2.7 Interest income and expense

Interest income and expense are recognised for all interest bearing instruments on an accrual basis using the effective interest method based on the acquisition cost.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows until maturity or the nearest change of interest rate to the net carrying amount of the financial asset or financial liability.

The linear method is used as an approximation of the effective interest method for securities with remaining maturity shorter than 1 year at the settlement date, for loans, other receivables and liabilities with individual repayment periods shorter than 1 year. Interest income includes accrued coupons, discount and premium on all fixed income instruments. The calculation includes all fees paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Income on non-performing receivables is also accrued and capitalised into the related loan balance. Such amounts are considered in estimating the provision for non-performing receivables.

### 2.8 Penalty interest

Penalty interest income, which is suspended or forgiven, is excluded from interest income until received. Amounts previously recognised as income are not reversed.

### 2.9 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and

service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

### 2.10 Receivables

Receivables originated by the Bank are stated at nominal value less allowances. If the receivable is collateralised, the Bank takes into consideration the cash flow that can be obtained from the forced sale of the collateral after deduction of the cost to sell, regardless of whether the forced sale is probable or not. Irrecoverable receivables are written-off into provisions to loan or directly into expenses in cases when management of the Bank consider the repayment of receivable unreal.

### 2.11 Provisions

Provisions are recognised when the Bank has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are created in an estimated amount of the future fulfilment discounted to present value. All provisions are presented in liabilities.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised as income. Discont is continuously amortized to interest expense.

Provisions are set aside in the currency in which settlement is expected to be made.

### 2.12. Allowances

The Bank first assesses whether evidence of impairment exists for individual receivables. Individual receivables are categorised in accordance with the definitions issued by the CNB into five categories (standard, watch, substandard, doubtful, loss). Impaired receivables include substandard, doubtful and loss receivables and represent total outstanding principal and accrued interest receivable with service payments overdue more than 90 days or other defaults in contractual terms or financial performance of debtor. Watch receivables represent total outstanding principal and accrued interest receivable with service payments overdue less than 90 days.

Allowances to individual receivables are deducted from the nominal value of each receivable. The amount of allowance for watch and impaired receivables is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral.

The Bank assesses the impairment of receivables that are individually not significant on a portfolio basis if the value of each individual receivable included in the portfolio does not exceed CZK 25,5 million (equivalent of EUR 1 million) at the settlement date.

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses connected with the decrease of assets, in the income statement. Release of allowances in case they are no longer necessary is recognised as income.

Allowances for assets denominated in a foreign currency are created in that foreign currency. Foreign exchange differences are recognised in the same way as foreign exchange differences from the related asset.

### 2.13 Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets acquired before 31 December 2000 are recorded at acquisition cost. Fixed assets are depreciated/amortised by applying the reducing balance method over their estimated useful lives. Tangible and intangible fixed assets acquired after 31 December 2000 are amortised by applying the straight-line basis over the estimated useful lives.

Repair and maintenance expenditures are charged to expense as incurred. Expenditures enhancing the value of the asset are capitalised and depreciated.

Assets held under finance lease agreements are not capitalised and are accounted for in the same way as operating leases, with rental charges being reflected in the income statement on a straight-line basis for the period of duration of the lease contract. Neither is the corresponding lease obligation recorded as a liability.

### 2.14 Value added tax

The Bank is registered for value added tax (hereinafter "VAT"). Intangible and tangible fixed assets and inventories are stated at acquisition cost including the appropriate VAT. The Bank does not claim input VAT as the ratio of the

taxable income to the total income of the Bank is such that it is not economical for the Bank to claim the input VAT. Input VAT (except for intangible and tangible fixed assets) is expensed immediately.

### 2.15 Deferred taxation

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

The approved tax rate for the period in which the Bank expects to utilise the asset or settle the liability is used for the deferred taxation calculation.

Deferred tax related to fair value remeasurement of hedges and available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity.

### 2.16 Staff costs, pensions and social fund

Staff costs are included in Administrative expense.

The Bank makes contributions on behalf of its employees to a defined contribution pension plan. Contributions paid by the Bank are accounted for directly as an expense.

Regular contributions are made to the State to fund the national pension plan.

### 2.17 Related parties

Related parties are defined in accordance with the Act on Banks, as follows:

- senior management of the Bank, being persons responsible for management functions based on employment or other contracts and powers and responsibilities of which are defined in the Bank's statute ("senior management of the Bank");
- entity controlling the Bank and its senior management;
- relatives (direct family members) of senior management;
- entities in which the senior management holds at least a 10% shareholding;
- shareholders holding more than 10% of voting rights of Commerzbank AG and entities controlled by them.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 4, 5, 10 11, 15, 16, 20, 21.

### 2.18 Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to preparation of the financial statements that are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

### 2.19 Change of accounting policy

The Bank has not changed its accounting policies during the accounting period.

## 3 Cash and deposits with central banks

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Cash on hand	40	45
Obligatory reserves	141	494
<b>Total cash and cash deposits with central banks</b>	<b>181</b>	<b>539</b>

Obligatory reserves are mandatory deposits with the CNB and they are not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 0.05% p.a. as at 31 December 2012 (0.75 % p.a. as at 31 December 2011).

