COMMERZBANK
The bank at your side

# Annual Report

# 2019

COMMERZBANK Aktiengesellschaft, Prague branch

Translation from the Czech language
There may be slight differences in totals and percentages in this report for rounding.

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# Bank Management Report for Fiscal Year 2019

» The year 2019 for Commerzbank in the Czech Republic resulted in a further strengthening of its position on the banking market. As in previous years, the key product of the Prague branch has been the loan portfolio and the resulting revenues. «

In 2019, the Czech economy maintained a stable growth rate of 2.6%, despite having to cope with the slowdown in global development and the cumulative risks of the external environment.

Household spending was the main factor, but the economy was also supported by fixed capital investments and government spending. Given the decline in both exports and imports, the external trade balance moderated economic growth slightly. The average inflation rate in 2019 accelerated at the end of the year to 2.8%. The unemployment rate remained the lowest in the European Union, averaging 2.0% over the year.

The year 2019 for Commerzbank in the Czech Republic resulted in a further strengthening of its position on the banking market. As in previous years, the key product of the Prague branch has been the loan portfolio and the resulting revenues. In product areas other than lending, the Corporate Sales International Department managed to close several important deals on interest rate derivatives, both in EUR and CZK currencies. These proved to be significant transactions for the bank's clients, thus reaffirming that these financial operations have traditionally been one of our strengths. From a financial point of view, 2019 again was a very successful year for us.

One of Commerzbank's strategic goals is to become a digital company.

In line with this strategy, Commerzbank's technology division has taken agile management of all its activities. The Prague Digital Technology Center of Commerzbank has also been successfully integrated into this new organizational structure, bringing our clients closer to their needs.

Information about the goals and methods of the bank's risk management, including collateralization policies, are listed in the accompanying financial statements of the bank for the year ending 31 December 2019. Bank management is not aware of any events that have occurred since the balance sheet date that would require an adjustment to the financial statements.

We note that, as a branch operation, Commerzbank Prague does not undertake any local research and development activities. This entity does not have a branch or other part of a business establishment abroad.

In September 2019, Commerzbank AG became one of the first signatories of the United Nations Principles for Responsible Banking, which support the goals of the Paris Agreement and the Sustainable Development Goals. A binding and unifying corporate culture lays the foundation for the entrepreneurial and individual responsibility of every employee at Commerzbank. Shared values such as customer focus, integrity, courage, performance and team spirit shape our interactions within the bank as well as with customers, business partners and society.

At the Commerzbank Prague branch, we all fully respect these values as well. We also follow the rules and respect environmental obligations, such as the prudent handling of energy and consumables. We also strive to reduce our carbon footprint as much as possible, and therefore we also negotiate in this regard with our suppliers.

The current pandemic caused by the coronavirus and its impact on the global economy will lead to a significant slump in economic development, especially in the first half of 2020. How serious this economic slump will be and how long it will last will depend on the duration and severity of the actions taken to contain the pandemic and the effectiveness of economic policy measures. It is currently not clear how fast and to what extent the economy will recover. The effects of the pandemic are likely to impair our financial performance in 2020. However, it is currently not possible to reliably determine the extent of the negative impact of this pandemic.

The year 2020 will be a year full of challenges for us in Commerzbank Prague. Nevertheless, we enter it optimistically with the aim to continue both our business growth as well as the digitalization of our products and services.

There is still another reason why 2020 is particularly special for Commerzbank. We are celebrating our 150th anniversary this year. We are all delighted to be able to congratulate our bank on this milestone. We sincerely hope that you will continue supporting Commerzbank on its path into the future.

I would also like to take this opportunity to extend a special thanks to all our employees for their hard work and commitment.

I am confident that, thanks to the ever-increasing importance of the Prague branch within the Commerzbank Group and its strong position within the Corporates International Division, we will continue to be a reliable partner for our clients and that we will fulfill our slogan to be 'the bank at your side'.

We will be very pleased if you will continue with us on your way to success.

Michael T. Krüger
CEO Czech Republic & Slovakia

# Commerzbank AG

## Commerzbank worldwide

Commerzbank is a leading international commercial bank with branches and offices in nearly 50 countries. The Bank's two business segments – Private and Small-Business Customers and Corporate Clients – offer a comprehensive portfolio of financial services precisely tailored to their customers' needs. Commerzbank transacts approximately 30% of Germany's foreign trade and is the market leader in German corporate banking. The Bank offers its sector expertise to its corporate clients in Germany and abroad and is a leading provider of capital market products. Its subsidiaries, Comdirect in Germany and mBank in Poland, are two innovative online banks. With approximately 800 branches going forward, Commerzbank has one of the densest branch networks in Germany. The Bank serves more than 11 million private and small-business customers nationwide and over 70,000 corporate clients, multinationals, financial service providers, and institutional clients worldwide. Its Polish subsidiary, mBank S.A., has around 5.6 million private and corporate customers, predominantly in Poland, but also in the Czech Republic and Slovakia. In 2019, Commerzbank generated gross revenues of €8.6 billion with approximately 48,500 employees.

## Commerzbank in the Czech Republic

Active in the Czech Republic since 1992, Commerzbank specializes in the provision of comprehensive corporate banking services to both German companies operating in the Czech Republic, as well as to medium- and large-sized local Czech corporates. Although operating on the local Czech market, Commerzbank draws on the extensive know-how available across the Bank's global network to provide the highest quality service on a competitive basis. In addition to all standard corporate banking services, ranging from overdraft accounts to payment services including electronic banking, Commerzbank also offers more complex financing structures as well as its renowned capabilities in documentary collections and export financing. Besides Prague, Commerzbank also has an office in Brno (since 1998).

