

COMMERZBANK

The bank at your side



Annual report

for the year ended 31 December 2017

translation from the Czech language



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Bank Management Report for Fiscal Year 2017

» The year 2017 was a year of dynamic growth for the Czech economy, with the country benefitting from the revival of the global economy, supported by a relaxed monetary policy, rising employment and increasing production. According to official statistics, adjusted annual GDP growth climbed 4.5%. «

The rising employment was accompanied by strong demand for qualified workers, which put pressure on wage growth and increased demand for labour from abroad. As a result of rising inflation, the Czech National Bank decided to terminate its foreign exchange interventions begun in 2013, and to gradually begin to raise interest rates.

The year 2017 also brought positive growth for Commerzbank in the Czech Republic, once again in the area of the loan portfolio and the resulting proceeds. In other product areas, revenues from domestic and foreign payment systems mainly grew. Growth in hedging activity is also linked to the growth in profits from financial operations that traditionally belong to our strengths.

We have also successfully completed the Commerzbank Group Finance Eurohub project, which merges the activities of the Bank's various European locations in the field of finance. Eurohub has created a number of new job positions, and today a total of 70 employees locally cover the financial activities for Commerzbank branches in Europe as well as selected activities for the Frankfurt headquarters.

The importance of the Prague branch within Commerzbank will continue to grow. In addition to the creation of the Trade Service Hub Operations Center last year, which handles client transactions in the area of documentary business and bank guarantees for the Czech Republic, Slovakia, Hungary, Austria and Switzerland, Prague branch was also selected as the headquarters for the Bank's Continental Europe Human Resources Hub. Its establishment is planned for 2018.

In 2017, Commerzbank Prague also made significant progress in the area of digitalization, not only of products for clients but also of internal processes that we intend to continue to improve. We note that as a branch operation, Commerzbank Prague does not undertake any local research and development activities.

The year 2017 was also important for Prague branch in terms of finalizing the reconstruction of its main building at Jugoslávská 1, which provides an area of approximately 5,000 m² for 210 staff. The building upgrade now enables employees to work in a more modern, open environment, with dedi-

cated meeting rooms for our clients, fully equipped with the latest technology.

Commerzbank fully respects its environmental obligations such as prudent handling of energy and consumables, and where possible only progressive technologies and materials have been used during the reconstruction. We also strive to reduce our carbon footprint as much as possible and therefore we also negotiate in this regard with our suppliers.

The positive economic situation in the Czech Republic should continue throughout 2018. Indeed, given the continuing strength of both the Czech economy as well as the external environment, the Ministry of Finance has adjusted upwards its real GDP growth forecast for 2018 from 3.3% to 3.4%. Commerzbank's own analysts expect the economy to trend towards a 3.0% growth rate overall, with a very stable outlook.

Given the above, we at Commerzbank Prague feel very optimistic about 2018. Our goals are clear: continue both our strong business growth as well as the digitalization of our products and processes.

We are confident that thanks to the ever-increasing importance of Prague branch within the Commerzbank Group, and its strong position with the Bank's Corporates International division, we will continue to be a reliable partner for our clients.

Information about the goals and methods of Bank's risk management, including collateralization policies, are listed in the accompanying financial statements of the Bank for the year ending December 31, 2017. Bank management is not aware of any events that have occurred after the balance sheet date that would require an adjustment to the financial statements.

Michael T. Krüger

CEO Czech Republic & Slovakia

March 29, 2018



Commerzbank AG

About Commerzbank

Commerzbank is a leading international commercial bank with branches and offices in almost 50 countries. In the two business segments Private and Small Business Customers, as well as Corporate Clients, the Bank offers a comprehensive portfolio of financial services which is precisely aligned to the clients' needs. Commerzbank finances approximately 30% of Germany's foreign trade and is leading in financing for corporate clients in Germany. Due to its in-depth sector know-how in the German economy, the Bank is a leading provider of capital market products. Its subsidiaries Comdirect in Germany and mBank in Poland are two of the world's most innovative online banks. With approximately 1,000 branches, Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank serves more than 18 million private and small business customers, as well as more than 60,000 corporate clients, multinationals, financial service providers, and institutional clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2017, it generated gross revenues of €9.2 billion with approximately 49,300 employees.



Commerzbank in the Czech Republic

Active in the Czech Republic since 1992, Commerzbank specializes in the provision of comprehensive Corporate Banking services to both German companies operating in the Czech Republic, as well as to medium- and large-sized local Czech corporates. Although operating on the local Czech market, Commerzbank draws on the extensive know-how available across the Bank's global network to provide the highest quality service on a competitive basis. In addition to all standard corporate banking services, ranging from overdraft accounts to payment services including electronic banking, Commerzbank also offers more complex financing structures as well as its renowned capabilities in documentary collections and export financing.