## 4 Due from banks

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Current accounts with banks	376	248
Term deposits with CNB	500	1,030
Term deposits up to 24 hours	2,107	9,355
Other term deposits with other banks	5,340	5,945
Standard loans to banks	651	281
Other due from banks	15	144
<b>Total due from banks</b>	<b>8,989</b>	<b>17,003</b>

The Bank did not have allowances to Due from banks balances as at 31 December 2012 and 2011.

### Loans and receivables to related parties of the Commerzbank AG Group

Standard loans and receivables to banks include the following loans and receivables to related parties of the Commerzbank AG Group:

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Commerzbank, Frankfurt (Head office)	5,154	3,282
BRE Bank S.A., Warsaw	501	1,833
Commerzbank, Bratislava branch	499	2,280
Commerzbank (Budapest) R.t., Budapest	141	3
Commerzbank, Tokyo branch	6	125
Commerzbank, Hong Kong branch	3	2
Commerzbank, New York branch	3	1
Commerzbank (Euroasija) SAO, Moscow	-	1,994
Commerzbank, Singapore branch	-	1
<b>Total</b>	<b>6,307</b>	<b>9,521</b>

## 5 Due from customers

### 5.1 Receivables by type of debtor

	31 December 2012 CZK mil.	31 December 2011 CZK mil.
Customers' current accounts – overdraft	3,003	3,293
Standard loans to customers	15,634	26,192
<b>Standard loans total</b>	<b>18,637</b>	<b>29,485</b>
Impaired loans to companies and individuals	456	998
<b>Total due from customer</b>	<b>19,093</b>	<b>30,483</b>
Allowance for impaired loans (Note 9)	(196)	(669)
<b>Total due from customers, net</b>	<b>18,897</b>	<b>29,814</b>

Syndicate loans forming part of Due from customers totalled CZK 1,276 million at 31 December 2012 (2011: CZK 2,073 million).

### 5.2 Quality of receivables portfolio

When contracting a new loan, the Bank assesses the credibility of the client.

The Bank sends a written notice for overdue loans to its clients and unsuccessful cases are passed on for legal solutions (filing petitions and participating in court proceedings). In limited cases, in addition to the legal procedures, the Bank also uses executor's services.

Due from customers can be per definitions presented by Czech National Bank analysed as follows:

	31 December 2012 CZK mil.	31 December 2011 CZK mil.
Standard	18,637	29,485
Watch	1	71
Impaired:		
- Substandard	289	325
- Doubtful	85	75
- Loss	81	527
<b>Total receivables due from customers</b>	<b>19,093</b>	<b>30,483</b>

Other guarantees and commitments mainly include bank guarantees, insurance, guarantor's proclamation, bills of exchange, etc.

Restructured loans totalled CZK 562,5 million in 2012 (2011: CZK 273,9 million). Receivables are considered to be restructured in case the Bank grants relief to clients because it is likely that the Bank would incur losses if acting otherwise. Roll-over of a short-term loan is not considered to be restructuring of the loan in the case that the client has fulfilled all requirements of loan agreements.

### 5.3 Receivables from related parties

Standard receivables from companies and individuals include the following receivables from related parties:

	31 December 2012 CZK mil.	31 December 2011 CZK mil.
BRE Leasing, Sp. z o.o., Warsaw	2,048	8,618
Transfinance a.s.	881	812
BREL-COM Sp. z o.o.	131	157
FOSSUM Vermietungsges. PRAHA s.r.o.	58	85
FOSSUM Vermietungsges. ML. BOLESLAV s.r.o.	56	68
<b>Total</b>	<b>3,174</b>	<b>9,740</b>

As at 31 December 2012, the Bank has provided loans of CZK 0,5 million to its senior management member (2011: 1 million).

All loans to related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

### Guarantees from related parties

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Commerzbank, Essen branch	437	460
Commerzbank, Frankfurt	118	74
Commerzbank, Düsseldorf branch	85	5
Commerzbank, Leipzig branch	5	3
Commerzbank, Berlin branch	1	4
Commerzbank, Hamburg branch	-	5
Commerzbank, Mainz branch	-	2
<b>Total</b>	<b>646</b>	<b>554</b>

Securities were revaluated to fair value by techniques using market values or based on techniques using market data only.

None of the above-mentioned securities were used as collateral in repo transactions.

The Bank does not purchase or hold any debt securities issued by a subsidiary or associated undertaking of Commerzbank AG.

As at 31 December 2012, the revaluation difference from the revaluation of the available-for-sale securities, net of the deferred tax impact, was negative, CZK 2 million (2011: negative CZK 7 million) and is recorded in the equity. The revaluation difference from the impairment of the available-for-sale securities is presented in the Losses from financial transactions (Note 19).