Since 2016 Commerzbank in the Czech Republic has been the headquarters for the Group Finance Eurohub, which consolidates the activities of the Bank's various European finance locations, as well as for the Trade Service Hub, which handles client transactions in documentary business and bank guarantees for the Czech Republic, Slovakia, Hungary, Austria and Switzerland. In 2018 Commerzbank in the Czech Republic became the headquarters for the Bank's Continental Europe Human Resources Hub, which covers the personnel issues for Commerzbank branches in continental Europe. And in November 2018, the subsidiary CommerzSystems, which provided IT services to the Group, was legally dissolved and integrated into Commerzbank Prague. In 2019 the Prague Digital Technology Center was successfully integrated into the new organizational structure of Commerzbank's technology division.

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

# Organisation structure

Prague Branch:

**General Manager:**

**Michael Thomas Krüger**
CEO Czech Republic & Slovakia

**Ľudovít Bán**
Head of Czech and International Desk

**Uwe Berthold**
Head of Commerzbank Transaction Services Czech Republic and Slovakia

**Jörn Carstens ( since 1.8. 2019)**
Head of Local Credit Office

**Eva Collardová, MBA**
CFO Eurohub

**Pavel Čurilla**
Head of Organisation & Security Regional Services Central Europe Hub

**Ondřej Eliáš**
Head of Czech and Slovak Regions

**Jens Hohmann**
COO Prague

**Jaromír Hronek**
Head of Treasury

**Tomáš Krejča**
Head of Financial Engineering Prague

**Michal Lebovič**
Head of Valuations Prague

**Jaroslava Nováková**
Head of Banking Operations Prague

**Yvonne Nowak-Sikora**
Head of Human Resources Continental Europe

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

**Armin Seifert ( till 31.7.2019 )**
Head of Local Credit Office

**Michael Seiler**
Head of Digital Technology Centre Prague

**Jan Svoboda**
Head of Trade Service Hub Prague

(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

# INDEPENDENT AUDITOR'S REPORT

To the Founder of COMMERZBANK Aktiengesellschaft, pobočka Praha:

*Opinion*

We have audited the accompanying financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha (the Branch) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2019, and the income statement, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Branch, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2019, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

*Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Branch in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other Information*

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

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

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

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

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

*Responsibilities of the Statutory Body of the Branch for the Financial Statements*

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

In preparing the financial statements, the Statutory Body of the Branch is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body of the Branch either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body of the Branch.

- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young Audit, s.r.o.
License No. 401

Roman Hauptfleisch, Auditor
License No. 2009

27 April 2020
Prague, Czech Republic

# Financial Statements

## Balance sheet

### as at 31 December 2019

| ASSETS (CZK million) | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **1. Cash and cash deposits with central banks** | 3 | **99** | **247** |
| **2. Due from banks** | 4 | **74,556** | **58,723** |
| of which: a) repayable on demand | | 275 | 160 |
| b) other receivables | | 74,281 | 58,563 |
| **3. Due from customers** | 5 | **17,243** | **18,698** |
| of which: a) repayable on demand | | 4,131 | 467 |
| b) other receivables | | 13,112 | 18,231 |
| **4. Intangible fixed assets** | 7 | **1** | **1** |
| **5. Tangible fixed assets** | 7 | **290** | **84** |
| of which: land and buildings for operating activities | | 81 | 84 |
| fixed assets and right-of-use assets | | 209 | 0 |
| **6. Other assets** | 8 | **1,735** | **899** |
| **7. Prepayments and accrued income** | | **126** | **19** |
| **Total assets** | | **94,050** | **78,671** |

| EQUITY AND LIABILITIES (CZK million) | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **1. Due to banks** | 10 | **74,261** | **63,538** |
| of which: a) repayable on demand | | 30,364 | 20,039 |
| b) other liabilities | | 43,897 | 43,499 |
| **2. Due to customers** | 11 | **16,700** | **13,141** |
| of which: a) repayable on demand | | 10,122 | 11,927 |
| b) other liabilities | | 6,578 | 1,214 |
| **3. Other liabilities** | 12 | **2,882** | **1,226** |
| **4. Accruals and deferred income** | | **120** | **135** |
| **5. Provisions** | 9 | **0** | **62** |
| for taxes | | 0 | 62 |
| **6. Provisions for contingent liabilities** | 9 | **62** | **38** |
| **7. Retained earnings from previous periods** | | **(82)** | **(157)** |
| **8. Profit for the year** | 13 | **107** | **688** |
| **Total liabilities and equity** | | **94,050** | **78,671** |

# Off-balance sheet

## as at 31 December 2019

| (CZK million) | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Off-balance sheet assets** | | | |
| 1. Commitments and guarantees given | 14.1, 14.2 | 29,489 | 22,328 |
| 2. Receivables from spot transactions | | 47 | 99 |
| 3. Receivables from term instruments | 24.3 | 320,954 | 175,105 |
| 4. Provided collateral from reverse REPO transactions | | 48,487 | 47,040 |
| **Total off-balance sheet assets** | | **398,977** | **244,572** |
| **Off-balance sheet liabilities** | | | |
| 5. Commitments and guarantees received | 26 | 13,451 | 15,013 |
| 6. Collateral received and pledges | 26 | 1,422 | 1,379 |
| 7. Payables from spot transactions | | 47 | 99 |
| 8. Payables from term instruments | 24.3 | 312,208 | 175,437 |
| 9. Collateral and pledges received - SPP | 26 | 48,487 | 47,040 |
| **Total off-balance sheet liabilities** | | **375,615** | **238,968** |

