



Annual report for the year ended 31 December 2013





# Contents

4 – 5

## Management Report

4 Bank Management Report for Fiscal Year 2013

6 – 8

## Commerzbank AG

6 Commerzbank worldwide

7 Commerzbank in the Czech Republic

8 General Managers, Heads of departments

10 – 11

## Independent auditor's report

10 Independent auditor's report on the Annual report

11 Independent auditor's report on the financial statements

12 – 37

## Financial statements

12 Balance sheet as at 31 December 2013

13 Off-balance sheet as at 31 December 2013

14 Income statement for the year ended 31 December 2013

15 Statement of changes in equity for the year ended 31 December 2013

16 Notes to the financial statements

16 1 General information

16 2 Accounting policies

20 3 Cash and deposits with central banks

20 4 Due from banks

21 5 Due from customers

22 6 Securities

22 7 Long term intangible and tangible fixed assets

24 8 Other assets

24 9 Allowances, provisions and write offs

25 10 Due to banks

26 11 Due to customers

26 12 Other liabilities

26 13 Equity and profit distribution

27 14 Contingencies and commitments

28 15 Interest and similar income

28 16 Interest and similar expense

28 17 Fee and commission income

29 18 Fee and commission expense

29 19 Gains less losses from financial transactions

29 20 Other operating income

29 21 Administrative expenses

30 22 Taxation

30 23 Financial risks

37 24 Subsequent events



# 2013 Management Report

As we know, the Czech economy declined 1% last year, lagging behind its neighbouring countries. The Eurozone succeeded in achieving mild growth in 2013, coming off its second economic downturn in 5 years. This improved development in Europe, especially the economic growth of our key neighbouring business partners, positively impacted the Czech economy in Q4 2013. We can therefore talk about the turnaround of the Czech economy at the end of last year.

**»For the Prague Branch of Commerzbank, 2013 was marked by full implementation of the ‘Mittelstandsbank’ International’s business model, which has proven to be highly successful in both Western Europe and Asia and has thus been extended to the Central and East European countries.«**

In addition to German and international corporations, our focus in both the Czech and Slovak Republics will be concentrated on local firms, with a view to developing productive long-term business partnerships.

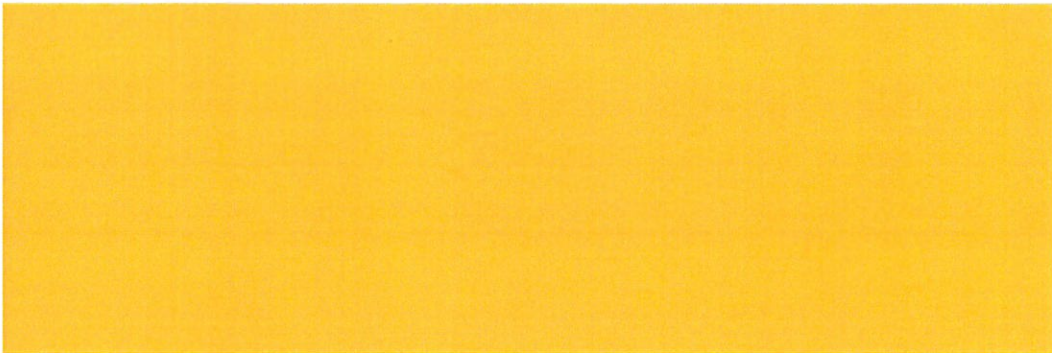
Throughout 2013 Prague branch continued to adapt its portfolio structure to the new strategy, replacing the non-strategic part of its client loan portfolio with new strategic volumes. The total number of the clients increased by 125, and due to the growth of strategic portfolio, especially in the second half of the year, the overall level of client loans remained almost unchanged compared to the previous year.

The profit for 2013 has been influenced by the above-mentioned changes in the Banks client portfolio as well as by higher loan loss provisions. However, the proportion of non-performing loans to the overall loan portfolio was only 4.05% as per year-end, which is substantially below the average of the whole Czech banking market\* and as such reflects the high quality of the loan portfolio of Prague branch.

Inter-bank market transactions have influenced the overall amount of the balance sheet as per year-end 2013, namely its growth.

Another positive fact is the increase in the Bank’s letters of credit and guarantee business, traditionally one of the core strengths of Commerzbank globally.

\* 7.15% as of 31.12.2013, as per the Czech Banking Association



In 2013, Prague branch did terminate its local securities custody and assets management activities. Custody services are offered by the Commerzbank headquarters in Frankfurt as a standard service offer.

Unchanged is our local ability to take fast decisions. The fact that the vast majority of our credit-related decisions are made in the Czech Republic enables the Branch to benefit from both the expertise & knowledge available from across the Bank's global network, and at the same time take into account local considerations.

For 2014, Commerzbank analysts forecast a GDP growth of 2% in the Czech Republic. Growth is also the main topic in 2014 for Commerzbank Corporate Banking. This applies also for us in the Czech Republic and Slovakia, where our primary objective is to enlarge our portfolio of strategic clients.

We care about the quality of our business relationships with yourselves as our clients, and we firmly believe such relationships must be based on cooperation and trust. Only in that way we can truly be "the Bank at your side".

Beate Simon   
General Manager



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# Commerzbank AG

## Commerzbank worldwide

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Commerzbank is a leading bank in Germany and Poland. It is also present worldwide in all markets for its customers as a partner to the business world. With the business areas Private Customers, Mittel-standsbank, Corporates & Markets and Central & Eastern Europe, it offers its private and corporate clients as well as institutional investors the banking and capital market services they need. With some 1,200 branches Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts nearly 15 million private customers, as well as 1 million business and corporate clients. In 2013, it generated revenues of more than EUR 9 billion with approximately 54,000 employees on average.





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## Commerzbank in the Czech republic

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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.