## 6 Securities

	State treasury bills at 31 December		Debt securities at 31 December	
	2012	2011	2012	2011
Available-for-sale	-	199	229	240
<b>Total securities</b>	<b>-</b>	<b>199</b>	<b>229</b>	<b>240</b>

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Traded on recognised Czech stock exchanges	229	240
Not traded securities – Treasury Bills	-	199
<b>Total</b>	<b>229</b>	<b>439</b>

## 7 Long term intangible and tangible fixed assets

### 7.1 Long term intangible assets – software

	31 December 2011	Additions / Amortisation	Disposals	31 December 2012
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Acquisition cost	206	1	(14)	193
Accumulated amortisation	(195)	(6)	15	(186)
<b>Net book amount</b>	<b>11</b>	<b>(5)</b>	<b>1</b>	<b>7</b>
Advances granted and assets in course of implementation	1	-	1	-
<b>Total</b>	<b>12</b>	<b>(5)</b>	<b>-</b>	<b>7</b>

## 7.2 Long term operating tangible fixed assets

	31 December 2011	Additions / Depreciation	Disposals	31 December 2012
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Acquisition cost</b>	<b>195</b>	<b>(43)</b>	<b>2</b>	<b>154</b>
Buildings	40	-	-	40
Equipment	155	(43)	2	114
<b>Accumulated amortisation</b>	<b>(155)</b>	<b>(6)</b>	<b>41</b>	<b>(120)</b>
Buildings	(14)	(2)	-	(16)
Equipment	(141)	(4)	41	(104)
<b>Net book amount</b>	<b>40</b>	<b>(49)</b>	<b>43</b>	<b>34</b>

## 7.3 Long term fixed assets held under finance lease contracts

The Bank also uses assets held under finance lease contracts, which are recorded as long term fixed assets in the financial statements only after termination of the lease contract. These leasing contracts can be analysed as follows:

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Amounts already paid on existing finance leases	19	18
Amounts payable within one year	-	1
<b>Total amount paid and payable on existing finance leases</b>	<b>19</b>	<b>19</b>

## 7.4 Pledged assets

The Bank did not provide any tangible fixed assets as collateral for its liabilities as at 31 December 2012 and 2011.

## 8 Other assets

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Operating advances granted	7	3
Receivables from settlement of payments	27	30
Derivative financial instruments (Note 23.4)	125	1,356
Deferred tax asset (Note 22)	18	72
Estimated receivables	6	18
Other receivables	40	49
<b>Total other assets</b>	<b>223</b>	<b>1,529</b>
Allowance for impairment	-	-
<b>Total other assets, net</b>	<b>223</b>	<b>1,529</b>

## 9 Allowances, provisions and write offs

The Bank had the following provisions and allowances for assets at risk:

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
<b>Other provisions</b>		
Provisions for potential payables	79	196
Provisions for issued guarantees and loan commitments	-	1
Provision for current income tax	-	34
<b>Total other provisions</b>	<b>79</b>	<b>231</b>
<b>Allowances</b>		
Impaired loans to customers (Note 5)	196	669
<b>Total allowances</b>	<b>196</b>	<b>669</b>

The movements in provisions to potential payables can be analysed as follows:

	2012	2011
	CZK mil.	CZK mil.
<b>At 1 January</b>	<b>196</b>	<b>70</b>
Additions	8	123
Release	(120)	-
Foreign exchange difference	(5)	3
<b>At 31 December</b>	<b>79</b>	<b>196</b>

The movements in allowances for classified loans due from clients and other receivables can be analysed as follows:

	Due from classified loans	Other receivables
	CZK mil.	CZK mil.
<b>At 1 January 2011</b>	<b>581</b>	<b>70</b>
Additions	232	-
Foreign exchange translation difference	12	-
Release	(156)	(70)
<b>At 31 December 2011</b>	<b>669</b>	<b>-</b>
Additions	101	-
Foreign exchange translation difference	(4)	-
Unwinding	(9)	-
Usage	(390)	-
Release	(171)	-
<b>At 31 December 2012</b>	<b>196</b>	<b>-</b>

### Release of allowances and provisions for loans and guarantees, income from receivables already written-off

	2012	2011
	CZK mil.	CZK mil.
Income from amount due from clients written-off	171	223
Recoveries from amounts due from clients previously written off	-	3
<b>Total</b>	<b>171</b>	<b>223</b>

**Write-offs, additions and utilisation of allowances for loans and guarantees**

	2012	2011
	CZK mil.	CZK mil.
Amounts due from clients written-off	456	(127)
Additions to allowances and provisions for loans and guarantees	111	(227)
Usage of allowances and provisions for loans and guarantees	(390)	-
<b>Total</b>	<b>177</b>	<b>354</b>

Bad debts are written off against established general provisions, specific allowances or directly expensed in the case that management asserts their recoverability as being remote.

