

Partnership is not just a word



Annual report for the year 2011



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2011 Management Report

»The Prague Branch recorded CZK 553 million in earnings in 2011, a 96% year-on-year increase, mainly achieved by the release of provisions. This figure is very satisfactory, especially given the Bank's strategic decision to re-focus its credit portfolio management.«

Czech economic growth, strongly affected by the situation in the Eurozone, fell to 1.7% in 2011, as it did in most other euro countries, including Germany and Slovakia, the Czech Republic's hitherto fastest growing trading partners.

Given the strong focus on both universal banking and direct banking in Commerzbank's Central and Eastern European segment, it was decided that the corporate client business of the Bank's smaller CEE branches in the Czech Republic, Slovakia, Russia, and Hungary would in the future be adapted to the 'Mittelstandsbank' business model, which is better tailored to smaller and mid-sized corporates .

For Prague Branch, the new strategy also meant the termination of the Private Banking services at the end of 2011, coupled with a stronger orientation towards business with corporate clients, mainly subsidiaries of German corporations as well as local Czech companies. A number of specialized products enhanced our offerings for corporate customers. For instance, our clients from the SME segment took advantage of the attractive terms of Global Loans provided by the European Investment Bank (EIB) for the mid- and long-term financing of their investment needs and operating capital. For their part, Czech exporters received support in the form of structured export financing. Special attention was paid to exporters to Russia, for whom our branch organized several specialized seminars last year.

Despite the complicated market situation during the reported period, the Corporates & Markets Division operating in Prague through Fixed Income and Currencies sales (FICS) team providing our clients primarily with Money


Market and Foreign Exchange services, Interest rates and Commodity derivative business, was able to maintain and expand their business with existing key-account clients as well as acquire new customers. We introduced the Dual Currency Deposit, a term deposit product featuring an attractive guaranteed interest yield, which has mainly been used by existing clients.

The Prague Branch recorded CZK 553 million in earnings in 2011, a 96% year-on-year increase, mainly achieved by the release of provisions. This figure is very satisfactory, especially given the Bank's strategic decision to re-focus its credit portfolio management.

The year 2012 is expected to bring limited year-on-year economic change, as growth will amount to +0.4% due to an expected decline in foreign demand; GDP is only expected to start growing again in 2013.

In line with the switch to the Mittelstandsbank business model, the Prague Branch will continue to focus on mid-sized corporates in 2012. In addition, we plan to further develop our business partnerships with Czech exporters.

As in the past, our main objective in 2012 will be to provide high-quality services and to ensure that client satisfaction continues to grow.


Krisztina Bogdán
General Manager

Commerzbank AG

Commerzbank worldwide

Commerzbank is a leading bank for private and corporate customers in Germany. With the segments Private Customers, Mittelstandsbank, Corporates & Markets, Central & Eastern Europe as well as Asset Based Finance, the Bank offers its customers an attractive product portfolio, and is a strong partner for the export-oriented SME sector in Germany and worldwide. With a future total of some 1,200 branches, Commerzbank has one of the densest networks of branches among German private banks. It has around 60 foreign sites in 52 countries and serves more than 14 million private clients as well as 1 million business and corporate clients worldwide. In 2011, it posted gross revenues of EUR 9.9 billion with 58,160 employees.



Commerzbank in the Czech republic

Commerzbank has been present in the Czech Republic since 1992, when it opened its first branch in Prague. Given our attractive line of services and strong international background, Commerzbank is considered one of the leading foreign banks in the Czech Republic. In 1998 and 2001 offices were opened in Brno and Ostrava, followed by further offices in Hradec Králové and Pilsen in 2007.

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

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



Organisation structure

Prague branch

General Managers:



Dr. Jutta Walter (until 14. 10. 2011)



Krisztina Bogdán (since 14. 10. 2011)

Heads of departments:

Ludovít Bán

Corporate Banking Department

Joachim Spengler (until 15. 11. 2011)

CEE – Support

Margaret Dvorak

Structured Finance

Jens Hohmann (since 01. 11. 2011)

COO Prague

Daniel Steinmetz

Credit Office

Bernd Krönke (until 30. 06. 2011)

GS – BO Prague

Alena Štefaňáková (until 10. 10. 2011)

Private Banking

Miguel-Angel Alvarez Rodrigues

(since 01. 04. 2011)

GS – BO MO RC Prague

Jaromír Hronek

Treasury

Petr Nentvich

Corporate Banking Department,
Brno Office

Luboš Křen

Cash Management
& International Business (CMIB)

René Mewald

(until 30. 06. 2011)

Corporate Banking Department,
Hradec Králové Office

Eva Collardová

Finance

Renata Kloubek

Personnel Department

Ondřej Eliáš

Corporate Banking Department,
Plzeň Office

Iva Gottliebová

Marketing and Communication

Roman Zedníček

Corporate Banking Department,
Ostrava Office

Pavel Čurilla

GS – OR IU Prague



Independent auditor's report

to the management 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 2011 disclosed in the annual report on pages 12-38 and issued the opinion dated 9 March 2012 and disclosed on page 10.