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# Organisation structure

## Prague branch

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### General Manager:



Beate Simon

### Heads of departments:

#### Ludovít Bán

Corporate Banking Department

#### Margaret Dvorak

Head of Branches

#### Daniel Steinmetz

Credit Office

#### Leona Blehová

Financial Engineering

#### Jaromír Hronek

Treasury

#### Branko Sušič

Corporate & Markets FIC Sales

#### Luboš Křen

Cash Management  
& International Business (CMIB)

#### Eva Collardová

Finance

#### Renata Kloubek

Personnel Department

#### Pavel Čurilla

GS – OR IU Prague

#### Jens Hohmann

COO Prague

#### Petr Nentvich

Corporate Banking Department,  
Brno Office

#### Ondřej Eliáš

Corporate Banking Department,  
Plzeň Office

#### Roman Zedníček

Corporate Banking Department,  
Ostrava Office

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## Commerzbank Praha finances the export of company CZ LOKO, a.s. locomotives to Belarus

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One of the industry leaders in the Central European railway engineering sector, CZ LOKO, a.s. has a 160-year history of manufacturing and repairing rail vehicles. Relying on experience and expertise passed down over generations, CZ LOKO, a.s. specializes in the design and manufacture of locomotives, the modernization of railcars, and the repair and reconstruction of rolling stock and special rail vehicles. An integral part of the partnerships between CZ LOKO, a.s. and its customers are hands-on product presentations, vehicle lease plans, and operation and maintenance training programs.

Underscoring its status as a leading Czech exporter, CZ LOKO, a.s. signed a contract in 2012 to supply 20 switch engines to the state-owned Belarusian Railway.

Thanks to the long-term business cooperation between Commerzbank AG and JSC „Belarusbank“, the largest bank in Belarus, Commerzbank Praha was successful in securing the mandate from JSC „Belarusbank“ to finance this export contract. The work done by the Bank's Structured Export & Trade Finance team on the transaction culminated in November 2013 with the signing of a customized loan agreement with JSC „Belarusbank“, under which funding was provided to Belarusia to facilitate the purchase from CZ LOKO.

By rapidly arranging this Buyer's Credit facility, insured by the Czech Export Guarantee and Insurance Corporation, Commerzbank Praha has helped CZ LOKO, a.s. execute the export contract successfully and expeditiously, preparing the ground for what both parties believe to be the beginning of a long-lasting partnership.







## ***Independent auditor's report***

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

We have audited the financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha, identification number 47610921, with registered office at Jugoslávská 1, Praha 2 ("the Bank") for the year ended 31 December 2013 disclosed in the annual report on pages 12 - 37 and issued the opinion dated 6 March 2014 and disclosed on page 11.

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

We have verified that the other information included in the annual report of the Bank for the year ended 31 December 2013 is consistent with the financial statements which are included in this annual report on pages 12 - 37. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

### *Auditor's Responsibility*

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

### *Opinion*

In our opinion, the other information included in the annual report of the Bank for the year ended 31 December 2013 is consistent, in all material respects, with the financial statements.

4 June 2014

PricewaterhouseCoopers Audit, s.r.o.  
represented by partner

Petr Kříž  
Statutory Auditor, Licence No. 1140

### Note

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

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



## ***Independent auditor's report*** **to the management of COMMERZBANK Aktiengesellschaft, pobočka Praha**

We have audited the accompanying financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha, identification number 47610921, with registered office at Jugoslávská 1, Praha 2 ("the Bank"), which comprise the balance sheet as at 31 December 2013, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the financial statements").

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and its financial performance for the year then ended in accordance with Czech accounting legislation.

6 March 2014

represented by partner

Petr Kříž  
 Statutory Auditor, Licence No. 1140

### Note

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

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# Financial statements

## Balance sheet as at 31 December 2013

Assets:		31 December 2013	31 December 2012
	Note	CZK mil.	CZK mil.
<b>Cash and cash deposits with central banks</b>	<b>3</b>	<b>886</b>	<b>181</b>
<b>Due from banks</b>	<b>4</b>	<b>22,222</b>	<b>8,989</b>
a) repayable on demand		7,022	2,483
b) other receivables		15,200	6,506
<b>Due from customers</b>	<b>5</b>	<b>18,174</b>	<b>18,897</b>
a) repayable on demand		4,042	3,003
b) other receivables		14,132	15,894
<b>Debt securities</b>	<b>6</b>	<b>2,629</b>	<b>229</b>
a) issued by government institutions		2,394	-
b) issued by other entities		235	229
<b>Long-term intangible assets</b>	<b>7</b>	<b>5</b>	<b>7</b>
<b>Long-term tangible fixed assets</b>	<b>7</b>	<b>28</b>	<b>34</b>
of which: land and buildings for operating activities		20	24
<b>Other assets</b>	<b>8</b>	<b>1,434</b>	<b>223</b>
<b>Prepayments and accrued income</b>		<b>9</b>	<b>10</b>
<b>Total assets</b>		<b>45,387</b>	<b>28,570</b>

Liabilities and Equity:		31 December 2013	31 December 2012
	Note	CZK mil.	CZK mil.
<b>Due to banks</b>	<b>10</b>	<b>32,124</b>	<b>12,021</b>
a) repayable on demand		12,111	4,042
b) other payables		20,013	7,979
<b>Due to customers</b>	<b>11</b>	<b>11,513</b>	<b>15,456</b>
a) repayable on demand		7,610	7,321
b) other payables		3,903	8,135
<b>Other liabilities</b>	<b>12</b>	<b>1,334</b>	<b>376</b>
<b>Accruals and deferred income</b>		<b>44</b>	<b>36</b>
<b>Provisions for potential liabilities</b>	<b>9</b>	<b>73</b>	<b>79</b>
<b>Revaluation differences on fair value of securities</b>		<b>4</b>	<b>(2)</b>
<b>Retained earnings from previous periods</b>		<b>41</b>	<b>132</b>
<b>Profit for the accounting period</b>	<b>13</b>	<b>254</b>	<b>472</b>
<b>Total liabilities and equity</b>		<b>45,387</b>	<b>28,570</b>