**10 Due to banks**

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Current accounts with banks	422	970
Term deposits due up to 24 hours	3,620	1,554
Other term deposits with banks	7,963	30,463
Other liabilities	16	144
<b>Total due to banks</b>	<b>12,021</b>	<b>33,131</b>

**Deposits from related parties**

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Commerzbank Frankfurt	3,606	29,673
Commerzbank, Bratislava branch	3,053	892
BRE Bank S.A., organizační složka podniku, Praha	3,029	3
KFW, FRANKFURT AM MAIN	85	131
Commerzbank, Bruxelles	36	-
Commerzbank, London branch	14	3
Commerzbank, Paris branch	9	6
Commerzbank (Budapest) R.t., Budapest	1	7
Commerzbank, Madrid branch	1	1
Commerzbank, Singapore	1	-
Commerzbank, Hong Kong branch	-	1,302
Intermarket Bank AG	-	1
<b>Total deposits from related parties</b>	<b>9,835</b>	<b>32,019</b>

In the opinion of management deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than the normal interest rate and liquidity risk or present other unfavourable features.



## 11 Due to customers

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Amounts due to governmental entities	22	49
Amounts due to municipalities	308	1,181
Amounts due to private customers	15,126	12,330
<b>Total due to customers</b>	<b>15,456</b>	<b>13,559</b>
Liabilities repayable on demand	7,321	5,266
Term accounts for fixed term	7,791	7,985
Term accounts with fixed notice period	344	307
Other payables	-	1
<b>Total due to customers</b>	<b>15,456</b>	<b>13,559</b>

### Deposits from related parties

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Immobilien-gesellschaft Ost Hagle, s.r.o.	98	75
Commerz Real CZ, s.r.o.	23	25
Commerz Real Mobilienleasing, GmbH	4	2
FOSSUM Vermietungsges. PRAHA s.r.o.	2	4
<b>Total deposit from related parties</b>	<b>127</b>	<b>106</b>

The Bank did not accept any deposits from top management members as at 31 December 2012 and 2011.

In the opinion of management deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal interest rate and liquidity risk or present other unfavourable features.

## 12 Other liabilities

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Settlement clearance accounts	177	407
Derivative financial instruments (Note 23.4)	103	1,163
Estimated payables	66	76
Other liabilities	30	16
<b>Total other liabilities</b>	<b>376</b>	<b>1,662</b>

The Bank did not have any overdue liabilities to finance authorities, social insurance authorities or health insurance companies as at 31 December 2012 and 2011.

## 13 Equity and profit distribution

### 13.1 Profit distribution

The net profit of CZK 553 million for 2012 is proposed to be distributed as follows:

	2012
	CZK mil.
Allocation to Commerzbank AG (profit according to German accounting standards)	563
Transfer to retained earnings	(91)
<b>Net profit</b>	<b>472</b>

The transfer to retained earnings represents the difference between the net accounting profit in accordance with the Czech accounting standards and the net accounting profit in accordance with the German accounting standards. The difference predominantly arises from the diverse accounting treatment in the area of provisions, revaluation of financial derivatives and available-for-sale securities.

## 14 Contingencies and commitments

Commitments to provide a loan, loan guarantees to third parties and guarantees from acceptance of bills of exchange and letters of credit expose the Bank to credit risk and to loss in the event of a client's inability to meet his obligations. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit, interest rate and liquidity risk.

### Commitments and guarantees granted

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
Non-cancellable commitments	2,530	2,247
Guarantees granted	6,478	6,568
<b>Total commitments and guarantees granted</b>	<b>9,008</b>	<b>8,815</b>
Provision for guarantees and commitments granted (Note 9)	-	1
<b>Net commitments and guarantees granted</b>	<b>9,008</b>	<b>8,814</b>
<b>Guarantees granted</b>		
On behalf of banks	770	1,213
On behalf of customers	5,708	5,356
<b>Total guarantees granted</b>	<b>6,478</b>	<b>6,568</b>

On behalf of its senior management, the Bank has granted guarantees of CZK 70 ths. as at 31 December 2012 and 2011.

### Contingent liabilities

Contingent liabilities can be analysed as follows:

	31 December 2012	31 December 2011
	CZK mil.	CZK mil.
<b>Assets placed in custody</b>		
Shares	2,690	2,790
Bonds	2	16
Other	-	146
<b>Total</b>	<b>2,692</b>	<b>2,952</b>
<b>Assets managed by a third party</b>		
Shares	27,994	24,758
Bonds	5,145	4,702
<b>Total</b>	<b>33,139</b>	<b>29,460</b>
<b>Assets under custody</b>		
Shares	4	4
<b>Total</b>	<b>4</b>	<b>4</b>
<b>Assets placed in custody, managed by third party and under custody</b>	<b>35,835</b>	<b>32,416</b>
<b>Assets under management</b>		
Bonds	-	514
<b>Total</b>	<b>-</b>	<b>514</b>

The above-mentioned assets are stated at fair value in the case of publicly traded securities or at nominal value in the case of not-publicly traded securities.

In the opinion of management, there are no liabilities arising from fiduciary activities as at 31 December 2012 and 2011.

Management reviewed the responsibilities from the brokerage activities and concluded that there are no existing liabilities from these activities as at the date of these financial statements.

## 15 Interest and similar income

	2012	2011
	CZK mil.	CZK mil.
Inter-bank transactions	66	95
Receivables from customers and state	879	1,522
Debt securities	13	22
<b>Total interest and similar expense</b>	<b>958</b>	<b>1,639</b>

Management estimates that approximately CZK 25 million of interest income was recognised on impaired loans in the year ended 31 December 2012 (2011: CZK 32 million). There was no registered unpaid penalty interest income outstanding in 2012 and 2011.