Besides Prague, Commerzbank also has offices in Brno (since 1998) and Ostrava (since 2001).

In addition to the Czech Republic, Commerzbank has been also present in Slovakia since 1995, with a full-service branch operation located in Bratislava.



Organisation structure

Prague Branch:

General Manager:



Michael Thomas Krüger
CEO Czech Republic & Slovakia

Ing. Ludovít Bán
Head of Czech and International Desk

Margaret Dvorak
Head of Czech and Slovakian Branches

Armin Seifert
Head of Local Credit Office

Ing. Tomáš Krejča
Head of FE International & Export Agency Finance

RNDr. Jaromír Hronek, CSc.
Head of Treasury

Uwe Berthold
Head of Transaction Services Czech Republic & Slovakia

Jan Svoboda (from April 1st, 2017)
Head of Trade Service Hub

Ing. Eva Collardová, MBA
CFO Eurohub

Yvonne Nowak-Sikora (from May 1st, 2017)
Head of Human Resources Continental Europe

Pavel Čurilla
Head of Organisation

Jens Hohmann
COO Prague

Petr Nentvich, MBA
Head of Brno Office /Corporate Banking Department

Dr. Roman Zedníček
Head of Ostrava Office /Corporate Banking Department

Jaroslava Nováková
Head of Banking Operations



English translation

Independent auditor's report

to the founder of COMMERZBANK Aktiengesellschaft, pobočka Praha

Opinion

We have audited the accompanying financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha, with its registered office at Jugoslávská 934/1, Praha 2 ("the Branch") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017, the income statement and statement of changes in equity for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2017 and of its financial performance for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Branch in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Branch Director is responsible for the other information.

Our opinion on the financial statements does not cover the other information. 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 about the Branch obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Branch obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Branch Director for the Financial Statements

The Branch Director is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Branch Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, 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 Evidence No 021.



Founder of COMMERZBANK Aktiengesellschaft, pobočka Praha
Independent auditor's report

In preparing the financial statements, the Branch Director is responsible for assessing the Branch'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 Branch Director either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Auditor's 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 auditor's 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 the above stated requirements 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.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 Branch's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Branch Director.
- Conclude on the appropriateness of the Branch Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Branch Director regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

29 March 2018

PricewaterhouseCoopers Audit, s.r.o.
represented by

Marek Richter
Partner

Eva Loulová
Statutory Auditor, Evidence No. 1981

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

Financial statements

Balance sheet

as at 31 December 2017

ASSETS (CZK million)	Note	31 December 2017	31 December 2016
1. Cash and cash deposits with central banks	3	686	1,782
3. Due from banks	4	47,623	22,087
of which: a) repayable on demand		224	530
b) other receivables		47,399	21,557
4. Due from customers	5	17,776	17,157
of which: a) repayable on demand		701	433
b) other receivables		17,075	16,724
10. Long-term tangible fixed assets	7.2	91	86
of which: land and buildings for operating activities		91	83
11. Other assets	8	843	354
13. Prepayments and accrued income		48	17
Assets total		67,067	41,483

LIABILITIES AND EQUITY (CZK million)	Note	31 December 2017	31 December 2016
1. Due to banks	10	48,088	27,412
of which: a) repayable on demand		19,523	10,082
b) other receivables		28,565	17,330
2. Due to customers	11	16,910	12,977
of which: a) repayable on demand		16,077	12,321
b) other receivables		833	656
4. Other liabilities	12	1,358	532
5. Accruals and deferred income		139	101
6. Provisions	9	76	75
of which: a) tax provision		40	22
b) other provisions		36	53
14. Retained earnings from previous periods		(24)	-
15. Profit for the accounting period	13	520	386
Total liabilities and equity		67,067	41,483

Off-balance sheet

as at 31 December 2017

(CZK million)	Note	31 December 2017	31 December 2016
Off-balance sheet assets			
1. Commitments and guarantees given	14.1, 14.2.	17,992	16,163
3. Receivables from spot transactions		298	488
4. Receivables from term instruments	24.4	104,902	37,226
5. Receivables from options instruments		-	54
7. Collateral from REPO reverse operations		19,600	-
Total off-balance sheet assets		142,792	53,931
Off-balance sheet liabilities			
9. Commitments and guarantees received	5	16,144	17,183
10. Collateral received and pledges	5	793	1,170
11. Payables from spot transactions		299	488
12. Payables from term instruments	24.4	105,223	37,156
13. Payables from options instruments		-	54
14. Collateral and pledges received - SPP		19,600	-
Total off-balance sheet liabilities		142,059	56,051

