

**COMMERZBANK**

The bank at your side



# Annual report

for the year ended 31 December 2016

translation from the Czech language





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# Bank Management Report for Fiscal Year 2016

» The Prague branch has significantly expanded its activities in Prague in 2016, consolidating its strategic position among the foreign entities of Commerzbank. «

Czech economic growth last year temporarily slowed down and for the full year 2016, according to official statistics, amounted to 2.3%. The reason for this slowdown was mainly in high reference base of year 2015 when combination of one-time growth factors occurred. These factors did not recur last year, for example there was a decrease in government and corporate investments financed from European Union funds.

Despite the continuing extremely strong competitive environment in the whole banking sector, the results of Commerzbank's Prague branch in 2016 were satisfactory.

Thanks to a growing economy, very good investment conditions and low interest rates, we also noticed in year 2016 a steadily high demand for acquisition and investment loans, which traditionally account for substantial part of the total bank's loan portfolio.

The year 2016 also brought positive results in other product areas outside the lending business. There was a significant increase in revenues from inter-bank transactions and gains from financial transactions due to transactions with FX financial derivatives, which are traditionally one of our strengths. Fee and commission income showed stable development in time and continue to contribute substantially to the overall economic performance.

The Prague branch has significantly expanded its activities in Prague in 2016, consolidating its strategic position among the foreign entities of Commerzbank.

The first project was the creation of Group Finance Eurohub aiming to merge the operations in finance from various European locations of Commerzbank, mainly from London and Luxembourg, but also from other countries. The reason for choosing Prague was the existence of fully operational and for many years an established branch office and a team of employees in finance. With this step the bank has combined expertise and capabilities by assembling different teams that ensure all financial processes from A to Z. The bank took advantage of the resulting synergies and further unified its financial activities. Within Eurohub numerous positions with the possibility of further career advancement were created. The project will continue until 2017. The new configuration and settings of finance in Prague is an opportunity to further enhance the competitiveness of the bank on cost-focused market and enable the Division of Finance to act in future even more flexibly.

Another important expansion activities project in Prague was creating the operational center Trade Service Hub, which combines the activities of documentary business transactions and guarantees for the Czech Republic, Slovakia, Hungary, Austria and Switzerland.

When choosing a place Prague prevailed thanks to very good framework conditions. In future clients, in addition to their local advisor in home country, will also have a professional specialist in Prague. They will continue to deliver the documents as they were used to, i.e. through a local branch of Commerzbank. In addition to that there is a local Hotline for each country, which connects the client for local charges with experts in Prague.

Thanks to both projects, the importance of the Prague branch within the Group has significantly increased.

For 2017, Commerzbank analysts expect GDP growth in the Czech Republic of 2.4% compared to the CNB, which is expecting higher annual growth, at a rate of 2.8%. National Bank's forecasts are based on the premise of continued growth in external demand and renewed increase of fixed investments at a steadily increasing household consumption. Commerzbank analysts, however, slightly lower economic growth in 2017 compared to e.g. Poland justify by the fact that the European Structural Funds will have on the Czech economy insignificant impact.

Within the multi-annual planning we are entering 2017 on a good starting position and we expect growth in both the Czech Republic and the Slovak Republic.

We believe that thanks to even greater importance of the Prague branch within the Commerzbank group and its fixed place in the Corporate Banking division, for our clients in the Czech Republic and the Slovak Republic we will be a link, which combine local knowledge and international know-how of a strong financial group.

Our goal in 2017 is to increase competitiveness through further development of services and the introduction of new digital products.

We believe that we are able to provide you what you need, and we will be the "Bank at your side".

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 31 December 2016.

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

26<sup>th</sup> april 2017



# Commerzbank AG

## Commerzbank worldwide

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 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 17.5 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 2016, it generated net income before loan loss provisions of €9.4 billion with approximately 49,900 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 (1998), Ostrava (2001) and Pilsen (2007).