### Interest income from related parties of Commerzbank AG Group

	2012	2011
	CZK mil.	CZK mil.
BRE Leasing Sp. Z o.o., Warsaw	204	427
Commerzbank Frankfurt	28	26
Transfinance, a.s.	21	27
Commerzbank Bratislava Branch	12	31
BREL-COM Sp. Z o.o.	9	11
Commerzbank (Euroasija) SAO, Moscow	4	3
FOSSUM Vermietungsges. PRAHA s.r.o.	3	4
FOSSUM Vermietungsges. ML. BOLESLAV s.r.o.	3	4
Commerzbank (Budapest) R.t., Budapest	-	1
BRE Bank S.A., Warsaw	-	1
<b>Total</b>	<b>284</b>	<b>535</b>

## 16 Interest and similar expense

	2012	2011
	CZK mil.	CZK mil.
Inter-bank transactions	159	321
Deposits from customers and state	47	99
Other	5	-
<b>Total interest and similar income</b>	<b>211</b>	<b>420</b>

### Interest expense from related parties of Commerzbank AG Group:

	2012	2011
	CZK mil.	CZK mil.
Commerzbank Frankfurt	124	318
Commerzbank, Hong Kong branch	12	41
Commerzbank (Euroasija) SAO, Moscow	4	-
BRE Bank S.A., Warsaw	2	8
Commerzbank, Bratislava branch	1	5
KFW, Frankfurt am Main	1	2
<b>Total</b>	<b>144</b>	<b>374</b>

## 17 Fee and commission income

	2012	2011
	CZK mil.	CZK mil.
Asset management fees and related fee income	4	10
Domestic and foreign transfers	120	144
Letters of credit	37	26
Guarantees	35	57
Credit related fees and commission	36	29
Brokerage income from the purchase and sale of securities and derivatives	-	14
Other	21	24
<b>Total fee and commission income</b>	<b>253</b>	<b>304</b>

## 18 Fee and commission expense

	2012 CZK mil.	2011 CZK mil.
Trading commissions	7	8
Brokerage expense from the sale of securities	1	1
Other financial activities	18	89
<b>Total fee and commission expense</b>	<b>26</b>	<b>98</b>

Fee and commissions from other financial activities includes in 2012 a fee expense to head office Commerzbank AG in Frankfurt am Main in amount of CZK 72 mil for transfer of credit risk of loan portfolio (in 2011 included in Interest and similar expense).

## 19 Gains less losses from financial transactions

	2012 CZK mil.	2011 CZK mil.
Gains / (Losses) from foreign currency transactions	259	(1,254)
Revaluation difference arising from the impairment of the available-for-sale securities	-	135
Gains / (Losses) from transactions with FX financial derivatives	(314)	1,107
Gains / (Losses) from interest rate financial derivatives	(17)	(24)
<b>Total gains less losses from financial transactions</b>	<b>(72)</b>	<b>(36)</b>

## 20 Other operating income

	2012 CZK mil.	2011 CZK mil.
Income from intercompany re-invoicing	280	262
Other operating income	12	9
Income from insurance reimbursement	55	57
<b>Total other operating income</b>	<b>347</b>	<b>328</b>

Income from intercompany re-invoicing represents re-invoicing of costs related to activities carried out for the head office Commerzbank AG in Frankfurt am Main and income from invoicing of management and administration services. These services are provided to branches in Bratislava, Bruxelles, Paris, Amsterdam, Milano and the head office in Frankfurt am Main.

## Other operating income from related parties of Commerzbank AG Group

	2012 CZK mil.	2011 CZK mil.
Commerzbank, Frankfurt	246	225
Commerzbank, Bratislava branch	22	19
Commerzbank, Paris branch	4	7
Commerzbank, Madrid branch	3	3
Commerzbank, Bruxelles branch	2	3
Commerzbank (Nederland) N.V., Amsterdam	2	3
Commerzbank, Milan branch	1	2
<b>Total</b>	<b>280</b>	<b>262</b>

## 21 Administrative expenses

	2012 CZK mil.	2011 CZK mil.
Staff costs	389	418
Intercompany expense – Commerzbank AG	126	157
Rent and lease charges	50	48
Expenses for IT	39	48
Tax and legal advisory services	1	1
Services provided by the auditing company – compulsory audit of the financial statements	2	2
Other administrative expenses	96	106
<b>Total administrative expense</b>	<b>703</b>	<b>780</b>

Staff costs are analysed in the income statement.

In 2012, the management of the Bank was paid wages and salaries of CZK 45 million (2011: CZK 43 million), social and health insurance paid by the Bank amounted to CZK 6 million (2011: CZK 8 million). The management of the

Bank includes its directors and further the managers on the first level of the organisational structure (as at 31 December 2012 15 employees and 2011 a total of 14 employees).

### Staff statistics

	2012	2011
Average number of employees	350	375

In 2012 and 2011, the Bank provided contributions of CZK 1 million to its employees for state pension insurance.