Income Statement

for the year ended 31 December 2017

(CZK million)	Note	2017	2016
1. Interest and similar income	15	604	521
2. Interest and similar expense	16	(47)	(52)
4. Fee and commission income	17	311	268
5. Fee and commission expense	18	(17)	(20)
6. Gains / losses from financial transactions	19	450	216
7. Other operating income	20	366	326
8. Other operating expense		(18)	(20)
9. Administrative expense	22	(657)	(589)
of which: a) staff costs		(237)	(221)
of which: aa) wages and salaries		(176)	(165)
ab) social and health insurance		(51)	(46)
ac) other staff costs		(10)	(10)
b) other administrative expenses		(420)	(368)
11. Depreciation for long-term tangible and intangible fixed assets	7	(5)	(5)
12. Release of allowances and provisions for loans and guarantees	9	54	148
13. Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	9	(421)	(334)
16. Release of other provisions		26	30
17. Additions and utilisation of other provisions	9	(13)	(10)
19. Profit on ordinary activities before taxation		633	479
23. Income tax	23	(113)	(93)
24. Profit for the accounting period	13	520	386

Notes to the financial statements

For the year ended 31 December 2017

Statement of changes in equity

for the year ended 31 December 2017

(CZK million)	Revaluation reserve	Retained earnings	Profit/loss	Total
Balance as at 1 January 2016	-	100	323	423
Allocation of 2015 profit to the central	-	-	(394)	(394)
Net profit/loss for the accounting period	-	-	386	386
Difference between allocation of profit to the central, foreign exchange differences and profit for the year 2015	-	(71)	71	-
Other differences*	-	(29)	-	(29)
Balance as at 31 December 2016	-	-	386	386
Balance as at 1 January 2017	-	-	386	386
Allocation of 2016 profit to the central	-	-	(378)	(378)
Net profit/loss for the accounting period	-	-	520	520
Difference between allocation of profit to the central, foreign exchange differences and profit for the year 2016	-	8	(8)	-
Other changes*	-	(32)	-	(32)
Balance as at 31 December 2017	-	(24)	520	496

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

1. General information

COMMERZBANK Aktiengesellschaft, pobočka Praha (herein-after 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 Prague and a sub-branch (branch-of-fice) in Brno and office in Ostrava.

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.

2. Accounting policies

2.1. Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying 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. 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. The board of directors 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”) unless otherwise stated.

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 as:

- 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 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.

2.5. Repo operations

Repurchase agreements are presented by provided (reverse repo) and received (repo) deposits and loans by the transfer of securities. Exposures arising from these operations are recognised in the balance sheet within due from loans and deposit liabilities, including accrued interest, at the trade date.

Securities admitted, purchased or lent under resale agreements (reverse repurchase agreements) are recognized off-balance sheet as collateral received. Securities provided, sold or borrowed under repurchase agreements (repurchase agreements) are retained in their original portfolio in the balance sheet. If these securities are also subject to a reverse repurchase transaction and are therefore recorded as off-balance sheet assets in the off-balance sheet, they are also recorded as collateral in the off-balance sheet.

Underlying cash flows are recognized as due from banks, due from customers, due to banks and due to customers.

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

As at 31 December 2017 and 31 December 2016, the fair value of the available-for-sale securities was 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.

2.7. 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 for the Bank 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, interest-bearing using the effective interest method, is amortised to profit or loss over the period to maturity of hedged item.

2.8. Interest income and expense

Interest income and expense are recognised for all interest bearing 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. 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. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

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.

2.9. Penalty interest

Penalty interest income, which is suspended or forgiven, is excluded from interest income until received.

2.10. Fee and commission income

Fees and commissions are 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, on a time-apportionate basis.

2.11. 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.

2.12. 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 will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are classified as liabilities. Provisions are created in an estimated amount of the future fulfilment discounted to present value.

Additions to provisions are recognised under appropriate item 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. Discount is continuously amortized to interest expense.

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

2.13. 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 (substandard, doubtful and loss receivables) include and represent total outstanding principal and accrued interest receivable with service payments overdue more than 90 days or other defaults in contractual terms or impaired 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 receivables and relevant assets is based on appraisals of these assets at the balance sheet date after taking into consideration the present value of collateral in the forced sale.

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 127,7 million (equivalent of EUR 5 million) at the settlement date.

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses related to 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.

2.14. Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets acquired before 31 December 2000 are recorded at acquisition cost and are depreciated using accelerated basis over its estimated useful life. 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 of the tangible assets are charged directly into Expenses. Expenditures enhancing the value of the asset are capitalised and depreciated.

Assets held under finance lease agreements were not capitalised until end of 2013 and were accounted 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. Also the total leasing commitments are not recognized as a liability.

2.15. Value added tax

The Bank is registered for value added tax (hereinafter "VAT"). Long-term 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 long-term intangible and tangible fixed assets) is accounted for in expenses immediately.

2.16. 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 of probable future available taxable profit 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 and available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity.

2.17. 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.

