



Annual report for the year ended 31 December 2014



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Management report 2014

Following the end of the recession in 2013, the Czech economy gradually began to recover in 2014. Compared to the majority of Eurozone countries, where economic growth remained weak and burdened by risks and uncertainties, the Czech economy grew considerably quicker, with 2014 GDP growth reaching 2.3%.

» 2014 was also a very successful year for the Prague branch of Commerzbank. The recovery of the economy combined with low interest rate levels stimulated the demand for credits. In accordance with the Bank's global strategy, Prague branch noticeably increased credit as well as deposit business. «

The most significant increase in revenues was generated in fee and commission income, primarily achieved via syndicated loans. Equally positive is the year-to-year increase in income from documentary and guarantee business, both of which belong to our traditional core strengths.

The credit portfolio of Prague Branch remains of a very high quality, as evidenced by the low ratio of impaired loans / total loans of only 4.51% as at December 31st, 2014, which is well below the ratio for the whole Czech banking market*.

Commerzbank's Board of Managing Directors set client focus as a key priority in our 2014 global strategy. This initiative was accompanied by numerous activities designed to ensure that the client is constantly at the center of our activities. Several awards have resulted, including top placings in Euromoney's 2014 Trade Finance rankings, with Commerzbank Prague ranked 2nd in Czech Republic as "Best Trade Finance Provider", and Commerzbank Bratislava ranked 3rd in Slovakia. With 2nd place Trade Finance rankings also received in Germany, Hungary, Italy and the Netherlands, Commerzbank reached its goal of becoming one of the 5 best trade finance providers worldwide. For the Czech Republic and Slovakia, this means we have successfully continued to be close to our clients and react quickly to their demands, using modern technologies for more effective cash management.

*6.6% as of 31.1.2015, as per the Czech Banking Association



For 2015, Commerzbank analysts forecast a GDP growth of 2.4% in the Czech Republic. Growth is also the main goal of Commerzbank's corporate banking activities in the Czech Republic and Slovakia. This applies to revenues as well as to the number of clients we serve, which include both German and international firms as well as local Czech and Slovak companies. We intend to expand our business activities with the local business community, and to further strengthen our business relationships.

To achieve this, we will focus on maintaining our strengths, which include quick decision-making, our ability to combine local market knowledge with extensive international know-how and our willingness to offer tailor-made solutions that respect the needs of our clients.

Good business relationships are always based on partnership, cooperation and trust. This we can only deserve from yourselves as our clients if we listen carefully to you and remain close to you. Only in that way can we truly be "the Bank at your side".

Beate Simon
General Manager



2 Best Trade Finance Provider Czech Republic

Commerzbank

Source: Euromoney
Trade Finance Survey 2015

2015



EUROMONEY

3 Best Trade Finance Provider Slovakia

Commerzbank

Source: Euromoney
Trade Finance Survey 2015

2015



EUROMONEY

Commerzbank AG

Commerzbank worldwide

Commerzbank is a leading bank in Germany and Poland. It is also present worldwide in all markets for its customers as a partner to the business world. With the business areas Private Customers, Mittel-standsbank, Corporates & Markets and Central & Eastern Europe, it offers its private and corporate clients as well as institutional investors the banking and capital market services they need. With some 1,200 branches Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts nearly 15 million private customers, as well as 1 million business and corporate clients. In 2014, it generated revenues of more than EUR 9 billion with approximately 52,000 employees on average.



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:



Beate Simon

Heads of departments:

Ludovít Bán

Corporate Banking Department

Margaret Dvorak

Head of Branches

Armin Seifert (since 1.8.2014)

Credit Office

Tomáš Krejča (since 1.11.2014)

Financial Engineering

Jaromír Hronek

Treasury

Branko Sušič (until 1.7.2014)

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

Subsequent events

As of May 1st, 2015 the Branch Management will change. Mrs Beate Simon, General Manager will be replaced by Mr Michael Krüger.