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**

**Ing. Ludovít Bán**

Head of Czech and International Desk

**Margaret Dvorak**

Head of Czech and Slovakian Branches

**Armin Seifert**

Head of Local Credit Office

**Tomáš Krejča**

Head of Financial Engineering

**RNDr. Jaromír Hronek, CSc.**

Head of Treasury

**Uwe Berthold**

Head of Commerzbank Transaction Services

**Ralph Klose** (from March, 1<sup>st</sup> 2016 till December 31<sup>st</sup>, 2016)

Head of Commerzbank Transaction Services

Trade Service Hub

**Ing. Eva Collardová, MBA**

Head of Finance

**Nino Keiber** (from January, 1<sup>st</sup> 2016 till March 31<sup>st</sup>, 2017)

Head of Human Resources

**Ing. Pavel Čurilla**

Head of Organisation

**Jens Hohmann**

COO Prague

**Ing. Petr Nentvich, MBA**

Head of Brno office /  
Corporate banking department

**Ing. Ondřej Eliáš**

Head of Plzeň office /  
Corporate banking department

**Dr. Roman Zedníček**

Head of Ostrava office /  
Corporate banking department

**Jaroslava Nováková**

Head of Payment Services CZ

**Pavel Měrka**

Head of Account Administration



*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 1, Praha 2 ("the Branch") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, the income statement, 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 2016, 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. 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.

26 April 2017

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 2016

ASSETS (CZK million)	Note	31. December 2016	31. December 2015
<b>1. Cash and cash deposits with central banks</b>	3	<b>1,782</b>	<b>115</b>
<b>2. Due from banks</b>	4	<b>22,087</b>	<b>14,839</b>
of which: a) repayable on demand		530	123
b) other receivables		21,557	14,716
<b>3. Due from customers</b>	5	<b>17,157</b>	<b>17,423</b>
of which: a) repayable on demand		433	590
b) other receivables		16,724	16,833
<b>4. Long-term intangible assets</b>	7.1	<b>-</b>	<b>-</b>
<b>5. Long-term tangible fixed assets</b>	7.2	<b>86</b>	<b>68</b>
of which: land and buildings for operating activities		83	65
<b>6. Other assets</b>	8	<b>354</b>	<b>333</b>
<b>7. Prepayments and accrued income</b>		<b>17</b>	<b>12</b>
<b>Assets total</b>		<b>41,483</b>	<b>32,790</b>

LIABILITIES AND EQUITY (CZK million)	Note	31. December 2016	31. December 2015
<b>1. Due to banks</b>	10	<b>27,412</b>	<b>20,639</b>
of which: a) repayable on demand		10,082	7,042
b) other receivables		17,330	13,597
<b>2. Due to customers</b>	11	<b>12,977</b>	<b>11,177</b>
of which: a) repayable on demand		12,321	10,288
b) other receivables		656	889
<b>3. Other liabilities</b>	12	<b>532</b>	<b>365</b>
<b>4. Accruals and deferred income</b>		<b>101</b>	<b>97</b>
<b>5. Provisions</b>	9	<b>22</b>	<b>7</b>
provisions for taxes		22	7
<b>6. Provisions for potential liabilities</b>	9	<b>53</b>	<b>82</b>
<b>7. Retained earnings from previous periods</b>		<b>-</b>	<b>100</b>
<b>8. Profit for the accounting period</b>	13	<b>386</b>	<b>323</b>
<b>Total liabilities and equity</b>		<b>41,483</b>	<b>32,790</b>

# Off-balance sheet

as at 31 December 2016

(CZK million)	Note	31. December 2016	31. December 2015
<b>Off-balance sheet assets</b>			
1. Commitments and guarantees given	14.1, 14.2.	16,163	13,329
2. Receivables from spot transactions		488	25
3. Receivables from term instruments	24.4	37,226	32,172
4. Receivables from options instruments		54	-
<b>Total off-balance sheet assets</b>		<b>53,931</b>	<b>45,526</b>
<b>Off-balance sheet liabilities</b>			
5. Commitments and guarantees received	5	17,183	18,919
6. Collateral received and pledges	5	1,170	1,695
7. Payables from spot transactions		488	25
8. Payables from term instruments	24.4	37,156	32,134
9. Payables from options instruments		54	-
<b>Total off-balance sheet liabilities</b>		<b>56,051</b>	<b>52,773</b>