2.18. 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"),
- central office 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, 14, 15, 16, 20 and 22.

2.19. 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.

2.20. Change of accounting policy

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

Effective from 1 January 2018, international accounting standards for the recognition, measurement and disclosure of financial instruments have been implemented in Czech accounting framework for entities that are banks and other financial institutions, in particular IFRS 9 - Financial Instruments. The Bank expects the impact of this change in accounting policies, in particular, to impact the allowances for loan receivables as at 1 January 2018. The effects of the changes in accounting policies will be accounted for in accordance with Czech accounting policies against equity.

3. Cash and cash deposits with central banks

(CZK million)	31 December 2017	31 December 2016
Cash on hand	39	43
Obligatory reserves	647	1,739
Total cash and cash deposits with central banks	686	1,782

Minimum obligatory reserves are mandatory deposits with the CNB. The Bank may use the funds on the account of obligatory reserves in the CNB in case of compliance with the defined average amount in the maintenance period. These deposits bear interest at the CZK two-weeks repo rate, which was 0.50 % p.a. as at 31 December 2017 (at 31 December 2016: 0.05 %).

4. Due from banks

(CZK million)	31 December 2017	31 December 2016
Current accounts with banks	224	530
Term deposits with CNB	36,003	12,100
Other term deposits with other banks	10,287	7,968
Standard loans to banks	1,100	1,489
Other due from banks	9	-
Total due from banks	47,623	22,087

The Bank did not create allowances to due from banks balances as at 31 December 2017 and 2016.

4.1. 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:

(CZK million)	31 December 2017	31 December 2016
Commerzbank, Bratislava branch	8,652	7,539
Commerzbank, Frankfurt (head office)	1,854	938
Total	10,506	8,477

5. Due from customers

5.1. Due by customer type

(CZK million)	31 December 2017	31 December 2016
Customers' current accounts - overdraft	4,063	3,425
Standard loans to customers	12,945	12,600
Total standard loans	17,008	16,025
Classified loans to customers	1,386	1,534
Total due from customer	18,394	17,559
Allowances for impaired loans (Note 9)	(618)	(402)
Total due from customers, net	17,776	17,157

Syndicate loans forming part of Due from customers totalled CZK 7,032 million at 31 December 2017 (31 December 2016: CZK 4,688 million).

5.2. Quality of receivables portfolio

When contracting a new loan, the Bank assesses the creditability 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 case of distraint title Bank uses all available legal means for collection of these loans including involvement of distrainers.

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

(CZK million)	31 December 2017	31 December 2016
Standard	17,008	16,025
Watched	-	149
Impaired:		
- non-standard	57	84
- doubtful	158	118
- loss	1,171	1,183
Total receivables due from customers	18,394	17,559

Present value of collateral received can be analysed as follows:

(CZK million)	31 December 2017	31 December 2016
Cash	150	163
Real estate pledge	72	62
Other collateral received	570	945
Other guarantees and commitments	16,145	17,183
Total assets received as collateral for receivables from customers	16,937	18,353

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

Restructured loans totalled CZK 82 million in 2017 (2016: CZK 107 million). Receivables are considered to be restructured in case the Bank grants relief to client because it is likely that the Bank would incur losses in case the Bank did not do it. 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 to related parties

As at 31 December 2017 and 2016, the Bank did not provide any loans to its related parties.

As at 31 December 2017 and 2016, the Bank did not provide

any loans to its senior management members.

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.

5.4. Guarantees from related parties

(CZK million)	31 December 2017	31 December 2016
Commerzbank, Frankfurt - head office	452	427
Commerzbank, Essen branch	295	317
Commerzbank, Bratislava branch	8	153
Commerzbank, Berlin branch	107	151
Commerzbank, Düsseldorf branch	63	63
Commerzbank, Hamburg branch	41	43
Commerzbank, Leipzig branch	5	5
Commerzbank, Nürnberg branch	3	3
Commerzbank, New York branch	1	2
Commerzbank, Madrid	5	-
Total	980	1,164

6. Securities

The Bank did not hold any securities as at 31 December 2017 and as at 31 December 2016.

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

7. Long term intangible and tangible fixed assets

7.1. Long term intangible operating assets

(CZK million)	31 December 2016	Additions / Amortisation	Disposals	31 December 2017
Acquisition cost	28	-	-	28
Accumulated amortisation	(28)	-	-	(28)
Net book amount	-	-	-	-

7.2. Long term operating tangible fixed assets

(CZK million)	31 December 2016	Additions / Amortisation	Disposals	31 December 2017
Acquisition cost	170	10	(33)	147
Buildings	85	16	1	100
Equipment	85	(6)	(32)	47
Accumulated depreciation	(84)	(5)	33	(56)
Buildings	(20)	(4)	1	(23)
Equipment	(64)	(1)	32	(33)
Net book amount	86	5	0	91

As at 31 December 2017 and 31 December 2016, the Bank did not provide any tangible and intangible fixed assets as collateral.