Independent auditor's report

to the founder 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 2014 disclosed in the annual report on pages 12 - 36 and issued the opinion dated 11 March 2015 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 2014 is consistent with the financial statements which are included in this annual report on pages 12 - 36. 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 2014 is consistent, in all material respects, with the financial statements.

17 April 2015

represented by partner

Marek Richter
Statutory Auditor, Licence No. 1800

Note

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

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 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 2014, 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 2014 and its financial performance for the year then ended in accordance with Czech accounting legislation.

11 March 2015

PricewaterhouseCoopers Audit, s.r.o.

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

Marek Richter

Marek Richter
Statutory Auditor, Licence No. 1800

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.

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Financial statements

Balance sheet as at 31 December 2014

ASSETS:		31 December 2014	31 December 2013
	Note	(CZK million)	(CZK million)
Cash and cash deposits with central banks	3	2,367	886
Due from banks	4	21,766	22,222
a) repayable on demand		3,510	7,022
b) other receivables		18,256	15,200
Due from customers	5	19,694	18,174
a) repayable on demand		3,740	4,042
b) other receivables		15,954	14,132
Debt securities	6	1,787	2,629
a) issued by government institutions		1,550	2,394
b) issued by by other entities		237	235
Long-term intangible assets	7	2	5
Long-term tangible fixed assets	7	24	28
of which: land and buildings for operating activities		18	20
Other assets	8	1,318	1,434
Prepayments and accrued income		12	9
Total assets		46,970	45,387

LIABILITIES:		31 December 2014	31 December 2013
	Note	(CZK million)	(CZK million)
Due to banks	10	33,047	32,124
a) repayable on demand		5,389	12,111
b) other payables		27,658	20,013
Due to customers	11	12,026	11,513
a) repayable on demand		8,369	7,610
b) other payables		3,657	3,903
Other liabilities	12	1,379	1,334
Accruals and deferred income		66	44
Provisions for potential liabilities	9	89	73
Revaluation differences on fair value of securities		5	4
Retained earnings from previous periods		101	41
Profit for the accounting period	13	257	254
Total liabilities		46,970	45,387

Off-balance sheet As at 31 December 2014

Off-balance sheet assets	Note	31 December 2014 (CZK million)	31 December 2013 (CZK million)
Commitments and guarantees given	14	12,912	8,684
Receivables from spot transactions		34	1,327
Receivables from term instruments	23.4	83,351	77,696
Receivables from option instruments	23.4	-	113
Total off-balance sheet assets		96,297	87,820

Off-balance sheet liabilities	Note	31 December 2014 (CZK million)	31 December 2013 (CZK million)
Commitments and guarantees received		18,603	18,962
Collateral received and pledges	5	1,087	1,254
Payables from spot transactions		34	1,326
Payables from term instruments	23.4	83,205	77,517
Payables from option instruments	23.4	-	97
Total off-balance sheet liabilities		102,929	99,156

Income statement for the year ended 31 December 2014

	Note	31 December 2014 (CZK million)	31 December 2013 (CZK million)
Interest and similar income	15	602	545
of which: from debt securities		13	12
Interest and similar expense	16	(98)	(96)
Fee and commission income	17	292	259
Fee and commission expense	18	(47)	(29)
Gains less losses from financial transactions	19	156	169
Other operating income	20	332	336
Other operating expense		(19)	(8)
Administrative expense	21	(721)	(671)
of which: a) staff costs		(371)	(363)
of which: aa) wages and salaries		(273)	(272)
ab) social and health insurance		(83)	(81)
ac) other staff costs		(15)	(10)
b) other administrative expenses		(350)	(308)
Depreciation/amortization for long-term tangible and intangible fixed assets	7	(11)	(16)
Release of allowances and provisions for amounts due from clients	9	154	186
write-offs, additions and utilisation of allowances and provisions for amounts due from clients	9	(305)	(357)
Additions to and utilisation of other provisions	9	(16)	(3)
Profit on ordinary activities before taxation		319	315
Income tax	22	(62)	(61)
Profit for the accounting period	13	257	254