# Income Statement

for the year ended 31 December 2016

(CZK million)	Note	2016	2015
<b>1. Interest and similar income</b>	15	<b>521</b>	<b>475</b>
of which: from debt securities		0	11
<b>2. Interest and similar expense</b>	16	<b>(52)</b>	<b>(46)</b>
<b>3. Fee and commission income</b>	17	<b>268</b>	<b>269</b>
<b>4. Fee and commission expense</b>	18	<b>(20)</b>	<b>(29)</b>
<b>5. Gains / losses from financial transactions</b>	19	<b>216</b>	<b>162</b>
<b>6. Other operating income</b>	20	<b>326</b>	<b>358</b>
<b>7. Other operating expense</b>		<b>(20)</b>	<b>(18)</b>
<b>8. Administrative expense</b>	22	<b>(589)</b>	<b>(698)</b>
of which: a) staff costs		(221)	(335)
of which: aa) wages and salaries		(165)	(249)
ab) social and health insurance		(46)	(74)
ac) other staff costs		(10)	(12)
b) other administrative expenses		(368)	(363)
<b>9. Depreciation for long-term tangible and intangible fixed assets</b>	7	<b>(5)</b>	<b>(13)</b>
<b>10. Release of allowances and provisions for loans and guarantees</b>	9	<b>148</b>	<b>126</b>
<b>11. Write-offs, additions and utilisation of allowances and provisions for loans and guarantees</b>	9	<b>(334)</b>	<b>(207)</b>
<b>12. Release of other provisions</b>		<b>30</b>	<b>14</b>
<b>13. Additions and utilisation of other provisions</b>	9	<b>(10)</b>	<b>(1)</b>
<b>14. Profit on ordinary activities before taxation</b>		<b>479</b>	<b>392</b>
<b>15. Income tax</b>	23	<b>(93)</b>	<b>(69)</b>
<b>16. Profit or loss for the accounting period</b>	13	<b>386</b>	<b>323</b>

# Statement of changes in equity

for the year ended 31 December 2016

(CZK million)	Revaluation reserve	Retained earnings	Profit/loss	Total
<b>Balance as at 1 January 2015</b>	<b>5</b>	<b>101</b>	<b>257</b>	<b>363</b>
Allocation of 2014 profit to the central	-	-	(259)	(259)
Revaluation differences not included in profit net of tax	(5)	-	-	(5)
Net profit/loss for the accounting period	-	-	323	323
Difference between allocation of profit to the central, foreign exchange differences and profit for the year 2014	-	(2)	2	-
Other differences	-	1	-	1
<b>Balance as at 31 December 2015</b>	<b>-</b>	<b>100</b>	<b>323</b>	<b>423</b>
<b>Balance as at 1 January 2016</b>	<b>-</b>	<b>100</b>	<b>323</b>	<b>423</b>
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 changes	-	(29)	-	(29)
<b>Balance as at 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>386</b>	<b>386</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 2016

### 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 Prague and a sub-branch (branch-office) in Brno and offices in Ostrava and Plzeň.

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. 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 2016 and 31 December 2015, 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.

## 2.6. 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 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.

## 2.7. 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.

## 2.8. Penalty interest

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

## 2.9. 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.

## 2.10. 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 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 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.

### **2.12. 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 (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 81,06 million (equivalent of EUR 3 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.

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

Long-term tangible and intangible fixed assets acquired before 31 December 2000 are recorded at acquisition cost 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.

### **2.14. 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.

### **2.15. 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 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.

### **2.16. 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"),
- 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, 22 and 23.

### 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 cash deposits with central banks

(CZK million)	31 December 2016	31 December 2015
Cash on hand	43	38
Obligatory reserves	1,739	77
Current accounts with central banks	-	-
<b>Total cash and cash deposits with central banks</b>	<b>1,782</b>	<b>115</b>

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 0.05% p.a. as at 31 December 2016 and at 31 December 2015.

## 4. Due from banks

(CZK million)	31 December 2016	31 December 2015
Current accounts with banks	530	50
Term deposits with CNB	12,100	8,000
Term deposits up to 24 hours	-	74
Other term deposits with other banks	7,968	5,380
Standard loans to banks	1,489	1,112
Other due from banks	-	223
<b>Total due from banks</b>	<b>22,087</b>	<b>14,839</b>

The Bank did not create allowances to due from banks balances as at 31 December 2016 and 2015.