# Income Statement

## for the year ended 31 December 2019

| (CZK million) | | | Note | 2019 | 2018 |
|---|---|---|---|---|---|
| **1. Interest income under the effective interest rate method** | | | 15 | **1,444** | **988** |
| **2. Interest expense under the effective interest rate method** | | | 16 | **(118)** | **(63)** |
| **3. Fee and commission income** | | | 17 | **379** | **341** |
| **4. Fee and commission expense** | | | 18 | **(62)** | **(31)** |
| **5. Gains less losses from financial transactions** | | | 19 | **(464)** | **92** |
| **6. Other operating income** | | | 20 | **1,043** | **548** |
| **7. Other operating expenses** | | | | **(41)** | **(23)** |
| **8. Administrative expenses** | | | 22 | **(1,467)** | **(933)** |
| of which: | a) staff costs | | | (615) | (321) |
| | of which: | aa) wages and salaries | | (445) | (238) |
| | | ab) social and health insurance | | (143) | (70) |
| | | ac) other staff costs | | (27) | (13) |
| | b) other administrative expenses | | | (852) | (612) |
| **9. Depreciation and amortization of tangible and intangible fixed assets** | | | 7 | **(61)** | **(10)** |
| of which: | depreciation of right-of-use assets | | | (54) | 0 |
| **10. Release of allowances and provisions for loans and guarantees** | | | 9 | **239** | **578** |
| **11. Write-offs, additions to and use of allowances and provisions for receivables and guarantees** | | | 9 | **(670)** | **(607)** |
| **12. Release of other provisions** | | | | **0** | **(19)** |
| **13. Additions to and use of other provisions** | | | 9 | **(118)** | **6** |
| **14. Profit on ordinary activities before taxation** | | | | **104** | **867** |
| **15. Taxation** | | | 23 | **3** | **(179)** |
| **16. Profit for the year** | | | 13 | **107** | **688** |

# Statement of changes in equity

## for the year ended 31 December 2019

| (CZK million) | Nerozdělený zisk | Zisk/ztráta | Celkem |
|---|---|---|---|
| **Balance as at 1 January 2018** | **(161)** | **520** | **359** |
| Allocation of 2017 profit to the head office | 0 | (516) | (516) |
| Net profit/loss for the period | 0 | 688 | 688 |
| Difference between allocation of profit to the head office, foreign exchange differences and profit for 2017 | 4 | (4) | 0 |
| Other changes | 0 | 0 | 0 |
| **Balance as at 31 December 2018** | **(157)** | **688** | **531** |
| **Balance as at 1 January 2019** | **(157)** | **688** | **531** |
| Allocation of 2018 profit to the head office | 0 | (611) | (611) |
| Net profit/loss for the period | 0 | 107 | 107 |
| Difference between allocation of profit to the head office, foreign exchange differences and profit for 2018 | 77 | (77) | 0 |
| Rounding | (2) | 0 | (2) |
| **Balance as at 31 December 2019** | **(82)** | **107** | **25** |

# Notes to the Financial Statements for the year ended 31 December 2019

## 1. General information

COMMERZBANK Aktiengesellschaft, pobočka Praha (hereinafter referred to as "the Bank" or "the Branch") was incorporated on 24 November 1992 as a branch of Commerzbank AG, established in Frankfurt am Main, Germany. The Bank's registered office is located in Prague and an office is located in Brno. Identification number 476 10 921.

The Bank's operations primarily consist of:

- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currency;
- maintaining current and term accounts denominated in Czech and foreign currency;
- rendering general banking services through a network of branches and offices;
- providing foreign exchange transactions on the interbank money market;
- providing foreign trade financing and related banking services; and
- trading in securities.

The Bank is included in the founder's consolidated unit. The parent company preparing consolidated financial statements: Commerzbank Aktiengesellschaft, 602 61, Frankfurt am Main. The consolidated financial statements are publicly available on the parent company's website.

Another subsidiary of the COMMERZBANK AG group (hereinafter referred to as "the Group"), Commerz Systems GmbH, odštěpný závod (hereinafter referred to as "CS"), operated in the Czech Republic from 2015; the company provided IT services. Due to the restructuring aimed at streamlining the Group's organizational structure, CS ceased to exist, and all its assets, liabilities and legal relationships were transferred to COMMERZBANK Aktiengesellschaft. The activities focused on the provision of IT services for the Group are currently provided by COMMERZBANK Aktiengesellschaft, pobočka Praha.

### 1.1. Members of statutory, management, supervisory and administrative bodies as at 31 December 2019

| Name | Position |
|---|---|
| **CEO:** | |
| Michael Thomas Krüger | Branch CEO |
| | |
| **Proxy holders:** | |
| Ondřej Eliáš | Executive officer, authorized signatory |
| Ing. Ľudovít Bán | Executive officer, authorized signatory |
| Ing. Eva Collardová | Executive officer, authorized signatory |
| Pavel Čurilla | Executive officer, authorized signatory |
| Jens Hohmann | Executive officer, authorized signatory |
| Ing. Tomáš Krejča | Executive officer, authorized signatory |
| Ing. Vladimír Vlček | Executive officer, authorized signatory |
| Joern Carstens | Executive officer, authorized signatory |
| JUDr. Jakub Holeček | Executive officer, authorized signatory |
| Yvonne Nowak-Sikora | Executive officer, authorized signatory |
| Michael Seiler | Executive officer, authorized signatory |
| Klára Klazárová | Executive officer, authorized signatory |
| Igor Savič | Executive officer, authorized signatory |

| Statutory body of COMMERZBANK AG: | |
|---|---|
| Martin Zielke | Chairman of the Board of Directors |
| Jörg Hessenmüller | Member of the Board of Directors |
| Dr. Marcus Johannes Chromik | Member of the Board of Directors |
| Stephan Engels | Member of the Board of Directors |
| Michael Mandel | Member of the Board of Directors |
| Dr. Bettina Orlopp | Member of the Board of Directors |
| Michael Reuther | Member of the Board of Directors |

On 1 January 2020, Mrs. Sabine Schmittroth and Mr. Roland Boekhout were appointed as new Directors to replace Mr. Michael Reuther.