Report on the Annual Report

We have verified that the other information included in the annual report of the Branch for the year ended 31 December 2011 is consistent with the financial statements referred to above. The management 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 2011 is consistent, in all material respects, with the financial statements.

30 March 2012

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

Petr Kříž, FCCA
Statutory Auditor, Licence No. 1140

Note

Our report has been prepared in 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.

*PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz*



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 2011, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

*PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466 Prague 2, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz*

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, 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.



**Shareholders of COMMERZBANK Aktiengesellschaft, pobočka Praha
Independent auditor's report**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011 and its financial performance for the year then ended in accordance with Czech accounting legislation.

9 March 2012

A handwritten signature in blue ink that reads "PricewaterhouseCoopers Audit s.r.o." in a cursive script.

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

A handwritten signature in blue ink that reads "Petr Kříž" in a cursive script.

Petr Kříž, FCCA
Statutory Auditor, Licence No. 1140

Note

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

Financial statements

Balance sheet as at 31 December 2011

Assets:		31 December 2011	31 December 2010
	Note	CZK mil.	CZK mil.
Cash and cash deposits with central banks	3	539	78
Due from banks	4	17,003	20,271
a) repayable on demand		9,603	13,422
b) other receivables		7,400	6,849
Due from customers	5	29,814	40,162
a) repayable on demand		3,294	4,073
b) other receivables		26,520	36,089
Debt securities	6	439	930
a) issued by government institutions		199	558
b) issued by other entities		240	372
Long-term intangible assets	7	12	23
Long-term tangible fixed assets	7	40	42
of which: land and buildings for operating activities		26	27
Other assets	8	1,529	742
Prepayments and accrued income		15	17
Total assets		49,391	62,265

Liabilities and Equity:		31 December 2011	31 December 2010
	Note	CZK mil.	CZK mil.
Due to banks	10	33,131	39,655
a) repayable on demand		2,524	18,931
b) other payables		30,607	20,724
Due to customers	11	13,559	19,950
a) repayable on demand		5,266	6,949
b) other payables		8,293	13,001
Other liabilities	12	1,662	1,867
Accruals and deferred income		45	46
Provisions	9	231	70
a) provisions for taxes		34	-
b) other provisions for potential liabilities		196	70
Revaluation reserve		7	(10)
a) revaluation reserve on assets and liabilities		7	(10)
Retained earnings from previous periods		203	406
Profit for the accounting period	13	553	281
Total liabilities and equity		49,391	62,265

Off-balance sheet as at 31 December 2011

Off-balance sheet assets:	Note	31 December 2011	31 December 2010
		CZK mil.	CZK mil.
Commitments and guarantees given	14	8,815	11,696
Receivables from spot transactions		1,385	1,830
Receivables from term instruments	23.4	32,607	45,484
Receivables from option instruments	23.4	2,245	4,168
Receivables written-off		4	4
Total off-balance sheet assets		45,056	63,182

Off-balance sheet liabilities:	Note	31 December 2011	31 December 2010
		CZK mil.	CZK mil.
Commitments and guarantees received		18,807	35,231
Collateral received and pledges	14	2,986	3,212
Payables from spot transactions		1,382	1,837
Payables from term instruments	23.4	32,328	46,576
Payables from option instruments	23.4	2,245	4,168
Assets held under custody and managed by a third party	14	32,416	32,489
Assets under management	14	514	365
Total off-balance sheet liabilities		90,678	123,878

Income statement for the year ended 31 December 2011

	Note	31 December 2011 CZK million	31 December 2010 CZK million
Interest and similar income	15	1,639	1,827
of which: from debt securities		22	63
Interest and similar expense	16	(420)	(533)
Fee and commission income	17	304	342
Fee and commission expense	18	(98)	(25)
Gains less losses from financial transactions	19	(36)	(404)
Other operating income	20	328	331
Other operating expense		(15)	(35)
Administrative expense	21	(780)	(750)
of which: a) staff costs		(418)	(421)
of which: aa) wages and salaries		(310)	(315)
ab) social and health insurance		(94)	(93)
ac) other staff costs		(14)	(13)
b) other administrative expenses		(361)	(329)
Depreciation for long-term tangible and intangible fixed assets	7	(25)	(27)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	9	223	21
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	9	(354)	(414)
Release of other provisions	9	-	10
Additions to and utilisation of other provisions		(118)	-
Profit on ordinary activities before taxation		648	343
Income tax	22	(95)	(62)
Profit for the accounting period	13	553	281