### 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 2016	31 December 2015
Commerzbank, Bratislava branch	7,539	4,321
Commerzbank, Frankfurt (head office)	938	1,118
Commerzbank, New York branch	-	-
mBank S. A. (former BRE Bank S. A.)	-	46
Commerzbank, Tokyo branch	-	2
Commerzbank (Budapest) Zrt., Budapest	-	1
<b>Total</b>	<b>8,477</b>	<b>5,488</b>

## 5. Due from customers

### 5.1. Due by customer type

(CZK million)	31 December 2016	31 December 2015
Customers' current accounts - overdraft	3,425	3,483
Standard loans to customers	12,600	12,365
<b>Total standard loans</b>	<b>16,025</b>	<b>15,848</b>
Classified loans to customers	1,534	2,133
<b>Total due from customer</b>	<b>17,559</b>	<b>17,981</b>
Allowances for impaired loans (Note 9)	(402)	(558)
<b>Total due from customers, net</b>	<b>17,157</b>	<b>17,423</b>

Syndicate loans forming part of Due from customers totalled CZK 4,688 million at 31 December 2016 (31 December 2015: CZK 3,031 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 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 2016	31 December 2015
Standard	16,025	15,848
Watch	149	1,131
<b>Impaired:</b>		
- substandard	84	646
- doubtful	118	272
- loss	1,183	84
<b>Total receivables due from customers</b>	<b>17,559</b>	<b>17,981</b>

Present value of collateral received can be analysed as follows:

(CZK million)	31 December 2016	31 December 2015
Cash	163	161
Real estate pledge	62	59
Other collateral received	945	1,475
Other guarantees and commitments	17,183	18,919
<b>Total assets received as collateral for receivables from customers</b>	<b>18,353</b>	<b>20,614</b>

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

Restructured loans totalled CZK 107 million in 2016 (2015: CZK 62 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 2016, the Bank did not provide any loans to its related parties.

As at 31 December 2016 and 2015, 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 2016	31 December 2015
Commerzbank, Frankfurt head office	427	525
Commerzbank, Essen branch	317	385
Commerzbank, Bratislava branch	153	-
Commerzbank, Berlin branch	151	171
Commerzbank, Düsseldorf branch	63	61
Commerzbank, Hamburg branch	43	1
Commerzbank, Leipzig branch	5	5
Commerzbank, Nürnberg branch	3	3
Commerzbank, New York branch	2	-
<b>Total</b>	<b>1,164</b>	<b>1,151</b>

## 6. Securities

The Bank did not hold any securities as at 31 December 2016 and as at 31 December 2015.

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 assets - software

(CZK million)	31 December 2015	Additions / Amortisation	Disposals	31 December 2016
Acquisition cost	28	-	-	28
Accumulated amortisation	(28)	-	-	(28)
<b>Net book amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 7.2. Long term operating tangible fixed assets

(CZK million)	31 December 2015	Additions / Amortisation	Disposals	31 December 2016
<b>Acquisition cost</b>	<b>174</b>	<b>23</b>	<b>(27)</b>	<b>170</b>
Buildings	82	3	-	85
Equipment	92	20	(27)	85
<b>Accumulated depreciation</b>	<b>(106)</b>	<b>(5)</b>	<b>27</b>	<b>(84)</b>
Buildings	(17)	(3)	-	(20)
Equipment	(89)	(2)	27	(64)
<b>Net book amount</b>	<b>68</b>	<b>18</b>	<b>-</b>	<b>86</b>

As at 31 December 2016 and 31 December 2015, the Bank did not provide any tangible and intangible fixed assets as collateral.

## 8. Other assets

(CZK million)	31 December 2016	31 December 2015
Operating advances granted	1	1
Settlement clearance accounts	69	75
Derivative financial instruments (Note 24.4)	268	233
Deferred tax asset (Note 23)	13	18
Other receivables	3	6
<b>Total other assets</b>	<b>354</b>	<b>333</b>

## 9. Allowances, provisions and write offs

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

(CZK million)	31 December 2016	31 December 2015
<b>Income tax provision</b>		
Income tax provision	87	68
Advance income tax	(65)	(61)
<b>Income tax provision</b>	<b>22</b>	<b>7</b>
<b>Other provisions</b>		
Provisions for potential law litigations	51	75
Provisions for other payables	2	7
<b>Total other provisions</b>	<b>53</b>	<b>82</b>
<b>Allowances</b>		
Impaired loans to customers (Note 5)	402	558
<b>Total allowances</b>	<b>402</b>	<b>558</b>

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

(CZK million)	2016	2015
<b>As at 1 January</b>	<b>7</b>	<b>-</b>
Additions	15	6
<b>As at 31 December</b>	<b>22</b>	<b>6</b>