## Off-balance sheet as at 31 December 2013

Off-balance sheet assets:		31 December 2013	31 December 2012
	Note	CZK mil.	CZK mil.
Commitments and guarantees given	14	8,684	9,008
Receivables from spot transactions		1,327	187
Receivables from term instruments	23.4	77,696	22,084
Receivables from option instruments	23.4	113	266
<b>Total off-balance sheet assets</b>		<b>87,820</b>	<b>31,545</b>

Off-balance sheet liabilities:		31 December 2013	31 December 2012
	Note	CZK mil.	CZK mil.
Commitments and guarantees received		18,962	17,502
Collateral received and pledges	5	1,254	1,593
Payables from spot transactions		1,326	187
Payables from term instruments	23.4	77,517	22,023
Payables from option instruments	23.4	97	266
Assets held under custody and managed by a third party	14	-	35,835
<b>Total off-balance sheet liabilities</b>		<b>99,156</b>	<b>77,406</b>



## Income statement for the year ended 31 December 2013

	Note	31 December 2013 CZK million	31 December 2012 CZK million
<b>Interest and similar income</b>	15	545	958
of which: from debt securities		12	13
<b>Interest and similar expense</b>	16	(96)	(211)
<b>Fee and commission income</b>	17	259	253
<b>Fee and commission expense</b>	18	(29)	(26)
<b>Gains less losses from financial transactions</b>	19	169	(72)
<b>Other operating income</b>	20	336	347
<b>Other operating expense</b>		(8)	(8)
<b>Administrative expense</b>	21	(671)	(703)
of which: a) staff costs		(363)	(389)
of which: aa) wages and salaries		(272)	(293)
ab) social and health insurance		(81)	(84)
ac) other staff costs		(10)	(12)
b) other administrative expenses		(308)	(314)
<b>Depreciation/amortization for long-term tangible and intangible fixed assets</b>	7	(16)	(17)
<b>Release of allowances and provisions for amounts due from clients</b>	9	186	171
<b>Write-offs, additions and utilisation of allowances and provisions for amounts due from clients</b>	9	(357)	(177)
<b>Release of other provisions</b>	9	-	120
<b>Additions to and utilisation of other provisions</b>	9	(3)	(2)
<b>Profit on ordinary activities before taxation</b>		315	633
<b>Income tax</b>	22	(61)	(161)
<b>Profit for the accounting period</b>	13	254	472

## Statement of changes in equity for the year ended 31 December 2013

	Revaluation differences*	Retained earnings	Profit of the current year	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Balance as at 1 January 2012</b>	<b>7</b>	<b>203</b>	<b>553</b>	<b>763</b>
Allocation of 2011 profit to Commerzbank AG	-	-	(649)	(649)
Revaluation differences not included in profit net of tax	(9)	-	-	(9)
Net profit for the accounting period	-	-	472	472
Other changes	-	25	-	25
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2011	-	(96)	96	-
<b>Balance as at 31 December 2012</b>	<b>(2)</b>	<b>132</b>	<b>472</b>	<b>602</b>
Allocation of 2012 profit to Commerzbank AG	-	-	(563)	(563)
Revaluation differences not included in profit net of tax	6	-	-	6
Net profit for the accounting period	-	-	254	254
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2012	-	(91)	91	-
<b>Balance as at 31 December 2013</b>	<b>4</b>	<b>41</b>	<b>254</b>	<b>299</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 2013

## 1 General information

COMMERZBANK Aktiengesellschaft, pobočka Praha (hereinafter referred to as “the Bank”) was incorporated on 24 November 1992 as a branch of Commerzbank AG, which is headquartered in Frankfurt am Main, Germany. The Bank has its registered office in Praha and a sub-branch in Brno and offices in Ostrava, Plzeň, and Hradec Králové (until August 2012). In 2013, the Bank was managed by Mrs Beate Simon.

The Bank’s operations primarily consist of:

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

In 2013 the Bank ceased operations in the management of securities portfolio.

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

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

### 2.2 Foreign currencies

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

### 2.3 Fair value of securities

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

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

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

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

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

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

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

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

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

#### **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 debt securities held for liquidity management.

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

As at 31 December 2013, the fair value of the available-for-sale securities has been determined by valuation technique using market data, credit risk of the securities' issuer and taking into account the liquidity of the market.

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

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

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

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

Fair values are obtained from quoted market prices, discounted cash-flow models or options pricing models as appropriate. All derivatives are presented in Other assets or in Other liabilities when their fair value 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, is amortised to profit or loss over the period to maturity of hedged item.

### 2.7 Interest income and expense

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

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

The linear method is used as an approximation of the effective interest method for securities with remaining maturity shorter than 1 year at the settlement date, for loans, other receivables and liabilities with individual repayment periods shorter than 1 year. 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 generally recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, 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. Provisions are created in an estimated amount of the future fulfilment discounted to present value. All provisions are presented in liabilities.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised as income. 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 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 82,5 million (equivalent of EUR 3 million) at the settlement date. In the year ended 2012 was the limit to assess claims on a portfolio basis amounted to CZK 25,5 million (equivalent of EUR 1 million).

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

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

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

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

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

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

### 2.14 Value added tax

The Bank is registered for value added tax (hereinafter "VAT"). 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 expensed immediately.

### 2.15 Deferred taxation

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. A deferred tax asset is recognised to the extent 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 of 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 by the Bank to the State to fund the national pension plan.