## 2. Accounting policies

### 2.1. Basis of preparation

The financial statements, comprising the balance sheet, the statements of income and of changes in equity and the accompanying notes, are prepared in accordance with the Act on Accounting, the applicable decrees adopted by the Ministry of Finance of the Czech Republic, the Czech accounting standards for financial institutions and Decree No. 501/2002 Coll. implementing certain provisions of Act No. 563/1991 Coll. on Accounting, as amended, for entities that are banks and other financial institutions, as amended.

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 amounts in the financial statements are rounded to millions of Czech Crowns ("CZK million") unless otherwise stated.

In 2019 and 2018, the Company had no obligation to prepare a cash-flow statement. Therefore, the cash-flow statements for 2019 and 2018 were unaudited.

**Explanation Added for Translation into English**
These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

**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. All resulting foreign exchange gains and losses are recognized in gains or losses from financial transactions.

**2.3. Fair value of securities**
The fair value of a security is determined as the market price quoted by the relevant stock exchange or another active public market. In other cases, the fair value is estimated as:

- net present value of cash flows taking into account the credit and liquidity risk for bonds.

The Bank uses only observable market data in its models used for determining the fair value of securities. The valuation models reflect the regular market conditions existing 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, the Bank's management reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

**2.4. Transaction date**
The following rules apply to the recognition of financial assets and liabilities:

For the purchase and sale of financial assets, the agreement date/settlement date of spot transactions is considered to be the date of the accounting event.

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

The Bank derecognizes a financial asset or its part from the balance sheet when it loses control over the contractual rights to the financial asset or its part.

A financial liability or its part is extinguished when the obligation specified in the contract is discharged or cancelled or expires and the Bank shall no longer report the liability or its part on the balance sheet. The difference between the carrying amount of a liability (or part thereof) extinguished or transferred to another party and the consideration amount paid is recognized in profit or loss.

**2.5. 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 recognized in the balance sheet at cost and subsequently are remeasured at their fair value. All financial derivative instruments are only held for sale.

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 or losses from financial transactions.

The Bank designates prospectively certain derivatives as either a hedge of the fair value of selected assets or liabilities (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 the hedge 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 measured at fair value through 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 the fair value of the hedged asset or liability that is attributable to that specific hedged risk. As the Bank hedges the fair value of provided loans against the interest rate risk, changes in the fair value of the hedging derivatives and the relevant hedged items are recognized net in Interest expense or Interest income.

If the fair value hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, interest-bearing using the effective interest method, is amortized to profit or loss over the period to maturity of hedged item.

**2.6. Interest income and interest expense using the effective interest rate**

Interest income and interest expense on all interest-bearing instruments are recognized on an accrual basis using the method of effective interest rate derived from the actual acquisition cost.

The effective interest rate method is a method of calculating the amortized 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 used to discount the estimated future cash flows until the expected maturity or until the nearest date of change of interest rate to the net carrying amount of the financial asset or financial liability.

**2.7. Other interest income and interest expense**

The linear method is used as an approximation of the effective interest rate 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 the 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 loans is also accrued and capitalized 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 recognized on an accrual basis when the service has been provided. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party are recognized on completion of the underlying transaction.

**2.10. Receivables**

Receivables originated by the Bank are stated at nominal value less allowances. If the receivable is collateralized, 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 via provisions or directly to expenses in cases when the Bank's management consider the repayment unrealistic. Financial assets that are not expected to be repaid are written off, which means the asset is derecognized.

**2.11. Provisions**

Provisions are recognized when the Bank has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are classified as liabilities. Provisions are measured at the best estimate of the expenditure required to settle the obligation, reflecting the present value of the expenditure.

Additions to provisions are recognized under the appropriate item in the Income statement, their use is recognized together with the expenses or losses for which they were created under the appropriate item in the Income statement. The reversal of provisions that are no longer needed is recognized as income. Discount is progressively released in Interest expense.

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

**2.12. Financial instruments**

In accordance with applicable International Accounting Standards, as applied by Decree No. 501/2002, as amended by Decree No. 442/2018, all financial instruments must be measured at fair value on the date of acquisition. This principle applies regardless of the classification of the financial instrument.

IFRS 9 lays down four types of subsequent measurement of financial assets depending on the underlying business model and subject to meeting the SPPI criterion:

- At amortized cost (AC)
- At fair value through OCI with recycling (FVOCImR)
- At fair value through OCI without recycling (FVOCIoR)
- At fair value through profit or loss (FVPL), comprising mandatorily at fair value through P&L (mFVPL) and held for trading (HfT).