8. Other assets

(CZK million)	31 December 2017	31 December 2016
Operating advances granted	1	1
Settlement clearance accounts	150	69
Derivative financial instruments (Note 24.4)	673	268
Deferred tax asset (Note 23)	11	13
Other receivables	8	3
Total other assets	843	354

9. Allowances, provisions and write offs

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

(CZK million)	31 December 2017	31 December 2016
Income tax provision		
Income tax provision	115	87
Advance income tax	(75)	(65)
Income tax provision	40	22
Other provisions		
Provisions for potential law litigations	28	51
Provisions for other payables	8	2
Total other provisions	36	53
Allowances		
Impaired loans to customers (Note 5)	618	402
Total allowances	618	402

The movements in provision to Income tax can be analysed as follows:

(CZK million)	2017	2016
As at 1 January	22	7
Additions	28	15
Release	(10)	-
As at 31 December	40	22

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

(CZK million)	2017	2016
As at 1 January	51	75
Additions	5	8
Release	(24)	(29)
Foreign exchange differences and discounts influence	(4)	(3)
As at 31 December	28	51

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

(CZK million)	2017	2016
As at 1 January	2	7
Additions	8	2
Release	(2)	(1)
Utilisation	-	(6)
As at 31 December	8	2

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

(CZK million)	2017	2016
As at 1 January	402	558
Additions	282	123
Foreign exchange differences and discounts influence	(12)	(11)
Release	(54)	(147)
Utilisation	-	(121)
As at 31 December	618	402

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.

Line 13 Write-off, creation and utilisation of provisions and allowances to receivables and guarantees also include partial write-off of receivable in the amount of CZK 139 million for which no provision has been created as the receivables were covered by insurance. The received insurance benefit amounting to CZK 139 million and is presented as Other operating income (Note 20).

10. Due to banks

(CZK million)	31 December 2017	31 December 2016
Current accounts with banks	253	291
Term deposits due up to 24 hours	19,270	9,791
Other term deposits	28,565	17,330
Total due to banks	48,088	27,412

10.1. Deposits from related parties

(CZK million)	31 December 2017	31 December 2016
Commerzbank Frankfurt - head office	46,371	18,062
Commerzbank, Bratislava branch	1,711	2,123
mBank S.A. (former BRE Bank S.A.), organisational unit, Prague	-	56
Total deposits from related parties	48,082	20,241

In the opinion of management of the Bank, 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

(CZK million)	31 December 2017	31 December 2016
Amounts due to governmental entities	9	10
Amounts due to customers	16,901	12,967
Total due to customers	16,910	12,977

11.1. Due to customers by type

(CZK million)	31 December 2017	31 December 2016
Liabilities repayable on demand	16,070	12,312
Term accounts for fixed term	824	656
Term accounts with fixed notice period	7	9
Other amounts due to private customers	9	-
Total due to customers	16,910	12,977

11.2. Deposits from related parties

(CZK million)	31 December 2017	31 December 2016
Companies under common control	37	85
Associated undertakings	88	93
Total deposit from related parties	125	178

The Bank did not accept any deposits from senior management members as at 31 December 2017 and 31 December 2016.

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

(CZK million)	31 December 2017	31 December 2016
Derivative financial instruments (Note 24.4)	957	239
Settlement clearance accounts	348	243
Estimated payables	45	42
Other liabilities	8	8
Total other liabilities	1,358	532

The Bank did not have any overdue liabilities to finance authorities, social insurance authorities or health insurance companies as at 31 December 2017 and 2016.

13. Equity and profit distribution

The net profit of CZK 520 million for 2017 is proposed to be distributed as follows:

(CZK million)	2017
Allocation to Commerzbank AG (profit according to German accounting standards)	516
Transfer to retained earnings	4
Net profit	520

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 different accounting treatment in the area of provisions and revaluation of financial derivatives.

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 failure to fulfil its obligations. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit, interest rate and liquidity risk.

14.1. Guarantees granted

(CZK million)	31 December 2017	31 December 2016
Guarantees granted		
Banks in the group - subsidiaries and other controlled banks	1,035	1,201
Other banks	895	676
Other clients	12,639	11,193
Guarantees granted	14,569	13,070
Provision for guarantees (Note 9)	(8)	(13)
Total carrying value of the guarantees	14,561	13,057

14.2. Commitments granted

(CZK million)	31 December 2017	31 December 2016
Irrevocable commitments		
On behalf of clients	3,423	3,087
On behalf of banks	-	5
Total carrying value of the guarantees	3,423	3,092

The Bank did not grant any guarantees or commitments to its management as at 31 December 2017 and 31 December 2016.