### 2.17 Related parties

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

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



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

### 2.18 Subsequent events

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

Where significant events occur subsequent to the balance sheet date but prior to preparation of the financial statements that are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed in the notes to the financial statements, 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

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Cash on hand	52	40
Obligatory reserves	834	141
<b>Total cash and cash deposits with central banks</b>	<b>886</b>	<b>181</b>

Obligatory reserves are mandatory deposits with the CNB. These deposits bear interest at the CZK two-weeks repo rate, which was 0,05% p.a. as at 31 December 2013 and at 31 December 2012.

## 4 Due from banks

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Current accounts with banks	95	376
Term deposits with CNB	3,900	500
Term deposits up to 24 hours	6,927	2,107
Other term deposits with other banks	10,889	5,340
Standard loans to banks	331	651
Other due from banks	80	15
<b>Total due from banks</b>	<b>22,222</b>	<b>8,989</b>

The Bank did not have allowances to Due from banks balances as at 31 December 2013 and 2012.

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

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

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Commerzbank, Frankfurt (Head office)	8,646	5,154
mBank S.A. (before BRE Bank S.A.)	1,501	501
Commerzbank, Bratislava branch	830	499
Commerzbank, Tokyo branch	7	6
Commerzbank (Budapest) Zrt., Budapest	1	141
Commerzbank, Hong Kong branch	-	3
Commerzbank, New York branch	-	3
<b>Total</b>	<b>10,985</b>	<b>6,307</b>

## 5 Due from customers

### 5.1 Receivables by type of debtor

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Customers' current accounts - overdraft	4,042	3,003
Standard loans to customers	13,676	15,634
<b>Standard loans total</b>	<b>17,718</b>	<b>18,637</b>
Impaired loans to companies and individuals	798	456
<b>Total due from customer</b>	<b>18,516</b>	<b>19,093</b>
Allowance for impaired loans (Note 9)	(342)	(196)
<b>Total due from customers, net</b>	<b>18,174</b>	<b>18,897</b>

Syndicate loans forming part of Due from customers totalled CZK 1,020 million at 31 December 2013 (31 December 2012: CZK 1,276 million).

### 5.2 Quality of receivables portfolio

When contracting a new loan, the Bank assesses the creditworthiness 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:

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Standard	17,718	18,637
Watch	49	1
Impaired:		
- Substandard	650	289
- Doubtful	18	85
- Loss	81	81
<b>Total receivables due from customers</b>	<b>18,516</b>	<b>19,093</b>

Present value of collateral received and pledges can be analysed as follows (total value of disclosed collaterals does not exceed carrying value of related loan):

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Real estate pledge	53	119
Securities	980	94
Other collateral received	221	1,380
Other guarantees and commitments	17,262	17,500
<b>Total</b>	<b>18,516</b>	<b>19,093</b>

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

Restructured loans totalled CZK 374,5 million in 2013 (2012: CZK 562,5 million). Receivables are considered to be restructured in case the Bank grants relief to clients because it is likely that the Bank would incur losses if acting otherwise. Roll-over of a short-term loan is not considered to be restructuring of the loan in the case that the client has fulfilled all requirements of loan agreements.

### 5.3 Receivables from related parties

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

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
BREL-COM Sp. z o.o.	114	131
Immobilien-Gesellschaft Ost Hagle, s.r.o.	65	0
Transfinance a.s.	53	881
FOSSUM Vermietungsges. ML. BOLESLAV s.r.o.	49	56
FOSSUM Vermietungsges. PRAHA s.r.o.	30	58
mLeasing (before BRE Leasing, Sp. z o.o.)	-	2,048
<b>Total</b>	<b>311</b>	<b>3,174</b>

As at 31 December 2013, the Bank has provided no loans to its senior management member (2012: 0,5 million).



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

#### Guarantees from related parties

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Commerzbank, Essen branch	362	437
Commerzbank, Berlin branch	188	1
Commerzbank, Frankfurt – head office	154	118
Commerzbank, Düsseldorf branch	85	85
Commerzbank, Leipzig branch	5	5
Commerzbank, Nürnberg branch	3	-
Commerzbank, Hamburg branch	1	-
<b>Total</b>	<b>798</b>	<b>646</b>

## 6 Securities

	State treasury bills at 31 December		Debt securities at 31 December	
	2013	2012	2013	2012
Available-for-sale	2,394	-	235	229
<b>Total securities</b>	<b>2,394</b>	<b>-</b>	<b>235</b>	<b>229</b>

Securities were evaluated by techniques using market values or based on techniques using market data only.

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

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

As at 31 December 2013, the revaluation difference from the revaluation of the available-for-sale securities, net of the deferred tax impact CZK – 4 million (2012: CZK 2 million) and is recorded in the equity. The revaluation difference from the impairment of the available-for-sale securities is presented in the Gains and Losses from financial transactions (Note 19).

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Traded on recognised Czech stock exchanges	235	229
Not traded securities – Treasury Bills	2,394	-
<b>Total</b>	<b>2,629</b>	<b>229</b>

## 7 Long term intangible and tangible fixed assets

### 7.1 Long term intangible assets – software

	31 December 2012	Additions / Amortisation	Disposals	31 December 2013
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Acquisition cost	193	2	(7)	188
Accumulated amortisation	(186)	(4)	7	(183)
<b>Net book amount</b>	<b>7</b>	<b>(2)</b>	<b>-</b>	<b>5</b>

## 7.2 Long term operating tangible fixed assets

	31 December 2012	Additions /	Disposals	31 December 2013
	CZK mil.	Depreciation CZK mil.	CZK mil.	CZK mil.
<b>Acquisition cost</b>	<b>154</b>	<b>2</b>	<b>(5)</b>	<b>151</b>
Buildings	40	2	(5)	37
Equipment	114	-	-	114
<b>Accumulated depreciation</b>	<b>(120)</b>	<b>(8)</b>	<b>5</b>	<b>(123)</b>
Buildings	(16)	(2)	1	(17)
Equipment	(104)	(6)	4	(106)
<b>Net book amount</b>	<b>34</b>	<b>(6)</b>	<b>-</b>	<b>28</b>

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

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

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Amounts already paid on existing finance leases	19	19
Amounts payable within one year	-	-
<b>Total amount paid and payable on existing finance leases</b>	<b>19</b>	<b>19</b>

## 7.4 Pledged assets

The Bank did not provide any tangible fixed assets as collateral for its liabilities as at 31 December 2013 and 2012.