Statement of changes in equity for the year ended 31 December 2011

	Revaluation reserve*	Retained earnings	Profit of the current year	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Balance as at 1 January 2010	(127)	391	526	790
Allocation of 2009 profit to Commerzbank AG	-	-	(493)	(493)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2009	-	33	(33)	-
Change in accounting policy (discount of provisions)	-	14	-	14
Additional allocation of profit 2009 to Commerzbank AG due to change in accounting policy	-	(14)	-	(14)
Revaluation differences not reflected in profit, net of tax	118	-	-	118
Foreign exchange differences in equity for the year 2010	-	(19)	-	(19)
Net profit for the accounting period	-	-	281	281
Balance as at 31 December 2010	(9)	405	281	677
Allocation of 2010 profit to Commerzbank AG	-	-	(441)	(441)
Revaluation differences not included in profit net of tax	16	-	-	16
Net profit/loss for the accounting period	-	-	553	553
Other changes	-	(46)	-	(46)
Difference between allocation of profit to Commerzbank AG, foreign exchange diffe- rences and profit for the year 2010	-	(160)	160	-
Foreign exchange differences in equity for the year 2011	-	4	-	4
Balance as at 31 December 2011	7	203	553	763

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

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

1 General information

COMMERZBANK Aktiengesellschaft, pobočka Praha (hereinafter referred to as “the Bank”) was incorporated on 24 November 1992 as a branch of COMMERZBANK Aktiengesellschaft, which is headquartered in Frankfurt am Main, Germany. The Bank has its registered office in Praha and offices in Brno, Ostrava, Plzeň and Hradec Králové. In 2011, the Bank was managed by Dr. Jutta Walter (until 14 October 2011) and Krisztina Bogdán (since 14 October 2011).

The Bank’s operations primarily consist of:

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

2 Accounting policies

2.1 Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and 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. The Bank uses primarily the structure of accounts of Commerzbank AG, which is subsequently translated for Czech reporting purposes.

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 effective date of the accounting transaction is particularly the day of payment or receipt of cash, the day of the purchase, sale of foreign exchange, securities, the day a payment is made or the day the cash is collected from a client's account, the day the foreign bank is ordered to make a payment, the day the bank's orders are settled with the Czech National Bank ("CNB") clearing centre, the value date of money received according to the message from the foreign partner bank, the deal date and settlement day of the trade with securities, foreign exchange, options or other derivatives, the day the guarantee is granted or accepted or the loan commitment.

2.5 Available-for-sale securities

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

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

As at 31 December 2011, 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 Securities financing arrangements

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. They are recognised off balance sheet as Collaterals received and pledges. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying

cashflows are recorded as Due to banks or customers and Due from banks or customers, as appropriate, on the settlement date.

Securities received in reverse repo agreements that are sold to third parties are recorded at fair value as a trading liability. Trading liabilities with debt and equity securities are included in Liabilities from debt securities and Other liabilities respectively.

2.7 Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, forward rate agreements, 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 and options pricing models as appropriate. All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative respectively.

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

The Bank designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge).

Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

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

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

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

2.8 Interest income and expense

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

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

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

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

2.9 Penalty interest

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

2.10 Fee and commission income

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

2.11 Receivables

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

2.12 Provisions

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

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

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

2.13 Allowances

The Bank first assesses whether evidence of impairment exists for individual receivables. Individual receivables are categorised in accordance with the definitions issued by the CNB into five categories (standard, watch, substandard, doubtful, loss). Impaired receivables include substandard, doubtful and loss receivables and represent total outstanding principal and accrued interest receivable

with service payments overdue more than 90 days or other defaults in contractual terms or financial performance of debtor. Watch receivables represent total outstanding principal and accrued interest receivable with service payments overdue less than 90 days.

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

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

Except for individual loan loss provisions (or specific loan loss provisions) and portfolio loan loss provisions, the Bank also creates a general loan loss provisions for covering credit risk arising from balance and off balance sheet positions, which are calculated using statistical models.

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.

2.14 Long-term tangible and intangible fixed assets

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

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

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

2.15 Value added tax

The Bank is registered for value added tax (hereinafter "VAT"). Intangible and tangible fixed assets and inventories are stated at acquisition cost including the appropriate VAT. The Bank does not claim input VAT as the ratio of the taxable income to the total income of the Bank is such that it is not economical for the Bank to claim the input VAT. Input VAT (except for intangible and tangible fixed assets) is expensed immediately.

2.16 Deferred taxation

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

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

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

2.17 Staff costs, pensions and social fund

Staff costs are included in Administrative expense.

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

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

2.18 Related parties

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

- senior management of the Bank, being persons responsible for management functions based on employment or other contracts and powers and responsibilities of which are defined in the Bank's statute ("senior management of the Bank");
- 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, 14, 15, 16, 20, 21.

2.19 Foreign exchange differences in equity

Foreign exchange differences arising from the distribution of the Bank's profits to Commerzbank AG, which accounting records are in Euro, are accounted for in equity.

2.20 Subsequent events

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

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

2.21 Change of accounting policy

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

3 Cash and deposits with central banks

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Cash on hand	45	36
Obligatory reserves	494	42
Total cash and cash deposits with central banks	539	78

Obligatory reserves are mandatory deposits with the CNB and they are not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 0.75 % p.a. as at 31 December 2011 and 2010.