## 22 Taxation

The income tax expense consists of the following:

	2012 CZK mil.	2011 CZK mil.
Current tax expense	101	158
Deferred tax expense/(income)	55	(73)
Adjustment of prior year tax expense	5	10
<b>Total income tax expense</b>	<b>161</b>	<b>95</b>

Current tax can be analysed as follows:

	2012 CZK mil.	2011 CZK mil.
<b>Profit before taxation</b>	<b>633</b>	<b>648</b>
Non-taxable income	(173)	(94)
Non-deductible expenses	43	278
Other expenses reducing net taxable profit	28	(3)
<b>Net taxable profit</b>	<b>531</b>	<b>829</b>
<b>Current tax charge at 19 %</b>	<b>101</b>	<b>158</b>

Deferred income tax asset is calculated as 19% (income tax rate for 2011 and 2012) depending on the period, in which it is expected the temporary difference to be compensated and can be analysed as follows:

	31 December 2012 CZK mil.	31 December 2011 CZK mil.
<b>Deferred tax asset as at 1 January</b>	<b>72</b>	<b>3</b>
Available-for-sale securities	2	(2)
Allowances to loans to customers	(55)	70
Other temporary differences	(1)	(1)
<b>Deferred tax asset as at 31 December</b>	<b>18</b>	<b>72</b>

	31 December 2012 CZK mil.	31 December 2011 CZK mil.
<b>Deferred income tax asset</b>		
Allowances to loans to customers	15	70
Non-tax deductible social insurance in 2011	3	4
<b>Total</b>	<b>18</b>	<b>74</b>
<b>Deferred income tax liability</b>		
Change in fair value of available for sale securities	-	2
<b>Net deferred tax asset (Note 8)</b>	<b>18</b>	<b>72</b>

## 23 Financial risks

### 23.1 Strategy in using financial instruments

The Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet receivables and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other similar securities.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the bond markets and in currency and interest rate and commodity prices. The Board of Directors places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Currency and interest exposure resulting from these financial instruments are normally offset by entering into counterbalancing positions.

### 23.2 Credit risk

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and business segments. Such risks are mo-

nitored on a regular basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by Commerzbank AG, Frankfurt am Main Besides that, unexpected losses, risk of accumulation and concentration of credit risks are actively controlled by internal VAR model. All above mentioned models are based on internal credit rules and competences.

The Bank considers its current credit portfolio to be high quality since the value of allowances is less than 0.7 % of the nominal value of the credit portfolio. The Bank uses pledges to real estate, cession of receivables, guarantees and guarantors' proclamation and similar instruments as collateral. The Bank monitors the concentration of risks based on geographical and industry sectors.

### Geographical segmentation

At 31 December 2012	Domestic CZK mil.	European union CZK mil.	Other CZK mil.	Total CZK mil.
<b>Assets</b>				
Cash and deposits with central banks	181	-	-	181
Due from banks	2,000	6,303	686	8,989
Due from customers	13,419	3,022	2,456	18,897
Securities available-for-sale	229	-	-	229
Other assets	225	49	-	274
<b>Total assets</b>	<b>16,054</b>	<b>9,374</b>	<b>3,142</b>	<b>28,570</b>

31 December 2011	Domestic CZK mil.	European union CZK mil.	Other CZK mil.	Total CZK mil.
<b>Assets</b>				
Cash and cash deposits with central banks	539	-	-	539
Due from banks	7,031	7,475	2,497	17,003
Due from customers	16,134	9,994	3,686	29,814
Securities available-for-sale	439	-	-	439
Other assets	545	1022	29	1,596
<b>Total assets</b>	<b>24,687</b>	<b>18,492</b>	<b>6,212</b>	<b>49,391</b>

## Business segmentation

31 December 2012	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	181	-	-	-	-	181
Due from banks	2,000	6,989	-	-	-	8,989
Due from customers	-	-	18,682	-	215	18,897
Securities available for-sale	-	-	229	-	-	229
Other assets	26	49	199	-	-	274
<b>Total assets</b>	<b>2,209</b>	<b>7,037</b>	<b>19,110</b>	<b>-</b>	<b>215</b>	<b>28,570</b>

As at 31 December 2012 the Bank had no assets to state institutions.

At 31 December 2011	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	539	-	-	-	-	539
Due from banks	7,031	9,972	-	-	-	17,003
Due from customers	-	-	29,471	-	343	29,814
Securities available-for-sale	-	-	240	199	-	439
Other assets	47	108	541	-	-	1,596
<b>Total assets</b>	<b>7,617</b>	<b>10,980</b>	<b>30,252</b>	<b>199</b>	<b>343</b>	<b>49,391</b>

### 23.3 Market risk

The Bank takes on exposure to market risks which arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices, such as interest rates, credit spreads and foreign exchange rates.

The Bank applies a 'value at risk' ("VAR") methodology to estimate the market risk of positions held and the maximum losses expected upon a number of assumptions for various changes in market conditions. Commerzbank AG, Frankfurt am Main sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

The Bank defined for assessment of market losses arising from extreme market changes the stress scenarios, based on which a value of Stress test is calculated – i.e. an expected maximum loss under unfavourable market conditions.