The Bank allocates financial assets to one of the following business models based on how the entity manages its financial assets in order to generate cash flows:

- "Hold to collect" business model – collection of contractual cash flows with only limited or insignificant sales;
- "Hold to collect and sell" business model - collection of contractual cash flows through both holding and sale of the asset;
- Residual business model - all portfolios that are not allocated to the "hold to collect" or "hold to collect and sell" business models. These are primarily trading portfolios and portfolios managed on a fair value basis. The acceptance of contractually agreed cash flows is of little importance; the main objective is instead to maximize cash flows through purchases and sales.

The second criterion for the classification of financial assets is the characteristics of the related cash flows. When assessing the cash flows, the crucial consideration is whether the contractual terms of a financial asset will, at the specified dates, give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding, i.e. the SPPI criterion (SPPI test). A financial instrument may, in principle, be only regarded an SPPI-compliant if its contractual cash flows are consistent with a basic lending arrangement.

While the allocation to a business model can be made on a portfolio basis, the SPPI criterion must always be assessed on an instrument by instrument basis for each financial instrument allocated to the "hold to collect" model or the "hold to collect and sell" model portfolio. Valuation at amortized cost (AC) requires a financial asset to have cash flows that correspond to the SPPI criterion and be allocated to a portfolio with the hold to collect business model.

A financial asset is measured at fair value through other comprehensive income with recycling (FVOCImR) if the related cash flows also meet the SPPI test and it has been allocated to the hold to collect and sell business model portfolio.

The subsequent measurement at fair value with recognition of the value fluctuation in the income statement (FVPL) is required if either the financial asset has not been allocated to a portfolio with one of the aforementioned business models or its cash flows are not SPPI-compliant. This measurement category is therefore subsidiary in nature, i.e. if the asset cannot be clearly allocated to one of the two other measurement categories, it must be measured according to this category. A reporting distinction is made in this measurement category between financial instruments held for trading purposes (HfT) and other financial instruments requiring recognition at fair value with the resulting value fluctuation being recorded in the income statement (mandatorily FVPL/ mFVPL). Besides the fair value option (FVO), there is also the possibility of voluntarily allocating financial assets on acquisition to the mFVPL category if accounting mismatches can be avoided or significantly reduced.

The financial asset valuation methodology is based on the allocation of an asset to one of the following groups:
Derivatives must always be measured at fair value, with fluctuations in value being recognized in the income statement. If derivatives are not used for hedge accounting, they must always be allocated to the trading portfolio (HfT). Under IFRS 9, financial assets are assessed in their entirety. As a result, the host contract is not separated from the embedded derivative. Instead, financial assets are classified based on the business model and their contractual terms.

As a rule, financial liabilities must be measured at amortized cost. In addition, there is a possibility of applying the fair value option. The remeasurement effect for financial liabilities under the fair value option arising from own credit risk is recognized in equity without any impact on revenues. Financial liabilities held for trading and all derivatives must be reported in a separate line in the balance sheet and measured at fair value through profit or loss.

**2.13. Allowances**

Under IFRS 9, the loss expected in the following 12 months should be recognized as a provision against initial recognition for each financial asset (debt instrument) measured at amortized cost or at fair value through other comprehensive income (except for purchased or originated credit-impaired assets - as discussed above). If the borrower's credit risk has substantially increased but the borrower is not yet in default (i.e. impaired credit), a provision must be recognized for total (lifetime) expected losses. If the instrument is in default, the provision shall be recognized on the basis of expected losses based on expected cash flows.

In principle, the Bank determines expected credit losses by dividing financial instruments that are not measured at fair value through profit or loss, off-balance sheet credit commitments and financial guarantees into three stages. Stage 1 and Stage 2 contain financial instruments that are not impaired or that reflect other circumstances. Stage 3 contains financial instruments that have been identified as outstanding. Financial instruments that are assumed to be in default on initial recognition (purchased or originated credit-impaired (POCI) financial assets) are not allocated to any of these three stages and are processed and disclosed separately instead.

In principle, on initial recognition, each financial instrument is allocated to Stage 1 (excluding POCI). In addition, Stage 1 contains all transactions with a limited risk of credit default. Limited credit risk exists in cases with investment-grade internal credit rating (2.8 or higher rating). Allowances for Stage 1 transactions equal 12-month expected credit losses (12-month ECL). Stage 1 ECL is based on statistical models that work with portfolio-level credit risk characteristics and the probability of default or loss due to default. See below.

Stage 2 includes financial instruments whose credit risk has increased significantly since initial recognition and which are not classified as having limited credit risk. The basis for the recognition of impairment or allowances at Stage 2 is lifetime expected credit losses (LECL), which is derived from individual cash flow estimates. LECL based on individual cash flow estimates also serves as a basis for the recognition of impairment allowances or provisions for default financial instruments at Stage 3.

For financial instruments classified as POCI, no impairment or provision is recognized on initial recognition. They are measured at fair value on initial recognition. Provisions recognized upon subsequent measurement equal the cumulative change in LECL from initial recognition. A financial instrument classified as POCI remains in that classification until it is derecognized. LECL remains the basis for measurement, even if its rating improves.

Interest income on financial assets allocated to Stage 1 and Stage 2 is calculated on gross basis using the effective interest rate method. Interest income on financial assets allocated to Stage 3 is calculated using the effective interest rate method based on the net (carrying) amount (net of credit losses).
The Bank first has to assess whether there is a reason to reduce the value of individual credits on the balance sheet.

IFRS 9 stipulates that impairment due to credit risk deterioration on loans and securities that are not carried at fair value through profit or loss must be recognized using a three-stage model based on expected credit losses.