## 8 Other assets

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Derivative financial instruments (Note 23.4)	1,221	125
Receivables from settlement of payments	102	27
Operating advances granted	88	7
Deferred tax asset (Note 22)	18	18
Estimated receivables	4	6
Other receivables	1	40
<b>Total other assets</b>	<b>1,434</b>	<b>223</b>
Allowance for impairment	-	-
<b>Total other assets, net</b>	<b>1,434</b>	<b>223</b>

## 9 Allowances, provisions and write offs

The Bank had the following provisions and allowances for assets:

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
<b>Other provisions</b>		
Provisions for potential law litigations	70	79
Provisions for other payables	3	-
<b>Total other provisions</b>	<b>73</b>	<b>79</b>
<b>Allowances</b>		
Impaired loans to customers (Note 5)	342	196
<b>Total allowances</b>	<b>342</b>	<b>196</b>

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

	2013	2012
	CZK mil.	CZK mil.
<b>At 1 January</b>	<b>79</b>	<b>196</b>
Usage	(4)	-
Additions	-	8
Release	-	(120)
Foreign exchange difference and discount effect	(5)	(5)
<b>At 31 December</b>	<b>70</b>	<b>79</b>

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

	2013	2012
	CZK mil.	CZK mil.
<b>At 1 January</b>	<b>-</b>	<b>-</b>
Additions	3	-
<b>At 31 December</b>	<b>3</b>	<b>-</b>

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

	2013	2012
	CZK mil.	CZK mil.
<b>At 1 January 2011</b>	<b>196</b>	<b>669</b>
Additions	332	98
Foreign exchange translation difference	-	(10)
Usage	-	(390)
Release	(186)	(171)
<b>At 31 December 2012</b>	<b>342</b>	<b>196</b>

**Release of allowances and provisions for amounts due from clients**

	2013	2012
	CZK mil.	CZK mil.
Release of allowances for amount due from clients	186	171
<b>Total</b>	<b>186</b>	<b>171</b>

**Write-offs, additions and utilisation of allowances for amount due from clients**

	2013	2012
	CZK mil.	CZK mil.
Amounts due from clients written-off	26	466
Additions to allowances and provisions for amounts due from clients	331	101
Usage of allowances and provisions for amounts due from clients	-	(390)
<b>Total</b>	<b>357</b>	<b>177</b>

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

**10 Due to banks**

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Current accounts with banks	636	422
Term deposits due up to 24 hours	11,358	3,620
Other term deposits with banks	20,045	7,963
Other liabilities	85	16
<b>Total due to banks</b>	<b>32,124</b>	<b>12,021</b>

**Deposits from related parties**

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Commerzbank Frankfurt	19,439	3,606
mBank S.A. (before BRE Bank S.A.), organizational unit, Prague	2,485	3,029
Commerzbank, Bratislava branch	1,681	3,053
Commerzbank, Paris branch	157	9
Commerzbank, London branch	20	14
Commerzbank (Budapest) Zrt., Budapest	8	1
Commerzbank, Singapore	5	1
Commerzbank, Hong Kong branch	4	-
KFW, Frankfurt am Main	3	85
Commerzbank, Amsterdam	2	-
Commerzbank, New York	1	-
Commerzbank, Madrid branch	-	1
Commerzbank, Bruxelles	-	36
<b>Total deposits from related parties</b>	<b>23,805</b>	<b>9,835</b>

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



## 11 Due to customers

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Amounts due to governmental entities	13	22
Amounts due to municipalities	308	308
Amounts due to private customers	11,192	15,126
<b>Total due to customers</b>	<b>11,513</b>	<b>15,456</b>
Liabilities repayable on demand	7,610	7,321
Term accounts for fixed term	3,560	7,791
Term accounts with fixed notice period	343	344
<b>Total due to customers</b>	<b>11,513</b>	<b>15,456</b>

### Deposits from related parties

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Immobilien-gesellschaft Ost Hagle, s.r.o.	33	98
Commerz Real Mobilienleasing, GmbH	4	4
FOSSUM Vermietungsges. PRAHA s.r.o.	2	2
Commerz Real CZ, s.r.o.	0	23
<b>Total deposit from related parties</b>	<b>39</b>	<b>127</b>

The Bank did not accept any deposits from top management members as at 31 December 2013 and 2012.

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

## 12 Other liabilities

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Derivative financial instruments (Note 23.4)	1,076	103
Settlement clearance accounts	182	177
Estimated payables	67	66
Other liabilities	9	30
<b>Total other liabilities</b>	<b>1,334</b>	<b>376</b>

The Bank did not have any overdue liabilities to finance authorities, social insurance authorities or health insurance companies as at 31 December 2013 and 2012.