4 Due from banks

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Current accounts with banks	248	648
Term deposits with CNB	1,030	-
Term deposits up to 24 hours	9,355	12,774
Other term deposits with other banks	5,945	6,494
Standard loans to banks	281	211
Other due from banks	144	144
Total due from banks	17,003	20,271

The Bank did not have any receivables from banks incorporated in Greece as at 31 December 2011 and 2010. The Bank did not have allowances to Due from banks balances as at 31 December 2011 and 2010.

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 2011	31 December 2010
	CZK mil.	CZK mil.
Commerzbank, Frankfurt (Head office)	3 282	9 896
Commerzbank, Bratislava branch	2 280	2 169
Commerzbank (Euroasija) SAO, Moscow	1 994	97
BRE Bank S.A., Warsaw	1 833	26
Commerzbank, Tokyo branch	125	5
Commerzbank (Budapest) R.t., Budapest	3	3 610
Commerzbank, Hong Kong branch	2	4
Commerzbank, New York branch	1	1
Commerzbank, Singapore branch	1	1
Total	9 521	15 809

5 Due from customers

5.1 Receivables by type of debtor

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Current accounts to other customers	3,293	4,073
Standard loans to other customers	26,192	35,683
Standard loans total	29,485	39,756
Impaired loans to companies and individuals	998	987
Total due from customer	30,483	40,743
Allowance for impaired loans (Note 9)	(669)	(581)
Total due from customers, net	29,814	40,162

Syndicate loans forming part of Due from customers totalled CZK 2,073 million at 31 December 2011 (2010: CZK 1,100 million).

5.2 Quality of receivables portfolio

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

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

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

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Standard	29,485	39,756
Watch	71	62
Impaired:		
- Substandard	325	526
- Doubtful	75	119
- Loss	527	280
Total receivables due from customers	30,483	40,743

Current value of collaterals received is disclosed in note 14.

The current value ascribed to assets received as collateral for receivables from customers can be analysed as follows:

	31 December 2011
	CZK mil.
Cash	332
Securities	9
Land and buildings	2,021
Other fixed assets	868
Other assets	4,689
Total assets received as collateral for receivables from customers	7,919

Restructured loans totalled CZK 273.9 million in 2011 (2010: CZK 254.1 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.

The Bank did not have any receivables from state institutions or other entities incorporated in Greece at 31 December 2011 and 2010.

5.3 Receivables from related parties

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

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
BRE Leasing, Sp. z o.o., Warsaw	8,618	13,063
Transfinance a.s.	812	704
BREL-COM Sp. z o.o.	157	165
FOSSUM Vermietungsges. PRAHA s.r.o.	85	112
FOSSUM Vermietungsges. ML. BOLESLAV s.r.o.	68	77
Total receivables from related parties	9,740	14,121

As at 31 December 2011 and 2010, the Bank has provided loans of CZK 1 million 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.

6 Securities

	State treasury bills		Debt securities	
	at 31 December		at 31 December	
	2011	2010	2011	2010
Available-for-sale	199	-	240	930
Total securities	199	-	240	930

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

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

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

As at 31 December 2011, the revaluation difference from the revaluation of the available-for-sale securities, net of the deferred tax impact, was negative, CZK 7 million (2010: negative CZK 10 million) and is recorded in the equity. The revaluation difference from the impairment of the available-for-sale securities is presented in the Losses from financial transactions (Note 19).

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Traded on recognised Czech stock exchanges	240	791
Traded on recognised foreign stock exchanges	-	139
Not traded securities – Treasury Bills	199	-
Total	439	930

7 Long term intangible and tangible fixed assets

7.1 Long term intangible assets – software

	31 December 2010	Additions / Amortisation	Disposals	31 December 2011
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Acquisition cost	228	3	(25)	206
Accumulated amortisation	(207)	(13)	25	-195
Net book amount	21	(10)	-	11
Advances granted and assets in course of implementation	2	-	1	1
Total	23	(10)	1	12

7.2 Long term operating tangible fixed assets

	31 December 2010	Additions / Depreciation	Disposals	31 December 2011
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Acquisition cost				
Buildings	40	-	-	40
Equipment	155	-	-	155
Accumulated amortisation				
Buildings	(12)	(1)	-	(14)
Equipment	(142)	(11)	10	(141)
Net book amount	41	(12)	10	40
Advances granted and assets in course of implementation	1	-	-	-
Total	42	(12)	10	40

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 2011 CZK mil.	31 December 2010 CZK mil.
Amounts already paid on existing finance leases	18	17
Amounts payable within one year	1	1
Amounts payable within 1 – 5 years	-	1
Total amount paid and payable on existing finance leases	19	19

7.4 Pledged assets

The Bank did not provide any tangible fixed assets as collateral for its liabilities as at 31 December 2011 and 2010.