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

(CZK million)	2016	2015
<b>As at 1 January</b>	75	71
Additions	8	-
Release	(29)	-
Foreign exchange differences	(3)	4
<b>As at 31 December</b>	<b>51</b>	<b>75</b>

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

(CZK million)	2016	2015
<b>As at 1 January</b>	7	18
Additions	2	1
Foreign exchange differences	-	2
Release	(1)	(14)
Utilisation	(6)	-
<b>As at 31 December</b>	<b>2</b>	<b>7</b>

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

(CZK million)	2016	2015
<b>As at 1 January</b>	558	484
Additions	123	207
Foreign exchange differences	(11)	(7)
Release	(147)	(126)
<b>Use</b>	<b>(121)</b>	-
<b>As at 31 December</b>	<b>402</b>	<b>558</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

(CZK million)	31 December 2016	31 December 2015
Current accounts with banks	291	492
Term deposits due up to 24 hours	9,791	6,550
Other term deposits	17,330	13,597
<b>Total due to banks</b>	<b>27,412</b>	<b>20,639</b>

### 10.1. Deposits from related parties

(CZK million)	31 December 2016	31 December 2015
Commerzbank Frankfurt head office	18,062	12,850
Commerzbank, Bratislava branch	2,123	2,223
mBank S.A. (former BRE Bank S.A.), organisational unit, Prague	56	91
Commerzbank, Paris branch	-	57
Commerzbank, London branch	-	4
Commerzbank (Budapest) Zrt., Budapest	-	2
<b>Total deposits from related parties</b>	<b>20,241</b>	<b>15,227</b>

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 2016	31 December 2015
Amounts due to governmental entities	10	11
Amounts due to customers	12,967	11,166
<b>Total due to customers</b>	<b>12,977</b>	<b>11,177</b>

### 11.1. Due to customers by type

(CZK million)	31 December 2016	31 December 2015
Liabilities repayable on demand	12,312	10,106
Term accounts for fixed term	656	666
Term accounts with fixed notice period	9	182
Other amounts due to private customers	-	223
<b>Total due to customers</b>	<b>12,977</b>	<b>11,177</b>

### 11.2. Deposits from related parties

(CZK million)	31 December 2016	31 December 2015
Companies under common control	85	72
Associated undertakings	93	83
<b>Total deposit from related parties</b>	<b>178</b>	<b>155</b>

The Bank did not accept any deposits from senior management members as at 31 December 2016 and 31 December 2015.

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 2016	31 December 2015
Derivative financial instruments (Note 24.4)	239	188
Settlement clearance accounts	243	111
Estimated payables	42	48
Other liabilities	8	18
<b>Total other liabilities</b>	<b>532</b>	<b>365</b>

The Bank did not have any overdue liabilities to finance authorities, social insurance authorities or health insurance companies as at 31 December 2016 and 2015.

### 13. Equity and profit distribution

The net profit of CZK 386 million for 2016 is proposed to be distributed as follows:

(CZK million)	2016
Allocation to Commerzbank AG (profit according to German accounting standards)	378
Transfer to retained earnings	8
<b>Net profit</b>	<b>386</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 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 2016	31 December 2015
Guarantees granted		
Banks in the group - subsidiaries and other controlled banks	1,201	275
Other banks	676	598
Other clients	11,193	6,793
<b>Guarantees granted</b>	<b>13,070</b>	<b>7,666</b>
Provision for guarantees (Note 9)	(13)	-
<b>Total carrying value of the guarantees</b>	<b>13,057</b>	<b>7,666</b>

## 14.2. Commitments granted

(CZK million)	31 December 2016	31 December 2015
Irrevocable commitments		
- On behalf of clients	3,087	5,431
- On behalf of banks	5	232
<b>Total carrying value of the guarantees</b>	<b>3,092</b>	<b>5,663</b>

The Bank did not grant any guarantees or commitments to its management as at 31 December 2016 and 31 December 2015.

## 15. Interest and similar income

(CZK million)	2016	2015
Inter-bank transactions	102	28
Receivables from customers and state	419	436
Debt securities	-	11
<b>Total interest and similar income</b>	<b>521</b>	<b>475</b>

CZK 66 million of interest income was recognised on impaired loans in the year ended 31 December 2016 (2015: CZK 55 million).