Statement of changes in equity for the year ended 31 December 2014

	Revaluation differences*	Retained earnings	Profit of the current year	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Balance as at 1 January 2013	(2)	132	472	602
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	-	(96)	96	-
Balance as at 31 December 2013	4	41	254	299
Allocation of 2013 profit to Commerzbank AG	-	-	(194)	(194)
Revaluation differences not included in profit net of tax	1	-	-	1
Net profit for the accounting period	-	-	257	257
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2013	-	60	(60)	-
Balance as at 31 December 2014	5	101	257	363

* 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 2014

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 and Plzeň. In 2013 and 2014, 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.

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 value which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value.

As at 31 December 2014, 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. Discont is continuously amortized to interest expense.

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

2.12 Allowances

The Bank first assesses whether evidence of impairment exists for individual receivables. Individual receivables are categorised in accordance with the definitions issued by the CNB into five categories (standard, watch, substandard, doubtful, loss). Impaired receivables (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 83,2 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 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");
- central office controlling the Bank and its senior management;
- relatives (direct family members) of senior management;
- entities in which the senior management holds at least a 10% shareholding;
- shareholders holding more than 10% of voting rights of Commerzbank AG and entities controlled by them.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 4, 5, 10, 11, 14, 15, 16, 20 and 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 2014 (CZK m)	31 December 2013 (CZK m)
Cash on hand	53	52
Obligatory reserves	2,314	834
Total cash and cash deposits with central banks	2,367	886

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 2014 and at 31 December 2013.

4. Due from banks

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Current accounts with banks	150	95
Term deposits with CNB	11,080	3,900
Term deposits up to 24 hours	3,360	6,927
Other term deposits with other banks	6,381	10,889
Standard loans to banks	728	331
Other due from banks	67	80
Total due from banks	21,766	22,222

The Bank did not have allowances to Due from banks balances as at 31 December 2014 and 2013.

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 2014 (CZK m)	31 December 2013 (CZK m)
Commerzbank, Frankfurt (Head office)	4,585	8,646
mBank S.A. (former BRE Bank S.A.)	25	1,501
Commerzbank, Bratislava branch	756	830
Commerzbank, Tokyo branch	5	7
Commerzbank (Budapest) Zrt., Budapest	5	1
Commerzbank, Singapore branch	1	-
Total	5,377	10,985

5. Due from customers

5.1 Receivables by type of debtor

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Customers' current accounts - overdraft	3,128	4,042
Standard loans to customers	15,641	13,676
Standard loans total	18,769	17,718
Impaired loans to companies and individuals	1,409	798
Total due from customer	20,178	18,516
Allowance for impaired loans (Note 9)	(484)	(342)
Total due from customers, net	19,694	18,174

Syndicate loans forming part of Due from customers totalled CZK 213 million at 31 December 2014 (31 December 2013: CZK 1,020 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:

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Standard	18,769	17,718
Watched	498	49
Impaired:		
- substandard	563	650
- doubtful	264	18
- loss	84	81
Total receivables due from customers	20,178	18,516

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

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Cash and cash equivalents	166	221
Real estate pledge	56	53
Other collateral received	865	980
Other guarantees and commitments	18,603	17,262
Total	19,690	18,516

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

Restructured loans totalled CZK 791,4 million in 2014 (2013: CZK 374,5 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 if she didn't 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 from related parties

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

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
BREL-COM Sp. z o.o.	Not listed as related	114
Immobilien-gesellschaft Ost Hägle, s.r.o.	45	65
Transfinance a.s.	78	53
FOSSUM Vermietungsges. ML. BOLESLAV s.r.o.	36	49
FOSSUM Vermietungsges. PRAHA s.r.o.	-	30
Total receivables from related parties	159	311

As at 31 December 2014 and 2013, the Bank has not provided 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.