8 Other assets

	31 December 2011 CZK mil.	31 December 2010 CZK mil.
Operating advances granted	3	2
Receivables from settlement of payments	30	29
Derivative financial instruments (Note 23.4)	1,356	395
Deferred tax asset (Note 22)	72	3
Estimated receivables	18	8
Other receivables	49	375
Total other assets	1,529	812
Allowance for impairment (Note 9)	-	(70)
Total other assets, net	1,529	742

9 Allowances, provisions and write offs

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

	31 December 2011 CZK mil.	31 December 2010 CZK mil.
Other provisions		
Provisions for potential payables	196	70
Provisions for issued guarantees and loan commitments	1	-
Provision for current income tax	34	-
Total other provisions	231	70
Allowances		
Impaired loans to customers (Note 5)	669	581
Other receivables	-	70
Total allowances	669	651

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

	2011 CZK mil.	2010 CZK mil.
At 1 January	70	89
Change in accounting policy as at 1 January	-	(14)
Additions	123	4
Release	-	(9)
Foreign exchange difference	3	0
At 31 December	196	70

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

	Due from classified loans CZK mil.	Other receivables CZK mil.
At 1 January 2010	245	19
Additions	354	59
Foreign exchange translation difference	3	(8)
Release	(21)	-
At 31 December 2010	581	70
Additions	232	-
Foreign exchange translation difference	12	-
Release	(156)	(70)
At 31 December 2011	669	-

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

	2011 CZK mil.	2010 CZK mil.
Write backs of allowances and provisions for loans and guarantees	-	1
Income from amount due from clients written-off	223	20
Recoveries from amounts due from clients previously written off	3	-
Total	226	21

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

	2011 CZK mil.	2010 CZK mil.
Amounts due from clients written off	(127)	-
Additions to allowances and provisions for loans and guarantees	(227)	(414)
Total	354	(414)

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 2011 CZK mil.	31 December 2010 CZK mil.
Current accounts with banks	970	221
Term deposits due up to 24 hours	1,554	18,710
Other term deposits with banks	30,463	20,580
Other liabilities	144	144
Total due to banks	33,131	39,655

Deposits from related parties

	31 December 2011 CZK mil.	31 December 2010 CZK mil.
Commerzbank Frankfurt	29,673	16,465
Commerzbank, Hong Kong branch	1,302	14,084
Commerzbank, Bratislava branch	892	641
KFW, FRANKFURT AM MAIN	131	184
BRE Bank S.A., organizační složka podniku, Praha	3	42
Commerzbank, Paris branch	6	9
Commerzbank (Budapest) R.t., Budapest	7	3
Intermarket Bank AG	1	2
Commerzbank, London branch	3	2
Commerzbank, Madrid branch	1	-
Total deposits from related parties	32,019	31,432

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 2011	31 December 2010
	CZK mil.	CZK mil.
Amounts due to governmental entities	49	54
Amounts due to municipalities	1,181	760
Amounts due to private customers	12,330	19,136
Total due to customers	13,559	19,950
Liabilities repayable on demand	5,266	6,949
Term accounts for fixed term	7,985	12,317
Term accounts with fixed notice period	307	684
Other payables	1	-
Total due to customers	13,559	19,950

Deposits from related parties

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Immobilien-gesellschaft Ost Hagle, s.r.o.	75	77
Commerz Real CZ, s.r.o.	25	4
FOSSUM Vermietungsges. PRAHA s.r.o.	2	1
Commerz Real Mobilienleasing, GmbH	4	1
FOSSUM Vermietungsges. MI. Boleslav s.r.o.	-	1
Total deposit from related parties	106	84

As the Bank at 31 December 2011 stopped accepting deposits from the senior management of the Bank, the value of accepted deposits from senior management as at 31 December 2011 was nil.

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 2011	31 December 2010
	CZK mil.	CZK mil.
Settlement clearance accounts	407	-
Derivative financial instruments (Note 23.4)	1,163	1,536
Estimated payables	76	89
Other liabilities	16	242
Total other liabilities	1,662	1,867

The Bank did not have any overdue liabilities to finance authorities, social insurance authorities or health insurance companies as at 31 December 2011 and 2010.

13 Equity and profit distribution

13.1 Profit distribution

The net profit of CZK 553 million for 2011 is proposed to be distributed as follows:

	2011
	CZK mil.
Allocation to Commerzbank AG (profit according to German accounting standards)	649
Transfer to retained earnings	(96)
Net profit	553

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 2011 CZK mil.	31 December 2010 CZK mil.
Non-cancellable commitments	2,247	4,700
Guarantees granted	6,568	6,996
Total commitments and guarantees granted	8,815	11,696
Provision for guarantees and commitments granted (Note 9)	1	-
Net commitments and guarantees granted	8,814	6,996
Guarantees granted		
On behalf of banks	1,213	1,035
On behalf of customers	5,356	5,961
Total guarantees granted	6,568	6,996

On behalf of its senior management, the Bank has granted guarantees of CZK 70,000 as at 31 December 2011 and 2010.