The bank registered unpaid penalty interest income outstanding in the amount of CZK 66 million as at 31 December 2016 (2015: CZK 23.2 million)

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

(CZK million)	2016	2015
Commerzbank Bratislava branch	6	4
Commerzbank Frankfurt - head office	14	15
mBank (BRE Bank) S.A., Warsaw	-	1
<b>Total</b>	<b>20</b>	<b>20</b>

## 16. Interest and similar expense

(CZK million)	2016	2015
Inter-bank transactions	51	40
Due to customers and state	1	2
Other financial transactions	-	4
<b>Total interest and similar income</b>	<b>52</b>	<b>46</b>

### 16.1. Interest expense from related parties of Commerzbank AG Group

(CZK million)	2016	2015
Commerzbank Frankfurt – head office	25	41
Commerzbank, Bratislava branch	9	(3)
<b>Total</b>	<b>34</b>	<b>38</b>

## 17. Fee and commission income

(CZK million)	2016	2015
Domestic and foreign transfers	141	126
Guarantees	45	46
Letters of credit	20	35
Loan origination fees and commission	60	51
Brokerage income from the purchase and sale of securities and derivatives	-	3
Other fees and commissions	2	8
<b>Total fee and commission income</b>	<b>268</b>	<b>269</b>

## 18. Fee and commission expense

(CZK million)	2016	2015
Brokerage expense	-	16
Domestic and foreign payments	12	10
Fees and commissions for off balance sheet	-	2
Fees and commissions from other financial activities	8	1
<b>Total fee and commission expense</b>	<b>20</b>	<b>29</b>

## 19. Gains less losses from financial transactions

(CZK million)	2016	2015
Gains / (Losses) from foreign currency transactions	(153)	407
Gains / (Losses) from transactions with FX financial derivatives	368	(244)
Gains / (Losses) from interest rate financial derivatives	1	(1)
<b>Total gains less losses from financial transactions</b>	<b>216</b>	<b>162</b>

## 20. Other operating income

(CZK million)	2016	2015
Income from intercompany re-invoicing	85	334
Other operating income	241	24
<b>Total other operating income</b>	<b>326</b>	<b>358</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 the European branches and subsidiaries.

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

(CZK million)	2016	2015
Commerzbank, Luxembourg	21	-
Commerzbank, Bratislava	18	21
Commerz Systems, GmbH	14	7
Commerzbank, London	8	-
Commerzbank Frankfurt – head office	7	307
Commerzbank, Wien	5	2
Commerzbank, Zürich	3	-
Commerzbank, Amsterdam	2	-
Commerzbank, Madrid	2	-
Commerzbank, Milan	2	-
Commerzbank, Brussels	1	-
Commerzbank (Budapest) Zrt., Budapest	1	1
Commerzbank, Paris	1	-
Commerzbank, Moscow	-	1
<b>Total other operating expense</b>	<b>85</b>	<b>339</b>

## 21. Revenues by geographical markets

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

(CZK million)	Domestic	European Union	Rest of Europe	Other	Total
<b>2015</b>					
1. Interest income and similar income	433	42	-	-	475
2. Income from shares and interests	-	-	-	-	-
3. Fee and commission income	262	7	-	-	269
4. Profit or loss on financial operations	170	(8)	-	-	162
5. Other operating income	27	330	1	-	358
<b>Total</b>	<b>892</b>	<b>371</b>	<b>1</b>	<b>-</b>	<b>1,264</b>

## 22. Administrative expense

(CZK million)	2016	2015
Staff costs	221	335
Intercompany expense – head office in Frankfurt am Main	185	129
Outsourcing	24	79
Rent and lease charges	55	55
IT expenses	22	25
Tax and legal advisory services	9	0
Services provided by the auditing company:		
- compulsory audit of the financial statements	2	2
Other administration expenses	71	73
<b>Total administrative expense</b>	<b>589</b>	<b>698</b>

In 2016, the management of the Bank was paid wages and salaries of CZK 40.4 million (2015: CZK 43.1 million), social and health insurance paid by the Bank amounted to CZK 6,7 million (2015: CZK 7.3 million). The management of the Bank includes its directors and managers on the first level of the organisational structure (as at 31 December 2016 and 2015 a total of 13 employees).

### 22.1. Staff statistics

(CZK million)	2016	2015
Average number of employees	154	248

In 2016 and 2015, the Bank provided contributions of CZK 1 million to its employees for state pension insurance.