Guarantees from related parties

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Commerzbank Essen branch	393	362
Commerzbank Frankfurt - head office	197	154
Commerzbank Berlin branch	184	188
Commerzbank Düsseldorf branch	39	85
Commerzbank Leipzig branch	5	5
Commerzbank Nürnberg branch	3	3
Commerzbank Hamburg branch	1	1
Total	822	798

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 2014, the revaluation difference from the revaluation of the available-for-sale securities, net of the deferred tax impact is CZK -5 million (2013: CZK -4 million) and is recorded in the equity. In 2014 and 2013 Bank did not recognized any impairment losses of available for sale securities.

6. Securities

(CZK m)	State treasury bills at 31 December		Debt securities at 31 December	
	2014	2013	2014	2013
Available-for-sale	1,550	2,394	237	235
Total securities	1,550	2,394	237	235

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Traded on recognised Czech stock exchanges	237	235
Not traded securities - Treasury Bills	1,550	2,394
Total	1,787	2,629

7. Long term intangible and tangible fixed assets

7.1 Long term intangible assets – software

	31 December 2013 (CZK m)	Additions / Amortisation (CZK m)	Disposals (CZK m)	31 December 2014 (CZK m)
Acquisition cost	188	1	(160)	29
Accumulated amortisation	(183)	(4)	160	(27)
Net book amount	5	(3)	-	2

7.2 Long term operating tangible fixed assets

	31 December 2013 (CZK m)	Additions / Depreciation (CZK m)	Disposals (CZK m)	31 December 2014 (CZK m)
Acquisition cost	151	3	(5)	149
Buildings	37	-	-	37
Equipment	114	3	(5)	112
Accumulated depreciation	(123)	(7)	5	(125)
Buildings	(17)	(1)	-	(18)
Equipment	(106)	(6)	5	(107)
Net book amount	28	(4)	-	24

7.3 Long term fixed assets held under finance lease contracts

Until 2013 the Bank used fixed assets acquired under finance lease contracts, which are recorded as long term fixed assets in the financial statements after termination of the lease contract. These lease contracts can be analysed as follows:

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Amounts already paid on existing finance leases	-	19
Amounts payable within one year	-	-
Total amount paid and payable on existing finance leases	-	19

7.4 Pledged assets

The Bank did not provide any tangible fixed assets as collateral for its liabilities as at 31 December 2014 and 2013.

8. Other assets

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Derivative financial instruments (Note 23.4)	1,225	1,221
Receivables from settlement of payments	50	102
Operating advances granted	23	88
Deferred tax asset (Note 22)	19	18
Estimated receivables	-	4
Other receivables	1	1
Total other assets	1,318	1,434
Allowance for impairment	-	-
Total book value	1,318	1,434

9. Allowances, provisions and write-offs

The Bank had the following provisions and allowances for assets:

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Other provisions		
Provisions for potential law litigations	71	70
Provisions for other payables	18	3
Total other provisions	89	73
Allowances		
Impaired loans to customers (Note 5)	484	342
Total allowances	484	342

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

	2014 (CZK m)	2013 (CZK m)
At 1 January	70	79
Usage	-	(4)
Foreign exchange difference and discount effect	1	(5)
At 31 December	71	70

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

	2014 (CZK m)	2013 (CZK m)
At 1 January	3	-
Additions	16	-
Release	(1)	3
At 31 December	18	3

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

	2014 (CZK m)	2013 (CZK m)
At 1 January	342	196
Additions	305	332
Foreign exchange translation difference	(9)	-
Release	(154)	(186)
At 31 December	484	342

Release of allowances and provisions for amounts due from clients

	2014 (CZK m)	2013 (CZK m)
Release of allowances for amount due from clients	154	186
Total	154	186