Contingent liabilities

Contingent liabilities can be analysed as follows:

	31 December 2011 CZK mil.	31 December 2010 CZK mil.
Assets placed in custody		
Shares	2,790	3,146
Bonds	16	1,835
Other	146	1,097
Total	2,952	6,078
Assets managed by a third party		
Shares	24,758	26,045
Bonds	4,702	362
Total	29,460	26,407
Assets under custody		
Shares	4	4
Total	4	4
Assets placed in custody, managed by third party and under custody	32,416	32,489
Assets under management		
Bonds	514	365
Total	514	365

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

In the opinion of management, there are no liabilities arising from fiduciary activities as at 31 December 2011 and 2010.

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

Collaterals received and pledges

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Real estate pledges	175	569
Securities	334	263
Other collateral received	2,476	2,380
Total	2,985	3,212

Besides above-mentioned collateral, the Bank also accepts other collateral and guarantees for pledge purposes (bank guarantees, insurance, guarantor's proclamation, bills of exchange, etc.).

In the year 2011, the collateral amounted to CZK 18,807 million (2010: CZK 35,231 million).

Guarantees from related parties

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Commerzbank, Essen branch	460	180
Commerzbank, Düsseldorf branch	74	28
Commerzbank, Leipzig branch	5	5
Commerzbank, Mainz branch	3	3
Commerzbank, Frankfurt	4	2
Commerzbank, Hamburg branch	5	-
Commerzbank, Berlin branch	2	-
Total	554	218

15 Interest and similar income

	2011	2010
	CZK mil.	CZK mil.
Inter-bank transactions	95	77
Receivables from customers and state	1,522	1,687
Debt securities	22	63
Total interest and similar income	1,639	1,827

Management estimates that approximately CZK 32 million of interest income was recognised on impaired loans in the year ended 31 December 2011 (2010: CZK 50 million). There was no registered unpaid penalty interest income outstanding in 2011 and 2010.

Interest income from related parties of Commerzbank AG Group

	2011	2010
	CZK mil.	CZK mil.
BRE Leasing Sp. z o.o., Warsaw	427	377
Commerzbank Bratislava Branch	31	29
Transfinance, a.s.	27	21
Commerzbank Frankfurt	26	25
BREL-COM Sp. z o.o.	11	11
FOSSUM Vermietungsges. PRAHA s.r.o.	4	7
FOSSUM Vermietungsges. ML. BOLES LAV s.r.o.	4	5
Commerzbank (Euroasija) SAO, Moscow	3	-
Commerzbank (Budapest) R.t., Budapest	1	1
BRE Bank S.A., Warsaw	1	-
Commez Real CZ, s.r.o.	-	1
Total	535	477

16 Interest and similar expense

	2011	2010
	CZK mil.	CZK mil.
Inter-bank transactions	321	446
Deposits from customers and state	99	87
Total interest and similar expense	420	533

Based on the contractual changes relating to transfer of part of credit risk with head office Commerzbank AG in Frankfurt am Main in 2011, the Bank discloses a fee expense for transfer in Note 18 Fee and commission expense (in 2010 included in Interest and similar expense).

Interest expense from related parties of Commerzbank AG Group:

	2011 CZK mil.	2010 CZK mil.
Commerzbank Frankfurt	318	282
Commerzbank, Hong Kong branch	41	79
BRE Bank S.A., Warsaw	8	24
Commerzbank, Bratislava branch	5	2
KFW, Frankfurt am Main	2	3
Immobilien-gesellschaft Ost Hägle, s.r.o.	-	1
Commerzbank (Euroasija) SAO, Moscow	-	1
Total	374	392

17 Fee and commission income

	2011 CZK mil.	2010 CZK mil.
Brokerage income from the purchase and sale of securities and derivatives	14	28
Custody fee	-	1
Asset management fees and related fee income	10	9
Domestic and foreign transfers	144	138
Letters of credit	26	24
Guarantees	57	56
Credit related fees and commission	29	71
Other	24	15
Total fee and commission income	304	342

18 Fee and commission expense

	2011 CZK mil.	2010 CZK mil.
Trading commissions	8	7
Brokerage expense from the sale of securities	1	2
Other financial activities	89	16
Total fee and commission expense	98	25

Fee and commissions from other financial activities includes in 2011 a fee expense to head office Commerzbank AG in Frankfurt am Main in amount of CZK 72 mil for transfer of credit risk of loan portfolio (in 2010 included in Interest and similar expense).

19 Gains less losses from financial transactions

	2011 CZK mil.	2010 CZK mil.
Gains / (Losses) from foreign currency transactions	(1,254)	331
Revaluation difference arising from the impairment of the available-for-sale securities	135	(229)
Gains / (Losses) from transactions with FX financial derivatives	1,107	(527)
Gains / (Losses) from interest rate financial derivatives	(24)	21
Total gains less losses from financial transactions	(36)	(404)

20 Other operating income

	2011 CZK mil.	2010 CZK mil.
Income from intercompany re-invoicing	262	246
Other operating income	9	8
Income from insurance reimbursement	57	77
Total other operating income	328	331

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 services provided for human capital, marketing, accounting, IT, management, payments, credit administration and risk management services. These services are provided to branches in Bratislava, Brussels, Paris, Amsterdam, Milano and the head office in Frankfurt am Main.