## 23. Taxation

The income tax expense consists of the following:

(CZK million)	2016	2015
Current tax expense	88	68
Deferred tax expense/(income)	5	1
<b>Total income tax expense</b>	<b>93</b>	<b>69</b>

Advance for income tax was paid in the amount CZK 65 million (2015: CZK 61 million), income tax provision was created in the amount CZK 22 million (2015: CZK 7 million).

Current tax can be analysed as follows:

(CZK million)	2016	2015
<b>Profit before taxation</b>	<b>479</b>	<b>392</b>
Non-taxable income	(70)	(83)
Non-deductible expenses	52	49
<b>Net taxable profit</b>	<b>461</b>	<b>358</b>
<b>Current tax charge at 19 %</b>	<b>88</b>	<b>68</b>

Deferred income tax asset is calculated as 19% (income tax rate for 2015 and 2016) depending on the period, in which it is expected the temporary difference to be compensated and can be analysed as follows:

(CZK million)	31. prosince 2016	31. prosince 2015
<b>Deferred tax asset as at 1 January</b>	<b>18</b>	<b>19</b>
Tax non-deductible social insurance	0	1
Allowances to loans to customers	(5)	(2)
<b>Deferred tax asset as at 31 December</b>	<b>13</b>	<b>18</b>

(CZK million)	31. prosince 2016	31. prosince 2015
<b>Deferred tax asset</b>		
Loan loss provisions	10	16
Non-tax deductible social insurance	3	2
<b>Net deferred tax asset (Note 8)</b>	<b>13</b>	<b>18</b>

## 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 2.34% 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 2016 (CZK million)	Domestic	European Union	Rest of Europe	Other	Total
<b>Assets</b>					
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
<b>Total assets</b>	<b>29,819</b>	<b>9,279</b>	<b>2,320</b>	<b>65</b>	<b>41,483</b>

31 December 2015 (CZK million)	Domestic	European Union	Rest of Europe	Other	Total
<b>Assets</b>					
Cash and cash deposits with central banks	115	-	-	-	115
Due from banks	8,000	5,492	1,028	319	14,839
Due from customers	14,846	1,144	1,433	-	17,423
Other assets	341	72	-	-	413
<b>Total assets</b>	<b>23,302</b>	<b>6,708</b>	<b>2,461</b>	<b>319</b>	<b>32,790</b>

## Business segmentation

31 December 2016 (CZK million)	Retail banking	Investment banking	Other	Total
<b>Assets</b>				
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
<b>Total assets</b>	<b>20,902</b>	<b>-</b>	<b>20,581</b>	<b>41,483</b>

31 December 2015 (CZK million)	Retail banking	Investment banking	Other	Total
<b>Assets</b>				
Cash and cash deposits with central banks	115	-	-	115
Due from banks	1,024	-	13,815	14,839
Due from customers	16,463	959	1	17,423
Other assets	84	-	329	413
<b>Total assets</b>	<b>17,686</b>	<b>959</b>	<b>14,145</b>	<b>32,790</b>

## Information about customer segmentation

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

31 December 2015 (CZK million)	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
<b>Assets</b>						
Cash and cash deposits with central banks	115	-	-	-	-	<b>115</b>
Due from banks	8,000	6,839	-	-	-	<b>14,839</b>
Due from customers	-	-	17,377	-	46	<b>17,423</b>
Other assets	111	45	256	-	1	<b>413</b>
<b>Total assets</b>	<b>8,226</b>	<b>6,884</b>	<b>17,633</b>	<b>-</b>	<b>47</b>	<b>32,790</b>

### 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 busi-

ness 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 2016 was CZK 1,6 million (31 December 2015: CZK 2,5 million) and average daily consolidated VAR was CZK 3,0 million in 2016 (31 December 2015: CZK 2,4 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 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 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
<b>Total</b>	<b>37,226</b>	<b>37,156</b>	<b>268</b>	<b>239</b>

31 December 2015 (CZK million)	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
Interest rate derivatives	3,769	3,770	38	38
Currency derivatives	28,403	28,364	195	150
<b>Total</b>	<b>32,172</b>	<b>32,134</b>	<b>233</b>	<b>188</b>