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

	2014 (CZK m)	2013 (CZK m)
Amounts due from clients written-off	-	26
Additions to allowances and provisions for amounts due from clients	305	331
Total	305	357

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 2014 (CZK m)	31 December 2013 (CZK m)
Current accounts with banks	1,117	636
Term deposits due up to 24 hours	4,272	11,358
Other term deposits with banks	27,658	20,045
Other liabilities	-	85
Total due to banks	33,047	32,124

Deposits from related parties

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Commerzbank Frankfurt head office	26,189	19,439
Commerzbank, Bratislava branch	2,792	1,681
Commerzbank, Paris branch	109	157
mBank S.A. (former BRE Bank S.A.), organisational unit, Praha	35	2,485
Commerzbank (Budapest) Zrt., Budapest	6	8
Commerzbank, London branch	1	20
Commerzbank, New York	1	1
Commerzbank, Singapore	-	5
Commerzbank, Hong Kong branch	-	4
KFW, Frankfurt am Main	-	3
Commerzbank, Amsterdam	-	2
Total deposits from related parties	29,133	23,805

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 2014 (CZK m)	31 December 2013 (CZK m)
Amounts due to governmental entities	11	13
Amounts due to municipalities	2	308
Amounts due to private customers	12,013	11,192
Total due to customers	12,026	11,513
Liabilities repayable on demand	8,369	7,610
Term accounts for fixed term	3,328	3,560
Term accounts with fixed notice period	262	343
Other amounts due to private customers	67	-
Total due to customers	12,026	11,513

Deposits from related parties

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Immobilien-gesellschaft Ost Hägle, s.r.o.	37	33
Commerz Real Mobilienleasing, GmbH	9	4
FOSSUM Vermietungsges. PRAHA s.r.o.	-	2
Total deposit from related parties	46	39

The Bank did not accept any deposits from senior management members as at 31 December 2014 and 2013.

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 2014 (CZK m)	31 December 2013 (CZK m)
Derivative financial instruments (Note 23.4)	1,072	1,076
Settlement clearance accounts	231	182
Estimated payables	68	67
Other liabilities	8	9
Total other liabilities	1,379	1,334

The Bank did not have any overdue liabilities to finance authorities, social insurance authorities or health insurance companies as at 31 December 2014 and 2013.

13. Equity and profit distribution

13.1 Profit distribution

The net profit of CZK 257 million for 2014 is proposed to be distributed as follows:

	2014 (CZK m)
Allocation to Commerzbank AG (profit according to German accounting standards)	259
Transfer to retained earnings	(2)
Net profit	257

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 2014 (CZK m)	31 December 2013 (CZK m)
Guarantees granted		
Banks in the group – subsidiaries and other controlled banks	108	93
Non-banking companies in the group – subsidiaries and other controlled entities	1	1
Other banks	1,635	516
Other clients	5,824	52,70
Guarantees granted	7,568	5,880
Provision for guarantees (Note 9)	(15)	-
Total carrying value of the guarantees	7,553	5,880

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Non-cancellable commitments	5,344	2,804
Guarantees granted	7,568	5,880
On behalf of banks	1,743	609
On behalf of customers	5,825	5,271
Total commitments and guarantees granted	12,912	8,684
Net commitments and guarantees granted	12,912	8,684

The Bank has not granted any guarantees to its management as at 31 December 2014 (CZK 70 thousand as at 31 December 2013).

15. Interest and similar income

	2014 (CZK m)	2013 (CZK m)
Inter-bank transactions	40	28
Receivables from customers and state	549	505
Debt securities	13	12
Total interest and similar income	602	545

CZK 26 million of interest income was recognised on impaired loans in the year ended 31 December 2014 (2013: CZK 37 million). There was no registered unpaid penalty interest income outstanding in 2014 and 2013.