The daily market VAR is an estimate, with a confidence level set at 97.5%, of the potential loss which might arise if the current positions were to be held unchanged for one business day. The actual daily gains / losses are monitored daily by a so-called Back Test to test the validity of the assumptions and parameters / factors used in the VAR calculation.

Since VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the management of the Bank for all trading and portfolio operations; actual exposure against limits, together with a consolidated bank-wide VAR of Commerzbank AG, is reviewed daily by management. Consolidated VAR of Commerzbank AG as at 31 December 2012 was CZK 2.5 million (2011: CZK 9.6 million) and average daily consolidated VAR was CZK 5.7 million in 2012 (2011: CZK 10.6 million).

Stress-testing values are presented with VAR values to the management and Commerzbank AG, Frankfurt am Main on a daily basis, analogically. Limits of stress-testing and limits of VAR were never exceeded in 2012 (average annual value in 2012 equals 33.34%, in 2011: 54.4%).

### 23.4 Derivative financial instruments

The Bank concludes derivative financial instruments only on the over-the-counter market. The Bank has outstanding derivative contracts, which can be analysed as follows:

#### Total financial derivatives

	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
<b>31 December 2012</b>				
Interest rate derivatives	2,931	2,931	13	48
Currency derivatives	19,419	19,358	112	55
<b>Total</b>	<b>22,350</b>	<b>22,289</b>	<b>125</b>	<b>103</b>
<b>31 December 2011</b>				
Interest rate derivatives	5,290	5,290	24	35
Currency derivatives	29,562	29,283	1,332	1,028
<b>Total</b>	<b>34,852</b>	<b>34,573</b>	<b>1,356</b>	<b>1,163</b>

Derivative financial instruments were valued using only market prices or valuation models based only on observable market data.

#### 23.4.1 Trading agreements

31 December 2012	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
<b>Interest rate derivatives</b>				
Swaps	2,665	2,665	12	47
Options	266	266	1	1
<b>Total</b>	<b>2,931</b>	<b>2,931</b>	<b>13</b>	<b>48</b>
<b>Currency derivatives</b>				
Forwards	5,966	5,959	46	40
Swaps	13,453	13,399	66	15
<b>Total</b>	<b>19,419</b>	<b>19,358</b>	<b>112</b>	<b>55</b>
<b>Total trading agreements</b>	<b>22,350</b>	<b>22,289</b>	<b>125</b>	<b>103</b>



31 December 2011	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
<b>Interest rate derivatives</b>				
Swaps	4,838	4,838	23	34
Options	452	452	1	1
<b>Total</b>	<b>5,290</b>	<b>5,290</b>	<b>24</b>	<b>35</b>
<b>Currency derivatives</b>				
Forwards	6,933	6,844	200	114
Swaps	20,836	20,646	1,131	1,013
Options	1,793	1,793	1	1
<b>Total</b>	<b>29,562</b>	<b>29,283</b>	<b>1,332</b>	<b>1,028</b>
<b>Total trading agreements</b>	<b>34,852</b>	<b>34,573</b>	<b>1,356</b>	<b>1,163</b>

Fair value gains less losses of trading derivatives are recognised in the income statement.

Frankfurt am Main sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

### 23.5 Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Commerzbank AG,

The table below summarises the Bank's exposure to currency risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

31 December 2012	CZK CZK mil.	EUR CZK mil.	USD CZK mil.	PLN CZK mil.	Other CZK mil.	Total CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	163	10	4	-	4	181
Due from banks	2,951	5,809	147	3	79	8,989
Due from customers	9,674	8,423	226	-	574	18,897
Securities available-for-sale	229	-	-	-	-	229
Other assets	236	34	2	2	-	274
<b>Total assets</b>	<b>13,253</b>	<b>14,276</b>	<b>379</b>	<b>5</b>	<b>657</b>	<b>28,570</b>
<b>Liabilities</b>						
Due to banks	4,321	5,953	1,093	1	653	12,021
Due to customers	12,001	3,028	409	2	16	15,456
Provisions	79	-	-	-	-	79
Other liabilities	861	135	13	3	2	1,014
<b>Total liabilities</b>	<b>17,262</b>	<b>9,116</b>	<b>1,515</b>	<b>6</b>	<b>671</b>	<b>28,570</b>
<b>Net assets/(liabilities)</b>	<b>(4,009)</b>	<b>5,160</b>	<b>(1,136)</b>	<b>(1)</b>	<b>(14)</b>	<b>-</b>
<b>Net off-balance sheet assets/(liabilities)</b>	<b>3,800</b>	<b>(4913)</b>	<b>1,154</b>	<b>4</b>	<b>16</b>	<b>61</b>
<b>Net open currency position</b>	<b>(209)</b>	<b>247</b>	<b>18</b>	<b>3</b>	<b>2</b>	<b>61</b>