15. Interest and similar income

(CZK million)	2017	2016
Inter-bank transactions	208	102
Receivables from customers and state	396	419
Total interest and similar income	604	521

CZK 30.3 millions of interest income was recognised on impaired loans in the year ended 31 December 2017 (2016: CZK 66.2 million).

The bank registered unpaid penalty interest income outstanding in the amount of CZK 41.7 million as at 31 December 2017 (2016: CZK 31.6 million)

15.1. Interest income from related parties of Commerzbank AG Group

(CZK million)	2017	2016
Commerzbank Bratislava branch	3	6
Commerzbank Frankfurt - head office	12	14
Total	15	20

16. Interest and similar expense

(CZK million)	2017	2016
Inter-bank transactions	38	51
Due to customers and state	9	1
Total interest and similar income	47	52

16.1. Interest expense from related parties of Commerzbank AG Group

(CZK million)	2017	2016
Commerzbank Frankfurt - head office	12	25
Commerzbank, Bratislava branch	2	9
Total	14	34

17. Fee and commission income

(CZK million)	2017	2016
Domestic and foreign transfers	173	141
Guarantees	48	45
Letters of credit	13	20
Loan origination fees and commission	72	60
Other fees and commissions	5	2
Total fee and commission income	311	268

18. Fee and commission expense

(CZK million)	2017	2016
Domestic and foreign payments	6	12
Fees and commissions from other financial activities	11	8
Total fee and commission expense	17	20

19. Gains less losses from financial transactions

(CZK million)	2017	2016
Gains / (Losses) from foreign currency transactions	1,631	(153)
Gains / (Losses) from transactions with FX financial derivatives	(1,180)	368
Gains / (Losses) from interest rate financial derivatives	(1)	1
Total gains less losses from financial transactions	450	216

20. Other operating income

(CZK million)	2017	2016
Income from intercompany re-invoicing	201	85
Other operating income	165	241
Total other operating income	366	326

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 the European branches and subsidiaries.

20.1. Other operating income from related parties of Commerzbank AG Group

(CZK million)	2017	2016
Commerzbank, Luxembourg	2	21
Commerzbank, Bratislava	21	18
Commerz Systems, GmbH	11	14
Commerzbank, London	37	8
Commerzbank Frankfurt – head office	17	7
Commerzbank, Wien	13	5
Commerzbank, Zürich	16	3
Commerzbank, Amsterdam	13	2
Commerzbank, Madrid	6	2
Commerzbank, Milan	18	2
Commerzbank, Brussels	15	1
Commerzbank (Budapest) Zrt., Budapest	7	1
Commerzbank, Paris	11	1
Commerzbank, Moscow	6	-
Commerzbank, Singapore	2	-
Commerzbank, Lodz	3	-
CBHF	3	-
Total other operating expense	201	85

21. Revenues by geographical markets

(CZK million)	Domestic	European Union	Rest of Europe	Other	Total
2017					
1. Interest income and similar income	449	154	1	-	604
2. Fee and commission income	305	6	-	-	311
3. Profit or loss on financial operations	450	-	-	-	450
4. Other operating income	177	165	22	2	366
Total	1,381	325	23	2	1,731

(CZK million)	Domestic	European Union	Rest of Europe	Other	Total
2016					
1. Interest income and similar income	449	72	-	-	521
2. Fee and commission income	261	7	-	-	268
3. Profit or loss on financial operations	216	-	-	-	216
4. Other operating income	255	68	3	-	326
Total	1,181	147	3	-	1,331

22. Administrative expense

(CZK million)	2017	2016
Staff costs	237	221
Intercompany expense – head office in Frankfurt am Main – COBA FFM	173	185
Outsourcing	51	24
Rent and lease charges	56	55
IT expenses	40	22
Tax and legal advisory services	5	9
Services provided by the auditing company:		
- compulsory audit of the financial statements	2	2
Other administration expenses	93	71
Total administrative expense	657	589

Bank includes its directors and managers on the first level of the organisational structure (as at 31 December 2017 and 2016 a total of 13 employees).

22.1. Staff statistics

(CZK million)	2017	2016
Average number of employees	175	154

In 2017 and 2016, the Bank provided contributions of CZK 1 million to its employees for state pension insurance.

In 2017, the management of the Bank was paid wages and salaries of CZK 38.4 million (2016: CZK 40.4 million), social and health insurance paid by the Bank amounted to CZK 4.8 million (2016: CZK 6,7 million). The management of the

23. Taxation

The income tax expense consists of the following:

(CZK million)	2017	2016
Current tax expense (19%)	121	88
Tax related to 2016	-10	-
Deferred tax expense	2	5
Total income tax expense	113	93

Advance for income tax was paid in the amount CZK 75 million (2016: CZK 65 million), income tax provision was created in the amount CZK 40 million (2016: CZK 22 million).