Interest income from related parties of Commerzbank AG Group

	2014 (CZK m)	2013 (CZK m)
Commerzbank Frankfurt - head office	25	18
BREL-COM Sp. Z o.o.	Not listed as related	4
Commerzbank Bratislava branch	3	3
Transfinance, a.s.	1	10
FOSSUM Vermietungsges. ML. BOLESLAV s.r.o.	1	2
Immobilien-gesellschaft Ost Hüg-le, s.r.o.	1	1
mBank (BRE Bank) S.A., Warsaw	1	1
mLeasing (BRE Leasing Sp. Z o.o.), Warsaw	-	2
FOSSUM Vermietungsges. PRAHA s.r.o.	-	2
Total	32	43

16. Interest and similar expense

	2014 (CZK m)	2013 (CZK m)
Inter-bank transactions	94	72
Deposits from customers and state	3	23
Other	1	2
Total interest and similar expense	98	96

**Interest expense from related parties
of Commerzbank AG Group**

	2014 (CZK m)	2013 (CZK m)
Commerzbank Frankfurt – head office	87	70
Commerzbank (Euroasija) SAO, Moscow	4	4
Commerzbank, Hong Kong branch	-	1
mBank (former BRE Bank) S.A., Warsaw	-	1
Commerzbank, Bratislava branch	-	1
Total	91	77

17. Fee and commission income

	2014 (CZK m)	2013 (CZK m)
Domestic and foreign transfers	115	116
Letters of credit	40	44
Guarantees	43	41
Credit related fees and commission	77	33
Other	10	14
Brokerage income from the purchase and sale of securities and derivatives	7	8
Asset management fees and related fee income	-	3
Total fee and commission income	292	259

18. Fee and commission expense

	2014 (CZK m)	2013 (CZK m)
Revenue split	25	14
Fees and commissions on loans	10	7
Domestic and foreign payments	7	7
Fees and commissions for off balance sheet	3	-
Fees and commissions from other financial activities	2	1
Total fee and commission expense	47	29

**19. Gains less losses
from financial transactions**

	2014 (CZK m)	2013 (CZK m)
Gains / (Losses) from foreign currency transactions	(569)	155
Gains from transactions with FX financial derivatives	729	18
(Losses) from interest rate financial derivatives	(4)	(4)
Total gains less losses from financial transactions	156	169

20. Other operating income

	2014 (CZK m)	2013 (CZK m)
Income from intercompany re-invoicing	328	288
Income from insurance reimbursement	-	40
Other operating income	4	8
Total other operating income	332	336

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, Wien and to subsidiaries in Budapest and Moscow.

Other operating income from related parties of Commerzbank AG Group

	2014 (CZK m)	2013 (CZK m)
Commerzbank Frankfurt – head office	301	266
Commerzbank, Bratislava branch	22	20
Commerzbank (Budapest) Zrt., Budapest	2	1
Commerzbank, Moscow	2	1
Commerzbank, Wien	1	-
Total	328	288

21. Administrative expense

	2014 (CZK m)	2013 (CZK m)
Staff costs	370	363
Intercompany expense – head office in Frankfurt am Main	128	120
Outsourcing	74	53
Rent and lease charges	49	46
Expenses for IT	29	34
Tax and legal advisory services	9	2
Services provided by the auditing company - compulsory audit of the financial statements	2	2
Other administrative expenses	60	51
Total administrative expense	721	671

Staff costs are analysed in the income statement.

In 2014, the management of the Bank was paid wages and salaries of CZK 44 million (2013: CZK 45 million), social and health insurance paid by the Bank amounted to CZK 7 million (2013: CZK 7 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 2014 a total of 13 employees and 2013 a total of 14 employees).