Other operating income from related parties of Commerzbank AG Group

	2011 CZK mil.	2010 CZK mil.
Commerzbank, Frankfurt	225	217
Commerzbank, Bratislava branch	19	18
Commerzbank, Paris branch	7	5
Commerzbank, Bruxelles branch	3	2
Commerzbank, Madrid branch	3	-
Commerzbank (Nederland) N.V., Amsterdam	3	2
Commerzbank, Milan branch	2	2
Total	262	246

21 Administrative expenses

	2011 CZK mil.	2010 CZK mil.
Staff costs	418	421
Intercompany expense	157	124
Rent and lease charges	48	50
Expenses for IT	48	49
Tax and legal advisory services	1	1
Services provided by the auditing company – compulsory audit of the financial statements	2	2
Other administrative expenses	106	103
Total administrative expense	780	750

The total amount includes expenses relating to Commerzbank AG in amount of CZK 157 million (2010: 124 million).

Staff costs are analysed in the income statement.

In 2011, the management of the Bank was paid wages and salaries of CZK 43 million (2010: CZK 41 million), social and health insurance paid by the Bank amounted to CZK 8 million (2010: 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 2011 and 2010 a total of 14 employees).

Staff statistics

	2011	2010
Average number of employees	375	371

In 2011 and 2010, 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:

	2011 CZK mil.	2010 CZK mil.
Current tax expense	158	77
Deferred tax expense/(income)	(73)	(1)
Adjustment of prior year tax expense	10	(14)
Total income tax expense	95	62

Current tax can be analysed as follows:

	2011 CZK mil.	2010 CZK mil.
Profit before taxation	648	343
Non-taxable income	(94)	(76)
Non-deductible expenses	278	142
Other expenses reducing net taxable profit	(3)	(1)
Net taxable profit	829	408
Current tax charge at 19 %	158	77

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

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Deferred tax asset as at 1 January	3	30
Available-for-sale securities	(2)	(28)
Allowances to loans to customers	70	-
Other temporary differences	(1)	1
Deferred tax asset as at 31 December	72	3

	31 December 2011	31 December 2010
	CZK mil.	CZK mil.
Deferred income tax asset		
Allowances to loans to customers	70	-
Non-tax deductible social insurance in 2011	4	2
Difference between fair value and cost of available-for-sale securities	-	2
Total	74	4
Deferred income tax liability		
Change in fair value of available for sale securities	2	-
Difference between accounting and tax depreciation	-	1
Net deferred tax asset (Note 8)	72	3

23 Financial risks

23.1 Strategy in using financial instruments

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

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

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the bond markets and in currency and interest rate and commodity prices. The Board of Directors places trading limits on the level of exposure that can be taken in relation to both overnight and intraday 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 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 Commerzbank AG, Frankfurt am Main. Besides that, unexpected losses, risk of accumulation and concentration of credit risks are actively controlled by internal VAR model. All above mentioned models are based on internal credit rules and competences.

The Bank considers its current credit portfolio to be high quality since the value of allowances is less than 1.5 % of the nominal value of the credit portfolio. The Bank uses pledges to real estate, cession of receivables, guarantees and guarantors' proclamation and similar instruments as collateral. The Bank monitors the concentration of risks based on geographical and industry sectors.

Geographical segmentation

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

At 31 December 2010	Domestic CZK mil.	European union CZK mil.	Other CZK mil.	Total CZK mil.
Assets				
Cash and deposits with central banks	78	-	-	78
Due from banks	4,000	15,889	382	20,271
Due from customers	20,359	14,467	5,336	40,162
Securities available-for-sale	930	-	-	930
Other assets	453	275	96	824
Total assets	25,820	30,631	5,814	62,265

Business segmentation

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

31 December 2010	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Assets						
Cash and cash deposits with central banks	78	-	-	-	-	78
Due from banks	4,000	16,271	-	-	-	20,271
Due from customers	-	-	39,692	2	468	40,162
Securities available for-sale	-	-	372	558	-	930
Other assets	174	286	175	187	2	824
Total assets	4,252	16,557	40,239	747	470	62,265

23.3 Market risk

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

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

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

The daily market VaR is an estimate, with a confidence level set at 97.5%, of the potential loss which might arise if the current positions were to be held unchanged for one business day. The actual daily gains / losses are monito-

red daily by a so-called Back Test to test the validity of the assumptions and parameters / factors used in the VaR calculation.