Current tax can be analysed as follows:

(CZK million)	2017	2016
Profit before taxation	633	479
Non-taxable income	-69	(70)
Non-deductible expenses	72	52
Net taxable profit	636	461
Current tax charge at 19 %	121	88

Deferred income tax asset is calculated as 19% (income tax rate for 2016 and 2017) depending on the period, in which it is expected the temporary difference to be compensated and can be analysed as follows:

(CZK million)	31 December 2017	31 December 2016
Deferred tax asset as at 1 January	13	18
Allowances to loans to customers	(3)	(5)
Difference between tax and accounting NBV of assets	1	-
Deferred tax asset as at 31 December	11	13

(CZK million)	31 December 2017	31 December 2016
Deferred tax asset		
Loan loss provisions	7	10
Non-tax deductible social insurance	3	3
Difference between tax and accounting NBV of assets	1	0
Net deferred tax asset (Note 8)	11	13

24. Financial risks

24.1. 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 liabilities.

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 on the shares and bonds markets and in currency, interest rate and commodity prices. The Board of Directors sets trading limits on the level of exposure that can be taken in relation with both overnight and intra-day market positions. Currency and interest exposure resulting from these financial instruments are normally offset by entering into counterbalancing positions.

24.2. 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, group of borrowers and to geographical and business segments. Such risks are monitored 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 Head office in 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 3.36% of the nominal value of the credit portfolio. The Bank uses pledges to real estate, cession of receivables, guarantees and guarantors' proclamation etc. The Bank monitors the concentration of risks based on geographical and industry sectors.

Geographical segmentation

31 December 2017 (CZK million)	Domestic	European Union	Rest of Europe	Other	Total
Assets					
Cash and cash deposits with central banks	686	-	-	-	686
Due from banks	36,003	10,521	1,074	25	47,623
Due from customers	16,631	587	558	-	17,776
Other assets	463	519	-	-	982
Total assets	53,783	11,627	1,632	25	67,067

31 December 2016 (CZK million)	Domestic	European Union	Rest of Europe	Other	Total
Assets					
Cash and cash deposits with central banks	1,782	-	-	-	1,782
Due from banks	12,100	8,482	1,440	65	22,087
Due from customers	15,720	557	880	-	17,157
Other assets	217	240	-	-	457
Total assets	29,819	9,279	2,320	65	41,483

Bank business segmentation

31 December 2017 (CZK million)	Retail banking	Investment banking	Other	Total
Assets				
Cash and cash deposits with central banks	686	-	-	686
Due from banks	1,298	-	46,325	47,623
Due from customers	17,773	-	3	17,776
Other assets	79	-	903	982
Total assets	19,836	-	47,231	67,067

31 December 2016 (CZK million)	Retail banking	Investment banking	Other	Total
Assets				
Cash and cash deposits with central banks	1,782	-	-	1,782
Due from banks	1,916	-	20,171	22,087
Due from customers	17,154	-	3	17,157
Other assets	50	-	407	457
Total assets	20,902	-	20,581	41,483

Information about customer segmentation

31 December 2017 (CZK million)	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
Assets						
Cash and cash deposits with central banks	686	-	-	-	-	686
Due from banks	36,003	11,620	-	-	-	47,623
Due from customers	-	-	17,767	-	9	17,776
Other assets	-	497	485	-	-	982
Total assets	36,689	12,117	18,252	-	9	67,067

31 December 2016 (CZK million)	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
Assets						
Cash and cash deposits with central banks	1,782	-	-	-	-	1,782
Due from banks	12,100	9,987	-	-	-	22,087
Due from customers	-	-	17,133	-	24	17,157
Other assets	27	195	234	-	1	457
Total assets	13,909	10,182	17,367	-	25	41,483

24.3. Market risk

The Bank takes on exposure to market risks which arise from open positions in interest rate and currency and stock 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. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

For assessment of market losses arising from extreme market changes the Bank defined the stress scenarios, based on which a value of Stress test is calculated – 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 outputs are monitored regularly 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 individual trading and portfolio operations; actual exposure against limits, together with a consolidated bank-wide VAR of the Bank, is reviewed daily by management. Consolidated VAR of the Bank as at 31 December 2017 was CZK 9.6 million (31 December 2016: CZK 1,6 million) and average daily consolidated VAR was CZK 8.0 million in 2017 (31 December 2016: CZK 3,0 million).

Stress-testing values are presented with VAR values to the Bank management and Commerzbank AG head office on a daily basis, analogically. Limits of stress-testing and limits of VAR were never exceeded in 2017 and 2016.