## 13 Equity and profit distribution

### 13.1 Profit distribution

The net profit of CZK 254 million for 2013 is proposed to be distributed as follows:

	2013
	CZK mil.
Allocation to Commerzbank AG (profit according to German accounting standards)	194
Transfer to retained earnings	60
<b>Net profit</b>	<b>254</b>

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

## 14 Contingencies and commitments

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

### Commitments and guarantees granted

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
Non-cancellable commitments	2,804	2,530
Guarantees granted	5,880	6,478
On behalf of banks	609	770
On behalf of customers	5,271	5,708
<b>Total commitments and guarantees granted</b>	<b>8,684</b>	<b>9,008</b>
<b>Net commitments and guarantees granted</b>	<b>8,684</b>	<b>9,008</b>

On behalf of its senior management, the Bank has granted guarantees of CZK 70 thousand as at 31 December 2013 and 2012.

### Contingent liabilities

Contingent liabilities can be analysed as follows:

	31 December 2012
	CZK mil.
<b>Assets placed in custody</b>	
Shares	2,690
Bonds	2
Other	-
<b>Total</b>	<b>2,692</b>
<b>Assets managed by a third party</b>	
Shares	27,994
Bonds	5,145
<b>Total</b>	<b>33,139</b>
<b>Assets under custody</b>	
Shares	4
<b>Total</b>	<b>4</b>
<b>Assets placed in custody, managed by third party and under custody</b>	<b>35,835</b>

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

Bank has ceased all fiduciary activities in the management of portfolios of securities during the year 2013. In the opinion of the management of the Bank, there are no liabilities arising from these activities as at 31 December 2012 and the date of termination.

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



## 15 Interest and similar income

	2013	2012
	CZK mil.	CZK mil.
Inter-bank transactions	28	66
Receivables from customers and state	505	879
Debt securities	12	13
<b>Total interest and similar income</b>	<b>545</b>	<b>958</b>

Management estimates that approximately CZK 37 million of interest income was recognised on impaired loans in the year ended 31 December 2013 (2012: CZK 25 million). There was no registered unpaid penalty interest income outstanding in 2013 and 2012.

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

	2013	2012
	CZK mil.	CZK mil.
Commerzbank Frankfurt – head office	18	28
Transfinance, a.s.	10	21
BREL-COM Sp. Z o.o.	4	9
Commerzbank Bratislava branch	3	12
mLeasing (BRE Leasing Sp. Z o.o.), Warsaw	2	204
FOSSUM Vermietungsges. PRAHA s.r.o.	2	3
FOSSUM Vermietungsges. ML. BOLESLAV s.r.o.	2	3
Immobilien-gesellschaft Ost Hagle, s.r.o.	1	-
mBank (BRE Bank) S.A., Warsaw	1	-
Commerzbank (Euroasija) SAO, Moscow	-	4
<b>Total</b>	<b>43</b>	<b>284</b>

## 16 Interest and similar expense

	2013	2012
	CZK mil.	CZK mil.
Inter-bank transactions	72	159
Deposits from customers and state	23	47
Other	2	5
<b>Total interest and similar income</b>	<b>96</b>	<b>211</b>

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

	2013	2012
	CZK mil.	CZK mil.
Commerzbank Frankfurt – head office	70	124
Commerzbank (Euroasija) SAO, Moscow	4	4
Commerzbank, Hong Kong branch	1	12
mBank (before BRE Bank) S.A., Warsaw	1	2
Commerzbank, Bratislava branch	1	1
KFW, Frankfurt am Main	-	1
<b>Total</b>	<b>77</b>	<b>144</b>

## 17 Fee and commission income

	2013	2012
	CZK mil.	CZK mil.
Domestic and foreign transfers	116	120
Letters of credit	44	37
Guarantees	41	35
Credit related fees and commission	33	36
Other	14	21
Brokerage income from the purchase and sale of securities and derivatives	8	-
Asset management fees and related fee income	3	4
<b>Total fee and commission income</b>	<b>259</b>	<b>253</b>

## 18 Fee and commission expense

	2013	2012
	CZK mil.	CZK mil.
Other financial activities related fees and commission	22	18
Domestic and foreign transfers	6	7
Brokerage expense from the sale of securities	1	1
<b>Total fee and commission expense</b>	<b>29</b>	<b>26</b>

## 19 Gains less losses from financial transactions

	2013	2012
	CZK mil.	CZK mil.
Gains from foreign currency transactions	155	259
Gains / (Losses) from transactions with FX financial derivatives	18	(314)
(Losses) from interest rate financial derivatives	(4)	(17)
<b>Total gains less losses from financial transactions</b>	<b>169</b>	<b>(72)</b>

## 20 Other operating income

	2013	2012
	CZK mil.	CZK mil.
Income from intercompany re-invoicing	288	280
Income from insurance reimbursement	40	55
Other operating income	8	12
<b>Total other operating income</b>	<b>336</b>	<b>347</b>

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

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

	2013	2012
	CZK mil.	CZK mil.
Commerzbank Frankfurt – head office	266	246
Commerzbank, Bratislava branch	20	22
Commerzbank (Budapest) Zrt., Budapest	1	-
Commerzbank, Moscow	1	-
Commerzbank, Paris branch	-	4
Commerzbank, Madrid branch	-	3
Commerzbank, Bruxelles branch	-	2
Commerzbank (Nederland) N.V., Amsterdam	-	2
Commerzbank, Milan branch	-	1
<b>Total</b>	<b>288</b>	<b>280</b>

## 21 Administrative expenses

	2013	2012
	CZK mil.	CZK mil.
Staff costs	363	389
Intercompany expense – head office in Frankfurt am Main	120	126
Rent and lease charges	46	50
Expenses for IT	34	39
Tax and legal advisory services	1	1
Services provided by the auditing company – compulsory audit of the financial statements	2	2
Other administrative expenses	105	96
<b>Total administrative expense</b>	<b>671</b>	<b>703</b>

Staff costs are analysed in the income statement.

In 2013, the management of the Bank was paid wages and salaries of CZK 45 million (2012: CZK 45 million), social and health insurance paid by the Bank amounted to CZK 7 million (2012: CZK 6 million). The management of the Bank includes its directors and further the managers on the first level of the organisational structure (as at 31 December 2013 a total of 14 employees and 2012 a total of 15 employees).