Staff statistics

	2014	2013
Average number of employees	275	273

In 2013 and 2014, 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:

	2014 (CZK m)	2013 (CZK m)
Current tax expense	64	59
Deferred tax expense/(income)	(2)	1
Adjustment of prior year tax expense	-	1
Total income tax expense	62	61

Current tax can be analysed as follows:

	2014 (CZK m)	2013 (CZK m)
Profit before taxation	319	315
Non-taxable income	(80)	(73)
Non-deductible expenses	95	42
Other expenses reducing net taxable profit	2	28
Net taxable profit	336	312
Current tax charge at 19 %	64	59

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 2014 (CZK m)	31 December 2013 (CZK m)
Deferred tax asset as at 1 January	17	18
Available-for-sale securities	-	(1)
Allowances to loans to customers	2	-
Deferred tax asset as at 31 December	19	17

	31 December 2014 (CZK m)	31 December 2013 (CZK m)
Deferred income tax asset		
Allowances to loans to customers	17	15
Non-tax deductible social insurance	3	3
Total	20	18
Deferred income tax liability		
Change in fair value of available for sale securities	1	1
Net deferred tax asset (Note 8)	19	17

23. Financial risks

1.1 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.

1.2 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 2.40% 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 2014	Domestic (CZK m)	European union (CZK m)	Rest of the Europe (CZK m)	Other (CZK m)	Total (CZK m)
Assets					
Cash and cash deposits with central banks	2,367	-	-	-	2,367
Due from banks	15,579	5,380	684	123	21,766
Due from customers	14,407	3,848	1,439	-	19,694
Securities available-for-sale	1,787	-	-	-	1,787
Other assets	475	839	42	-	1,356
Total assets	34,615	10,067	2,165	123	46,970

31 December 2013	Domestic (CZK m)	European union (CZK m)	Rest of the Europe (CZK m)	Other (CZK m)	Total (CZK m)
Assets					
Cash and cash deposits with central banks	886	-	-	-	886
Due from banks	10,800	10,995	241	186	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
Total assets	29,805	12,946	2,450	186	45,387

Information about bank segmentation

31 December 2014	Corporate banking (CZK m)	Investment banking (CZK m)	Other (CZK m)	Total (CZK m)
Assets				
Cash and cash deposits with central banks	2,367	-	-	2,367
Due from banks	685	-	21,081	21,766
Due from customers	17,613	2,077	4	19,694
Securities available-for-sale	237	-	1,550	1,787
Other assets	313	-	1,043	1,356
Total assets	21,215	2,077	23,678	46,970

31. December 2013	Corporate banking (CZK m)	Investment banking (CZK m)	Other (CZK m)	Total (CZK m)
Assets				
Cash and cash deposits with central banks	886	-	-	866
Due from banks	2,233	-	19,989	22,222
Due from customers	17,328	845	1	18,174
Securities available-for-sale	235	-	2,394	2,269
Other assets	277	-	1,199	1,476
Total assets	20,959	845	23,583	45,387

Information about customer segmentation

31. December 2014	Local banks (CZK m)	Foreign banks (CZK m)	Corporate sector (CZK m)	State institutions (CZK m)	Individuals (CZK m)	Total (CZK m)
Assets						
Cash and cash deposits with central banks	2,367	-	-	-	-	2,367
Due from banks	15,580	6,186	-	-	-	21,766
Due from customers	-	-	19,615	-	79	19,694
Securities available-for-sale	-	-	237	1,550	-	1,787
Other assets	21	860	474	-	1	1,356
Total assets	17,968	7,046	20,326	1,550	80	46,970

31. December 2013	Local banks (CZK m)	Foreign banks (CZK m)	Corporate sector (CZK m)	State institutions (CZK m)	Individuals (CZK m)	Total (CZK m)
Assets						
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
Total assets	11,806	12,257	18,831	2,394	99	45,387

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 move-

ments 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.

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

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

Since VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the management of the Bank for individual trading and portfolio operations; actual exposure against limits, together with a consolidated bank-wide VAR of the Bank, is reviewed daily by management. Consolidated VAR of the Bank as at 31 December 2014 was CZK 2.2 million (31 December 2013: CZK 2.6 million) and average daily consolidated VAR was CZK 2.8 million in 2013 and 2014.