24.4. Derivative financial instruments

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

Total financial derivatives

31 December 2017 (CZK million)	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
Interest rate derivatives	32,829	32,829	136	137
Currency derivatives	72,073	72,394	537	820
Total	104,902	105,223	673	957

31 December 2016 (CZK million)	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
Interest rate derivatives	9,396	9,397	53	52
Currency derivatives	27,830	27,759	215	187
Total	37,226	37,156	268	239

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

24.4.1. Trading agreements

31 December 2017 (CZK million)	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
Interest rate derivatives				
Swaps	32,829	32,829	136	137
Interest rate derivatives total	32,829	32,829	136	137
Currency derivatives				
Forwards	19,317	19,709	85	407
Swaps	52,756	52,685	452	413
Currency derivatives total	72,073	72,394	537	820
Total trading agreements	104,902	105,223	673	957

31 December 2016 (CZK million)	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
Interest rate derivatives				
Swaps	9,396	9,397	53	52
Interest rate derivatives total	9,396	9,397	53	52
Currency derivatives				
Forwards	8,915	8,916	48	52
Swaps	18,915	18,843	167	135
Currency derivatives total	27,830	27,759	215	187
Total trading agreements	37,226	37,156	268	239

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

24.5. Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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 2017 (CZK million)	CZK	EUR	USD	Other	Total
Assets					
Cash and cash deposits with central banks	662	12	6	6	686
Due from banks	36,003	9,785	1,651	184	47,623
Due from customers	6,296	11,107	373	-	17,776
Other assets	817	162	3	-	982
Total assets	43,778	21,066	2,033	190	67,067
Liabilities					
Due to banks	2,222	45,404	462	-	48,088
Due to customers	9,995	4,963	1,727	225	16,910
Provisions	68	8	-	-	76
Other liabilities	1,747	196	39	11	1,993
Total liabilities	14,032	50,571	2,228	236	67,067
Net assets/(liabilities)	29,746	(29,505)	(195)	(46)	-
Net off-balance sheet currency positions	(29,772)	29,153	266	57	(296)
Net open currency position	(26)	(352)	71	11	(296)

31 December 2016 (CZK million)	CZK	EUR	USD	Other	Total
Assets					
Cash and cash deposits with central banks	1,753	14	10	5	1,782
Due from banks	12,502	9,015	62	508	22,087
Due from customers	9,836	7,094	227	-	17,157
Other assets	423	28	2	4	457
Total assets	24,514	16,151	301	517	41,483
Liabilities					
Due from banks	6,353	18,969	2,090	-	27,412
Due from customers	6,307	5,290	829	551	12,977
Provisions	74	1	-	-	75
Other liabilities	774	207	29	9	1,019
Total liabilities	13,508	24,467	2,948	560	41,483
Net assets/(liabilities)	11,006	(8,316)	(2,647)	(43)	-
Net off-balance sheet currency positions	(11,015)	8,355	2,677	57	74
Net open currency position	(9)	39	30	14	74

24.6. 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. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken. These limits are monitored daily. Assets and liabilities bearing fixed interest rate prevail in the balance sheet of the Bank.

24.7. 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. Head office in Frankfurt am Main sets limits of the liquidity 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. Usual maturities of financial derivatives are in interval up to 1 year.

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 2017 (CZK million)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Assets						
Cash and cash deposits with central banks	39	-	-	-	647	686
Due from banks	45,026	408	2,010	179	-	47,623
Due from customers	9,104	922	6,778	269	703	17,776
Other assets	201	257	224	1	299	982
Total assets	54,370	1,587	9,012	449	1,649	67,067
Liabilities						
Due to banks	33,385	14,116	587	-	-	48,088
Due to customers	16,897	13	-	-	-	16,910
Provisions	-	-	-	-	76	76
Other liabilities	295	403	251	36	1,008	1,993
Total liabilities	50,577	14,532	838	36	1,084	67,067
Net assets/(liabilities)	3,793	(12,945)	8,174	413	565	-

31 December 2016 (CZK million)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Assets						
Cash and cash deposits with central banks	43	-	-	-	1,739	1,782
Due from banks	19,193	573	2,086	235	-	22,087
Due from customers	6,882	1,746	7,392	419	718	17,157
Other assets	201	51	23	-	182	457
Total assets	26,319	2,370	9,501	654	2,639	41,483
Liabilities						
Due to banks	24,604	2,648	160	-	-	27,412
Due to customers	12,845	132	-	-	-	12,977
Provisions	-	-	-	-	75	75
Other liabilities	133	48	23	-	815	1,019
Total liabilities	37,582	2,828	183	-	890	41,483
Net assets/(liabilities)	(11,263)	(458)	9,318	654	1,749	-

25. 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 2017.

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

29 March 2018



Michael Thomas Krüger
Head of Branch



Nikolay Eremin
Person responsible for preparation of the financial statements



Ing. Eva Collardová, MBA
Person responsible for accounting

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