**Staff statistics**

	2013	2012
Average number of employees	273	350

In 2013 and 2012, the Bank provided contributions of CZK 1 million to its employees for state pension insurance.

**22 Taxation**

The income tax expense consists of the following:

	2013	2012
	CZK mil.	CZK mil.
Current tax expense	59	101
Deferred tax expense/(income)	1	55
Adjustment of prior year tax expense	1	5
<b>Total income tax expense</b>	<b>61</b>	<b>161</b>

Current tax can be analysed as follows:

	2013	2012
	CZK mil.	CZK mil.
<b>Profit before taxation</b>	<b>315</b>	<b>633</b>
Non-taxable income	(73)	(173)
Non-deductible expenses	42	43
Other expenses reducing net taxable profit	28	28
<b>Net taxable profit</b>	<b>312</b>	<b>531</b>
<b>Current tax charge at 19 %</b>	<b>59</b>	<b>101</b>

Deferred income tax asset is calculated as 19% (income tax rate for 2013 and 2014) depending on the period, in which it is expected the temporary difference to be compensated and can be analysed as follows:

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
<b>Deferred tax asset as at 1 January</b>	<b>18</b>	<b>72</b>
Available-for-sale securities	(1)	2
Allowances to loans to customers	-	(55)
Other temporary differences	-	(1)
<b>Deferred tax asset as at 31 December</b>	<b>17</b>	<b>18</b>

	31 December 2013	31 December 2012
	CZK mil.	CZK mil.
<b>Deferred income tax asset</b>		
Allowances to loans to customers	15	15
Non-tax deductible social insurance	3	3
<b>Total</b>	<b>18</b>	<b>18</b>
<b>Deferred income tax liability</b>		
Change in fair value of available for sale securities	1	-
<b>Net deferred tax asset (Note 8)</b>	<b>17</b>	<b>18</b>

**23 Financial risks****23.1 Strategy in using financial instruments**

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

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet receivables and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other similar 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 places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Currency and interest exposure resulting from these financial instruments are normally offset by entering into counterbalancing positions.

### 23.2 Credit risk

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

nitored on a regular basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by 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 1.85% 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 2013	Domestic CZK mil.	European union CZK mil.	Other CZK mil.	Total CZK mil.
<b>Assets</b>				
Cash and cash deposits with central banks	886	-	-	886
Due from banks	10,800	10,995	427	22,222
Due from customers	14,896	1,069	2,209	18,174
Securities available-for-sale	2,629	-	-	2,629
Other assets	594	882	-	1,476
<b>Total assets</b>	<b>29,805</b>	<b>12,946</b>	<b>2,636</b>	<b>45,387</b>

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



## Business segmentation

31 December 2013	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	886	-	-	-	-	886
Due from banks	10,800	11,422	-	-	-	22,222
Due from customers	-	-	18,075	-	99	18,174
Securities available for-sale	-	-	235	2,394	-	2,629
Other assets	120	835	521	-	-	1,476
<b>Total assets</b>	<b>11,806</b>	<b>12,257</b>	<b>18,831</b>	<b>2,394</b>	<b>99</b>	<b>45,387</b>

31 December 2012	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	181	-	-	-	-	181
Due from banks	2,000	6,989	-	-	-	8,989
Due from customers	-	-	18,682	-	215	18,897
Securities available for-sale	-	-	229	-	-	229
Other assets	26	49	199	-	-	274
<b>Total assets</b>	<b>2,207</b>	<b>7,038</b>	<b>19,110</b>	<b>-</b>	<b>215</b>	<b>28,570</b>

### 23.3 Market risk

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

The Bank defined for assessment of market losses arising from extreme market changes the stress scenarios, based on which a value of Stress test is calculated – 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 2013 was CZK 2.6 million (31 December 2012: CZK 2.5 million) and average daily consolidated VAR was CZK 2.8 million in 2013 (2012: CZK 5.7 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 2013 (average annual value in 2013 equals 22.68%, in 2012: 33.34%).

### 23.4 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 2013	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
Interest rate derivatives	3,530	3,514	15	36
Currency derivatives	74,279	74,100	1,206	1,040
<b>Total</b>	<b>77,809</b>	<b>77,614</b>	<b>1,221</b>	<b>1,076</b>

31 December 2012	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
Interest rate derivatives	2,931	2,931	13	48
Currency derivatives	19,419	19,358	112	55
<b>Total</b>	<b>22,350</b>	<b>22,289</b>	<b>125</b>	<b>103</b>

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

#### 23.4.1 Trading agreements

31 December 2013	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
<b>Interest rate derivatives</b>				
Swaps	3,417	3,417	15	36
Options	113	97	-	-
<b>Total</b>	<b>3,530</b>	<b>3,514</b>	<b>15</b>	<b>36</b>
<b>Currency derivatives</b>				
Forwards	8,565	8,534	220	192
Swaps	65,714	65,566	986	848
<b>Total</b>	<b>74,279</b>	<b>74,100</b>	<b>1,206</b>	<b>1,040</b>
<b>Total trading agreements</b>	<b>77,809</b>	<b>77,614</b>	<b>1,221</b>	<b>1,076</b>