- The ECL method is summarized below:

Stage 1: The 12mECL (12-month expected credit loss) is calculated as the lifetime expected credit losses (LTECL) that result from default events on a financial instrument that are possible within the 12-month period following the origination of the financial instrument. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the date of origination of the financial instrument. These expected 12-month default probabilities are applied to a forecast exposure at default (EAD) and multiplied by the expected loss given default (LGD) and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but the probabilities of default (PDs) and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%. The Branch's criterion for this classification is the definition of default in accordance with Article 178 of the Capital Requirements Regulation ("CRR"). The following events may indicate the customer's default:

- pending insolvency (more than 90 days past due);
- the Bank assists the customer with financial restructuring with or without a restructuring contribution;
- the Bank required immediate repayment of its claims;
- the customer is subject to insolvency proceedings.

POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.

Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

Financial Guarantee Contracts: The Bank's liability under each guarantee is measured at the amount initially recognized less cumulative amortization recognized in the income statement. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognized within Provisions.

- Probability of default

For each transaction, the credit risk (probability of default) must be calculated at the date of acquisition in accordance with IFRS 9. Essentially, all information available at the effective date of reporting, including future expectations, should be considered when allocating credits to stages, e.g. the expected macroeconomic development.

The rating method consists of 25 rating levels for non-defaulted loans and five standard classes.

Evaluation methods are subject to regular verification and re-calibration in order to reflect the latest projections in the light of all actual identified baseline values.

The range of internal ratings and the mapping of external ratings are as follows:

| Commerzbank AG Rating | PD and EL* median (%) | PD and EL ranges (%) | S & P | IFD |
|---|---|---|---|---|
| 1.0 | 0 | 0 | AAA | Investment grade |
| 1.2 | 0.01 | 0 – 0.02 | | |
| 1.4 | 0.02 | 0.02 – 0.03 | AA + | |
| 1.6 | 0.04 | 0.03 – 0.05 | AA, AA - | |
| 1.8 | 0.07 | 0.05 – 0.08 | A +, A | |
| 2.0 | 0.11 | 0.08 – 0.13 | A - | |
| 2.2 | 0.17 | 0.13 – 0.21 | BBB + | |
| 2.4 | 0.26 | 0.21 – 0.31 | BBB | |
| 2.6 | 0.39 | 0.31 – 0.47 | | |
| 2.8 | 0.57 | 0.47 – 0.68 | BBB - | |
| 3.0 | 0.81 | 0.68 – 0.96 | BB + | Non-investment grade |
| 3.2 | 1.14 | 0.96 – 1.34 | BB | |
| 3.4 | 1.56 | 1.34 – 1.81 | | |
| 3.6 | 2.10 | 1.81 – 2.40 | BB - | |
| 3.8 | 2.74 | 2.40 – 3.10 | B + | |
| 4.0 | 3.50 | 3.10 – 3.90 | | |
| 4.2 | 4.35 | 3.90 – 4.86 | B | |
| 4.4 | 5.42 | 4.86 – 6.04 | | |
| 4.6 | 6.74 | 6.04 – 7.52 | | |
| 4.8 | 8.39 | 7.52 – 9.35 | B - | |
| 5.0 | 10.43 | 9.35 – 11.64 | | |
| 5.2 | 12.98 | 11.64 – 14.48 | CCC + | |
| 5.4 | 16.15 | 14.48 – 18.01 | | |
| 5.6 | 20.09 | 18.01 – 22.41 | CCC to CC - | |
| 5.8 | 47.34 | 22.41 – 99.99 | | |
| 6.1 | 100.00 | Imminent insolvency | C, D-I, D-II | Default |
| 6.2 | 100.00 | Restructuring | | |
| 6.3 | 100.00 | Restructuring with capitalization / partial waiver | | |
| 6.4 | 100.00 | Dissolution without insolvency | | |
| 6.5 | 100.00 | Insolvency | | |

*** EL = Expected loss**

- Amortization during the year

Financial assets that are not expected to be repaid are written off, which means the asset is derecognized.

- Forbearance

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between different Stages are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired asset until it is collected or written off.

The LECL is also used as the value of the required impairment for Stage 3 financial instruments. In determining LECL, the Bank generally distinguishes between material and non-material cases. LECL for immaterial transactions (up to EUR 5 million) is determined on the basis of statistical risk parameters. LECL for major transactions (above EUR 5 million) is the expected loss derived from an individual expert assessment of future cash flows based on several potential scenarios and their probability of occurrence.

Financial instruments already deemed impaired on initial recognition according to the above definition (purchased or originated credit-impaired, POCIs) are treated outside the framework of the three-stage impairment model and are therefore not allocated to any of the three stages. Initial recognition is based on the fair value without impairment using the effective interest rate adjusted for credit standing. The allowance recognized in subsequent periods is equal to the cumulative change in LECL since initial recognition in the balance sheet.

LECL remains the basis for measurement, although the value of the financial instrument has risen.

- Modifications that do not result in derecognition

In 2019 and 2018, no significant asset was identified that would require modification.

- Exposure at default (EAD)

The exposure at default is based on the amounts due which the Bank expects at the moment of default, e.g. the nominal value of a credit. For a liability, the Bank includes the amount already drawn down increased by possible drawdown at the time of default, if the default actually occurred.

- Loss given default (LGD)

The loss given default is the Bank's expectation as to the extent of a loan loss in the event of default. It is usually expressed as a percentage of the EAD. LGD typically varies according to the type of counterparty, type of receivable and availability of collateral or other credit support.

The valuation of EADs and LGDs is based on the standard risk parameters of Basel II.