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 2014 (average annual value in 2014 equals 39.02 %, in 2013: 22.68 %).

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 2014	Nominal amount assets (CZK m)	Nominal amount liabilities (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)
Interest rate derivatives	2,208	2,208	44	50
Currency derivatives	81,143	80,997	1,181	1,022
Total	83,351	83,205	1,225	1,072

31. December 2013	Nominal amount assets (CZK m)	Nominal amount liabilities (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)
Interest rate derivatives	3,530	3,514	15	36
Currency derivatives	74,279	74,100	1,206	1,040
Total	77,809	77,614	1,221	1,076

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 2014	Nominal amount assets (CZK m)	Nominal amount liabilities (CZK m)	Fair value positive (CZK m)	Fair value negative (CZK m)
Interest rate derivatives				
Swaps	2,208	2,208	44	50
Total	2,208	2,208	44	50
Currency derivatives				
Forwards	11,071	11,071	77	76
Swaps	70,072	69,926	1,104	946
Total	81,143	80,997	1,181	1,022
Total trading agreements	83,351	83,205	1,225	1,072

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

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 2014 (CZK m)	CZK	EUR	USD	Other	Total
Assets					
Cash and cash deposits with central banks	2,346	13	3	5	2,367
Due from banks	15,671	2,160	3,877	58	21,766
Due from customers	12,195	6,923	574	2	19,694
Securities available-for-sale	1,787	-	-	-	1,787
Other assets	1,333	7	8	8	1,356
Total assets	33,332	9,103	4,462	73	46,970
Liabilities					
Due to banks	8,040	17,792	7,203	12	33,047
Due to customers	6,852	4,625	478	71	12,026
Provisions	74	15	-	-	89
Other liabilities	1,689	44	55	20	1,808
Total liabilities	16,655	22,476	7,736	103	46,970
Net assets/(liabilities)	16,677	(13,373)	(3,274)	(30)	-
Net off-balance sheet assets/(liabilities)	(16,516)	13,339	3,275	48	146
Net open currency position	161	(34)	1	18	146

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

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. These limits are monitored daily. In the balance sheet of the Bank outweighs 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. 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 2014	Within 3 months (CZK m)	3 - 12 months (CZK m)	1 - 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
Cash and cash deposits with central banks	52	-	-	-	2,315	2,367
Due from banks	19,610	1,727	429	-	-	21,766
Due from customers	10,434	1,868	6,245	892	255	19,694
Securities available-for-sale	500	1,051	-	-	236	1,787
Other assets	782	340	75	1	158	1,356
Total assets	31,378	4,986	6,749	893	2,964	46,970
Liabilities						
Due to banks	32,231	315	501	-	-	33,047
Due to customers	11,576	450	-	-	-	12,026
Provisions	-	-	-	-	89	89
Other liabilities	733	273	51	1	750	1,808
Total liabilities	44,540	1,038	552	1	839	46,970
Net assets/(liabilities)	(13,162)	3,948	6,197	892	2,125	-

31. December 2013	Within 3 months (CZK m)	3 - 12 months (CZK m)	1 - 5 years (CZK m)	Over 5 years (CZK m)	Not specified (CZK m)	Total (CZK m)
Assets						
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
Total assets	29,892	7,194	5,700	1,377	1,224	45,387
Liabilities						
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	584	396	82	1	613	1,676
Total liabilities	41,345	2,231	1,118	1	692	45,387
Net assets/(liabilities)	(11,453)	4,963	4,582	1,376	532	-

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 2014.

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

Date	Statutory representative	Person responsible for accounting	Person responsible for preparation of the financial statements
			
11 March 2015	Beate Simon	Ing. Eva Collardová, MBA	Ing. Vladimír Kugler



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