Since VaR constitutes an integral part of the Bank's market risk control regime, VaR limits are established by the management of the Bank for all trading and portfolio operations; actual exposure against limits, together with a consolidated bank-wide VaR of Commerzbank AG, is reviewed daily by management. Consolidated VaR of Commerzbank AG as at 31 December 2011 was CZK 9.6 million (2010: CZK 12.5 million) and average daily consolidated VaR was CZK 10.6 million in 2011 (2010: CZK 14.5 million).

Stress-testing values are presented with VaR values to the management and Commerzbank AG, Frankfurt am Main on a daily basis, analogically. Limits of stress-testing and limits of VaR were never exceeded in 2011 (average annual value equals 54.4%, in 2010: 37.2%).

23.4 Derivative financial instruments

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

Total financial derivatives

	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
31 December 2011				
Interest rate derivatives	5,290	5,290	24	(35)
Currency derivatives	29,562	29,283	1,332	(1,028)
Total	34,852	34,573	1,356	1,163
31 December 2010				
Interest rate derivatives	10,587	10,587	39	(94)
Currency derivatives	39,065	40,157	356	(1,442)
Total	49,652	50,744	395	(1,536)

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

31 December 2010	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
Interest rate derivatives				
FRA's	6,000	6,000	-	(26)
Swaps	3,955	3,955	38	(67)
Options	632	632	1	(1)
Total	10,587	10,587	39	(94)
Currency derivatives				
Forwards	3,178	3,210	20	(51)
Swaps	32,351	33,411	325	(1,375)
Options	3,536	3,536	11	(16)
Total	39,065	40,157	356	(1,442)
Total trading agreements	49,652	50,744	395	(1,536)

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

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

23.5 Currency risk

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

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

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

31 December 2010	CZK	EUR	USD	PLN	Other	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Assets						
Cash and cash deposits with central banks	63	5	5	-	5	78
Due from banks	6,428	12,779	728	27	309	20,271
Due from customers	15,182	10,778	951	9,099	4,152	40,162
Securities available-for-sale	791	139	-	-	-	930
Other assets	685	136	3	-	-	824
Total assets	23,149	23,837	1,687	9,126	4,466	62,265
Liabilities						
Due to banks	6,200	21,682	11,604	-	169	39,655
Due to customers	13,379	5,693	674	5	199	19,950
Provisions	70	-	-	-	-	70
Other liabilities	2,500	51	1	24	14	2,590
Total liabilities	22,149	27,426	12,279	29	382	62,265
Net assets/(liabilities)	1,000	(3,589)	(10,592)	9,097	4,084	-
Net off-balance sheet assets/(liabilities)	(2,612)	3,839	10,641	(9,026)	(3,941)	(1,100)
Net open currency position	(1,612)	250	49	71	143	(1,100)

23.6 Interest rate risk

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

23.7 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these

needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Commerzbank AG, Frankfurt am Main sets limits according to time zones and individual currencies. These limits are monitored on a daily basis.

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

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




31 December 2011	Within 3 months CZK mil.	3 – 12 months CZK mil.	1 – 5 years CZK mil.	Over 5 years CZK mil.	Unspecified CZK mil.	Total CZK mil.
Assets						
Cash and cash deposits with central banks	45	-	-	-	494	539
Due from banks	16,452	273	257	21	-	17,003
Due from customers	7,922	14,848	4,295	2,415	334	29,814
Securities available-for-sale	-	208	231	-	-	439
Other assets	280	1,163	44	-	109	1,596
Total assets	24,699	16,492	4,827	2,436	937	49,391
Liabilities						
Due to banks	24,696	5,012	2,310	1,113	-	33,131
Due to customers	12,721	791	1	-	46	13,559
Provisions	-	-	-	-	231	231
Other liabilities	74	1,016	121	-	1,259	2,470
Total liabilities	37,491	6,819	2,432	1,113	1,536	49,391
Net assets/(liabilities)	(12,792)	9,673	2,395	1,323	(599)	-

31 December 2010	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.
Assets						
Cash and balances with central banks	36	-	-	-	42	78
Due from banks	19,713	105	409	43	1	20,271
Due from customers	11,873	6,837	16,768	4,278	406	40,162
Securities available-for-sale	19	574	305	32	-	930
Other assets	189	178	79	-	378	824
Total assets	31,830	7,694	17,561	4,353	827	62,265
Liabilities						
Due to banks	25,147	7,991	5,976	540	1	39,655
Due to customers	18,936	1,011	3	-	-	19,950
Provisions	-	-	-	-	70	70
Other liabilities and equity accounts	264	198	1,058	-	1,070	2,590
Total liabilities	44,347	9,200	7,037	540	1,141	62,265
Net assets/(liabilities)	(12,517)	(1,506)	10,524	3,813	(314)	-

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 2011.

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
			
9 March 2012	Krisztina Bogdán	Ing. Eva Collardová, MBA	Ing. Vladimír Kugler



COMMERZBANK Aktiengesellschaft

pobočka Praha

Jugoslávská 1

120 21 Praha 2

Tel.: +420 221 193 111

Fax: +420 221 193 699

Info@commerzbank.cz

www.commerzbank.cz