- Determination of expected credit loss

The Bank calculates LECL as the probability-weighted, unused and discounted value of expected future credit losses over the entire remaining period of maturity of the relevant financial instrument, i.e. the maximum contractual period (including any extension options) during which the Bank is exposed to credit risk. The 12-month ECL used to report Stage 1 impairment is the portion of LECL that results from standard events that are expected to occur within 12 months from the end of the reporting period. ECLs for Stage 1 and Stage 2 as well as for insignificant financial instruments in Stage 3 are determined based on an individual transaction basis taking into account statistical risk parameters. These parameters were derived from the Basel IRB approach and modified to meet the IFRS 9 requirements.

LGD is the anticipated default loss as a percentage of the exposure at default (EAD), taking into account the security and potential return on capital of the unsecured part. The Bank's estimates that are specifically designed for different types of collateral and customer groups are determined using both the observed historical portfolio data and various external information, such as indices and purchasing power development data. All used risk parameters from the Bank's internal models have been adjusted to meet the specific requirements of IFRS 9 and the forecast horizon has been extended to cover the entire period of the financial instruments, accordingly. For example, the forecast exposure development over the entire duration of a financial instrument includes, in particular, contractual and statutory termination rights.

Concerning the credit facilities consisting of the provided loans and the open line of credit described above, for which, in normal business practice, the credit risk is not limited to the contractual notice period (this particularly applies to the Bank's revolving products without a contract-based repayment structure, such as overdraft facilities), LECL must be determined using the expected maturity that typically exceeds the maximum contract term. To ensure that the LECL in respect of these products is determined empirically in accordance with the requirements of IFRS 9, the Bank calculates LECL directly for those products based on historical losses incurred. As a rule, the Bank would estimate IFRS 9-specific risk parameters that are based not only on standard historical information, but also on, in particular, the current economic environment (in terms of time perspective) and forward-looking information. Such assessment includes, in particular, an examination of the effects of the Bank's macroeconomic forecasts on ECLs and the inclusion of those effects in the calculation of ECLs. For this purpose, the Bank uses a basic scenario based on the relevant consensus (forecasts by different banks of significant macroeconomic factors, such as GDP growth and unemployment rates). This basic scenario is then complemented by other macroeconomic parameters relevant to the model. The basic macroeconomic scenario is transformed into the effects on risk parameters based on statistically derived models. If necessary, these models are accompanied by professional assumptions. The potential effects of non-linear correlations between different macroeconomic scenarios and ECLs are corrected using a specific correction factor. All parameters used in the determination of ECL are regularly verified by an independent unit (usually once a year) and, if necessary, adjusted accordingly.

Allowances for assets denominated in a foreign currency are created in that foreign currency. Foreign exchange differences are recognized in the same way as foreign exchange gains/losses from the value of the underlying asset.

Credit risk measurement is a comprehensive process that requires the use of various models due to product price volatility caused by changes of market parameters, estimated cash flows and the passage of time. Credit risk measurement of financial instruments portfolio requires adoption of other estimations of probability of default.

Credit risk is measured using various models. Rating and scoring models are used for the whole credit portfolio and represent a basis for credit risk measurement. In measuring the credit risk of credits and advances granted to counterparties the Branch takes into consideration the following parameters:

- the Commerzbank AG Group's internal model for credit assessment classifying PD to stages
- the Branch's criteria for the assessment whether or not the credit risk significantly increased, and if yes then evaluation of allowances established against financial assets on the basis of LTECL and subsequent assessment of qualitative criteria
- financial asset segmentation for which ECL is assessed on a portfolio basis
- development of ECL models including various formula and selection of inputs
- determination of the link between macroeconomic scenarios and economic inputs, i.e. unemployment rate and collateral values as well as impact on PD, EAD and LGD
- selection of future-oriented macroeconomic scenarios and their probability weighted estimations in order to obtain economic inputs to the ECL models

As a rule, the Branch estimates the risk parameters specific to IFRS 9 based not only on historical default information but also, in particular, on the current economic environment (point-in-time perspective) and forward-looking information. This assessment primarily involves reviewing the effects which the Bank's macroeconomic forecasts will have regarding the amount of the ECL, and including these effects in the determination of the ECL. A baseline scenario is used for this purpose which relies on the respective applicable consensus (forecasts of different banks on significant macroeconomic factors, such as GDP growth and the unemployment rate). This baseline scenario is then supplemented with additional macroeconomic parameters that are relevant for the model. The transformation of the macroeconomic baseline scenario into the effects on the risk parameters is based on statistically derived models. If needed, these models are supplemented with expert based assumptions. Potential effects from non-linear correlations between different macroeconomic scenarios and the ECL are corrected using a separately determined adjustment factor. All parameters used when determining the ECL are regularly validated by an independent unit (usually once a year). If needed they are adjusted accordingly.

- Collateral

Potential financial effect of collateral is stated by disclosing separately the collateral value for assets for which collateral equals or exceeds the asset carrying amount ("over-collateralized debt") and for assets for which collateral is lower than the asset carrying amount ("under-collateralized debt").

The fair value of the collateral reflects its most realistic value which is a result of the collateral market price adjustment by collateral realization quota, which depends on various specific collateral features and realization costs.

In all instances when an asset at the level of risk management has deferred maturity or is changed, the Branch's specialized department for risk assets continues to monitor the respective exposure up to the moment of the full completion of the recognition.

**2.14. Tangible and intangible fixed assets**
Tangible and intangible fixed assets acquired before 31 December 2000 are recorded at acquisition cost and are depreciated or amortized on an accelerated basis over their estimated useful lives. Tangible and intangible fixed assets acquired after 31 December 2000 are depreciated or amortized on a straight-line basis over their estimated useful lives.