31 December 2011	CZK	EUR	USD	PLN	Other	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	519	11	5	-	4	539
Due from banks	7,580	5,297	470	1,338	2,318	17,003
Due from customers	10,984	11,344	290	5,811	1,385	29,814
Securities available-for-sale	439	-	-	-	-	439
Other assets	1,508	84	4	-	-	1,596
<b>Total assets</b>	<b>21,030</b>	<b>16,736</b>	<b>769</b>	<b>7,149</b>	<b>3,707</b>	<b>49,391</b>
<b>Liabilities</b>						
Due to banks	905	28,203	3,812	-	211	33,131
Due to customers	10,051	3,214	268	7	19	13,559
Provisions	108	123	-	-	-	231
Other liabilities	1,483	460	241	131	155	2,470
<b>Total liabilities</b>	<b>12,547</b>	<b>32,000</b>	<b>4,321</b>	<b>138</b>	<b>385</b>	<b>49,394</b>
<b>Net assets/(liabilities)</b>	<b>8,484</b>	<b>(15,264)</b>	<b>(3,552)</b>	<b>7,011</b>	<b>3,322</b>	<b>-</b>
<b>Net off-balance sheet assets/(liabilities)</b>	<b>(8,312)</b>	<b>15,362</b>	<b>3,554</b>	<b>(7,021)</b>	<b>(3,302)</b>	<b>281</b>
<b>Net open currency position</b>	<b>171</b>	<b>98</b>	<b>2</b>	<b>(10)</b>	<b>20</b>	<b>281</b>

### 23.6 Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Commerzbank AG, Frankfurt am Main sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the balance sheet of the Bank prevail assets and liabilities with fixed interest rate.

### 23.7 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank

does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Commerzbank AG, Frankfurt am Main sets limits according to time zones and individual currencies. These limits are monitored on a daily basis.

Fair values of derivatives are recognised in other assets and other liabilities. The Bank is able to close its open positions on capital markets, if necessary. Current maturities of financial derivatives are between six months and two years.




The table below analyses assets and liabilities of the Bank into relevant maturity bands based on the remaining period at the balance sheet date to the contractual maturity date.

31 December 2012	Within 3 months CZK mil.	3 – 12 months CZK mil.	1 – 5 years CZK mil.	Over 5 years CZK mil.	Unspecified CZK mil.	Total CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	40	-	-	-	141	181
Due from banks	4,700	3,757	304	228	-	8,989
Due from customers	9,727	3,847	3,570	1,736	17	18,897
Securities available-for-sale	-	11	218	-	-	229
Other assets	52	64	1	-	157	274
<b>Total assets</b>	<b>14,519</b>	<b>7,679</b>	<b>4,093</b>	<b>1,964</b>	<b>315</b>	<b>28,570</b>
<b>Liabilities</b>						
Due to banks	8,852	261	1,744	924	24	12,021
Due to customers	15,049	406	1	-	-	15,456
Provisions	-	-	-	-	79	79
Other liabilities and equity accounts	29	28	14	-	943	1,014
<b>Total liabilities</b>	<b>23,930</b>	<b>695</b>	<b>1,759</b>	<b>924</b>	<b>1,262</b>	<b>28,570</b>
<b>Net assets/(liabilities)</b>	<b>(9,411)</b>	<b>6,984</b>	<b>2,334</b>	<b>1,040</b>	<b>(947)</b>	<b>-</b>
<b>31 December 2011</b>						
31 December 2011	Within 3 months CZK mil.	3 – 12 months CZK mil.	1 – 5 years CZK mil.	Over 5 years CZK mil.	Unspecified CZK mil.	Total CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	45	-	-	-	494	539
Due from banks	16,452	273	257	21	-	17,003
Due from customers	7,922	14,848	4,295	2,415	334	29,814
Securities available-for-sale	-	208	231	-	-	439
Other assets	280	1,163	44	-	109	1,596
<b>Total assets</b>	<b>24,699</b>	<b>16,492</b>	<b>4,827</b>	<b>2,436</b>	<b>937</b>	<b>49,391</b>
<b>Liabilities</b>						
Due to banks	24,696	5,012	2,310	1,113	-	33,131
Due to customers	12,721	791	1	-	46	13,559
Provisions	-	-	-	-	231	231
Other liabilities	74	1,016	121	-	1,259	2,470
<b>Total liabilities</b>	<b>37,491</b>	<b>6,819</b>	<b>2,432</b>	<b>1,113</b>	<b>1,536</b>	<b>49,391</b>
<b>Net assets/(liabilities)</b>	<b>(12,792)</b>	<b>9,673</b>	<b>2,395</b>	<b>1,323</b>	<b>(599)</b>	<b>-</b>

## 24 Subsequent events

There were no events, which have occurred subsequent to the year-end until the date of preparation of financial statements, which would have a material impact on the financial statements of the Bank as at 31 December 2012.

These financial statements have been approved by management for presentation to Commerzbank AG and have been signed on their behalf by:

Date	Signature of the statutory representative	Person responsible for accounting	Person responsible for preparation of the financial statements
			
8 March 2013	Beate Simon	Ing. Eva Collardová, MBA	Ing. Vladimír Kugler



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