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

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

### 23.5 Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Head office in Frankfurt

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

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 2013	CZK CZK mil.	EUR CZK mil.	USD CZK mil.	PLN CZK mil.	Other CZK mil.	Total CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	859	16	5	-	6	886
Due from banks	13,339	8,679	128	3	73	22,222
Due from customers	11,151	6,665	350	3	5	18,174
Securities available-for-sale	2,629	-	-	-	-	2,629
Other assets	1,430	43	2	-	1	1,476
<b>Total assets</b>	<b>29,408</b>	<b>15,403</b>	<b>485</b>	<b>6</b>	<b>85</b>	<b>45,387</b>
<b>Liabilities</b>						
Due to banks	6,047	25,385	657	5	30	32,124
Due to customers	6,990	3,984	487	2	50	11,513
Provisions	73	-	-	-	-	73
Other liabilities	1,577	86	25	(16)	5	1,677
<b>Total liabilities</b>	<b>14,687</b>	<b>29,455</b>	<b>1,169</b>	<b>(9)</b>	<b>85</b>	<b>45,387</b>
<b>Net assets/(liabilities)</b>	<b>14,721</b>	<b>(14,052)</b>	<b>(684)</b>	<b>15</b>	<b>-</b>	<b>-</b>
<b>Net off-balance sheet assets/(liabilities)</b>	<b>(14,711)</b>	<b>14,209</b>	<b>695</b>	<b>1</b>	<b>2</b>	<b>196</b>
<b>Net open currency position</b>	<b>10</b>	<b>157</b>	<b>11</b>	<b>16</b>	<b>2</b>	<b>196</b>

31 December 2012	CZK CZK mil.	EUR CZK mil.	USD CZK mil.	PLN CZK mil.	Other CZK mil.	Total CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	163	10	4	-	4	181
Due from banks	2,951	5,809	147	3	79	8,989
Due from customers	9,674	8,423	226	-	574	18,897
Securities available-for-sale	229	-	-	-	-	229
Other assets	236	34	2	2	-	274
<b>Total assets</b>	<b>13,253</b>	<b>14,276</b>	<b>379</b>	<b>5</b>	<b>657</b>	<b>28,570</b>
<b>Liabilities</b>						
Due to banks	4,321	5,953	1,093	1	653	12,021
Due to customers	12,001	3,028	409	2	16	15,456
Provisions	79	-	-	-	-	79
Other liabilities	861	135	13	3	2	1,014
<b>Total liabilities</b>	<b>17,262</b>	<b>9,116</b>	<b>1,515</b>	<b>6</b>	<b>671</b>	<b>28,570</b>
<b>Net assets/(liabilities)</b>	<b>(4,009)</b>	<b>5,160</b>	<b>(1,136)</b>	<b>(1)</b>	<b>(14)</b>	<b>-</b>
<b>Net off-balance sheet assets/(liabilities)</b>	<b>3,800</b>	<b>(4,913)</b>	<b>1,154</b>	<b>4</b>	<b>16</b>	<b>61</b>
<b>Net open currency position</b>	<b>(209)</b>	<b>247</b>	<b>18</b>	<b>3</b>	<b>2</b>	<b>61</b>

### 23.6 Interest rate risk

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

### 23.7 Liquidity risk

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

does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. 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. Current 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 2013	Within 3 months CZK mil.	3 – 12 months CZK mil.	1 – 5 years CZK mil.	Over 5 years CZK mil.	Unspecified CZK mil.	Total CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	52	-	-	-	834	886
Due from banks	19,200	2,534	389	99	-	22,222
Due from customers	8,482	3,291	4,989	1,277	135	18,174
Securities available-for-sale	1,500	905	224	-	-	2,629
Other assets	658	464	98	1	255	1,476
<b>Total assets</b>	<b>29,892</b>	<b>7,194</b>	<b>5,700</b>	<b>1,377</b>	<b>1,224</b>	<b>45,387</b>
<b>Liabilities</b>						
Due to banks	29,411	1,673	1,035	-	6	32,125
Due to customers	11,350	162	1	-	-	11,513
Provisions	-	-	-	-	73	73
Other liabilities and equity accounts	584	396	82	1	613	1,676
<b>Total liabilities</b>	<b>41,345</b>	<b>2,231</b>	<b>1,118</b>	<b>1</b>	<b>692</b>	<b>45,387</b>
<b>Net assets/(liabilities)</b>	<b>(11,453)</b>	<b>4,963</b>	<b>4,582</b>	<b>1,376</b>	<b>532</b>	<b>-</b>

31 December 2012	Within 3 months CZK mil.	3 – 12 months CZK mil.	1 – 5 years CZK mil.	Over 5 years CZK mil.	Unspecified CZK mil.	Total CZK mil.
<b>Assets</b>						
Cash and cash deposits with central banks	40	-	-	-	141	181
Due from banks	4,700	3,757	304	228	-	8,989
Due from customers	9,727	3,847	3,570	1,736	17	18,897
Securities available-for-sale	-	11	218	-	-	229
Other assets	52	64	1	-	157	274
<b>Total assets</b>	<b>14,519</b>	<b>7,679</b>	<b>4,093</b>	<b>1,964</b>	<b>315</b>	<b>28,570</b>
<b>Liabilities</b>						
Due to banks	8,852	261	1,744	924	24	12,021
Due to customers	15,049	406	1	-	-	15,456
Provisions	-	-	-	-	79	79
Other liabilities and equity accounts	29	28	14	-	943	1,014
<b>Total liabilities</b>	<b>23,930</b>	<b>695</b>	<b>1,759</b>	<b>924</b>	<b>1,262</b>	<b>28,570</b>
<b>Net assets/(liabilities)</b>	<b>(9,411)</b>	<b>6,984</b>	<b>2,334</b>	<b>1,040</b>	<b>(947)</b>	<b>-</b>

## 24 Subsequent events

There were no events, which have occurred subsequent to the year-end until the date of preparation of financial statements, which would have a material impact on the financial statements of the Bank as at 31 December 2013.

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

Date	Signature of the statutory representative	Person responsible for accounting	Person responsible for preparation of the financial statements
6 March 2014			
	Beate Simon	Ing. Eva Collardová, MBA	Ing. Vladimír Kugler





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