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

### 24.4.1. Trading agreements

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

31. prosince 2015 (mil. Kč)	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
<b>Interest rate derivatives</b>				
Swaps	3,769	3,770	38	38
<b>Interest rate derivatives total</b>	<b>3,769</b>	<b>3,770</b>	<b>38</b>	<b>38</b>
<b>Currency derivatives</b>				
Forwards	4,783	4,768	35	16
Swaps	23,620	23,596	160	134
<b>Currency derivatives total</b>	<b>28,403</b>	<b>28,364</b>	<b>195</b>	<b>150</b>
<b>Total trading agreements</b>	<b>32,172</b>	<b>32,134</b>	<b>233</b>	<b>188</b>

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 2016 (CZK million)	CZK	EUR	USD	Other	Total
<b>Assets</b>					
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
<b>Total assets</b>	<b>24,514</b>	<b>16,151</b>	<b>301</b>	<b>517</b>	<b>41,483</b>
<b>Liabilities</b>					
Due to banks	6,353	18,969	2,090	-	27,412
Due to customers	6,307	5,290	829	551	12,977
Provisions	74	1	-	-	75
Other liabilities	774	207	29	9	1,019
<b>Total liabilities</b>	<b>13,508</b>	<b>24,467</b>	<b>2,948</b>	<b>560</b>	<b>41,483</b>
<b>Net assets/(liabilities)</b>	<b>11,006</b>	<b>(8,316)</b>	<b>(2,647)</b>	<b>(43)</b>	<b>-</b>
<b>Net off-balance sheet assets/(liabilities)</b>	<b>(11,015)</b>	<b>8,355</b>	<b>2,677</b>	<b>57</b>	<b>74</b>
<b>Net open currency position</b>	<b>(9)</b>	<b>39</b>	<b>30</b>	<b>14</b>	<b>74</b>

31 December 2015 (CZK million)	CZK	EUR	USD	Other	Total
<b>Assets</b>					
Cash and cash deposits with central banks	93	12	4	6	115
Due from banks	8,001	5,538	1,219	81	14,839
Due from customers	10,396	6,548	476	3	17,423
Other assets	383	17	3	10	413
<b>Total assets</b>	<b>18,873</b>	<b>12,115</b>	<b>1,702</b>	<b>100</b>	<b>32,790</b>
<b>Liabilities</b>					
Due from banks	4,190	11,874	4,570	5	20,639
Due from customers	5,423	4,687	963	104	11,177
Provisions	88	1	-	-	89
Other liabilities	791	45	22	27	885
<b>Total liabilities</b>	<b>10,492</b>	<b>16,607</b>	<b>5,555</b>	<b>136</b>	<b>32,790</b>
<b>Net assets/(liabilities)</b>	<b>8,381</b>	<b>(4,492)</b>	<b>(3,853)</b>	<b>(36)</b>	<b>-</b>
<b>Net off-balance sheet assets/(liabilities)</b>	<b>(8,999)</b>	<b>5,001</b>	<b>3,984</b>	<b>52</b>	<b>38</b>
<b>Net open currency position</b>	<b>(618)</b>	<b>509</b>	<b>131</b>	<b>16</b>	<b>38</b>

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

31 December 2015 (CZK million)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
<b>Assets</b>						
Cash and cash deposits with central banks	38	-	-	-	77	115
Due from banks	10,919	1,896	2,019	5	-	14,839
Due from customers	6,944	1,362	7,594	653	870	17,423
Other assets	127	93	15	0	178	413
<b>Total assets</b>	<b>18,028</b>	<b>3,351</b>	<b>9,628</b>	<b>658</b>	<b>1,125</b>	<b>32,790</b>
<b>Liabilities</b>						
Due to banks	15,027	2,719	2,893	-	-	20,639
Due to customers	10,808	369	-	-	-	11,177
Provisions	-	-	-	-	89	89
Other liabilities	63	78	15	-	729	885
<b>Total liabilities</b>	<b>25,898</b>	<b>3,166</b>	<b>2,908</b>	<b>-</b>	<b>818</b>	<b>32,790</b>
<b>Net assets/(liabilities)</b>	<b>(7,870)</b>	<b>185</b>	<b>6,720</b>	<b>658</b>	<b>307</b>	<b>-</b>

## 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 2016.

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

26 April 2017



Michael Thomas Krüger  
Head of Branch



Eva Collardová, MBA  
Person responsible for accounting



Nikolay Eremin  
Person responsible for preparation of the financial statements

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