Repair and maintenance expenses of tangible assets are expensed as incurred. The costs of technical improvements are capitalized in the value of the asset and depreciated accordingly.

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

**2.16. Deferred tax**
Deferred tax is recognized on all temporary differences between the carrying amount of an asset or liability reported in the balance sheet and its amount used for corporate income tax purposes using the full liability method. A deferred tax asset is recognized to the extent of expected future available taxable profit against which the asset can be utilized.

The approved tax rate for the period in which the Bank expects to utilize the deferred tax asset or settle the deferred tax liability is used to calculate deferred taxes.

Deferred tax arising from fair value remeasurement of hedge instruments and available-for-sale securities, which is charged or credited, as appropriate, directly to equity, is also reported through equity.

**2.17. Leases**
Pursuant to Decree No. 501/2002, the Bank follows International Accounting Standards as stipulated by the directly applicable EU legislation on the application of International Accounting Standards in the reporting and measurement of financial instruments and related disclosures.

**Before 1 January 2019**
The Bank's role was exclusively that of a lessee. Payments were recognized in the income statement.

**After 1 January 2019**
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**Right-of-use assets (RoU)**
The Bank recognizes right-of-use assets at the commencement date of the lease, i.e. the date the underlying asset is available for use. Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and are adjusted for any remeasurement of lease liabilities. The cost of a right-of-use asset comprises the sum of the amount of the initial measurement of a lease liability, any initial direct costs incurred, and any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are disclosed in Note 7 "Tangible and intangible fixed assets".

**Lease liabilities**
At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate; and amounts expected to be payable under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate the lease. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers those payments occurs. Lease liabilities are disclosed in Note 12.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for the lease of office premises, vehicles and IT hardware. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

**Leases previously accounted for as operating leases**
The Bank recognized right-of-use assets and lease liabilities for all leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

**The Bank also applied the available practical expedients wherein it:**

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

**Determining the lease term of contracts with renewal and termination options (Bank as lessee)**
The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Branch has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

| (CZK million) | |
|---|---|
| Operating lease commitments as at 31 December 2018 | 56 |
| Lease liabilities as at 1 January 2019 | 56 |

Based on the Branch's assessment, the use of the incremental borrowing rate does not have a material effect on financial statement presentation. Accordingly, as at 1 January 2019, right-of-use assets of CZK 56 million were presented within "Tangible fixed assets, of which: fixed assets and right-of-use assets" in the accompanying balance sheet, and additional lease liabilities of CZK 56 million were presented within "Other liabilities" in the accompanying balance sheet. The adoption of IFRS 16 did not have any effects on retained earnings of the Branch.

**2.18. Staff costs, additional pension insurance and social fund**
Staff costs are included in Administrative expense.

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

Regular contributions are made to the State budget to cover the national pension plan.

**2.19. Related parties**
Related parties are defined in accordance with the Act on Banks as follows:

- senior management of the Bank, i.e. persons responsible for management functions based on employment or other contracts, whose powers and responsibilities are defined in the Bank's Statutes ("senior management of the Bank"),
- head office controlling the Bank and its senior management,
- close persons (direct family members) of senior management,
- entities in which the senior management hold 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, 13, 15, 17, 22 and 24.

**2.20. 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 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.

**2.21. Equity**
Since the Bank operates as a branch of a foreign bank, there are no special requirements concerning equity. All regulatory requirements relating to equity are consolidated and reported by the Group. Equity at the Branch level represents the sum of the differences between the net profit as per Czech accounting standards and the net profit according to German accounting standards. At the end of each period, net result according to German accounting standards is recognized either as a receivable from the parent company (if a loss is incurred) or as a liability to the parent company (if a profit is generated).

**2.22. 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 to the extent that these events provide further evidence supporting the conditions that existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the 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, but are not reflected in the financial statements.

**2.23. Changes in accounting policies**
The Bank first adopted IFRS 16 Leases in the accompanying financial statements. The nature and changes arising from the first adoption of the new standard are described in detail in Note 2.17 to the financial statements.

**2.24. Correction of prior period errors**
In accordance with Decree 501/2002 Coll. corrections of prior period's misstatements are recognized in retained earnings in the case of corrections of significant errors of prior period. If it is not a correction of significant errors, these corrections are recognized in the relevant items in the Income statement of the current period.

## 3. Cash and cash deposits with central banks

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash on hand | 0 | 27 |
| Mandatory minimum reserves | 99 | 220 |
| **Total cash and cash deposits with central banks** | **99** | **247** |

The Bank ceased to provide treasury and exchange transactions in 2019.

Mandatory minimum reserves are obligatory 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 2% p.a. as at 31 December 2019 (2018: 1.75%).

## 4. Due from banks

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Receivables measured at amortized cost** | | |
| Current accounts with banks | 275 | 160 |
| Term deposits with central banks | 13,001 | 51,024 |
| Other term deposits with banks | 11,142 | 6,614 |
| Loans to banks | 634 | 855 |
| Other due from banks | 1 | 70 |
| **Total receivables measured at amortized cost** | **25,053** | **58,723** |

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Receivables measured at fair value** | | |
| Receivables from REPO transactions | 49,503 | 0 |
| **Total receivables measured at fair value** | **49,503** | **0** |
| **Total due from banks** | **74,556** | **58,723** |

The Bank did not recognize any allowances against due from banks balances as at 31 December 2019 and 2018, respectively.

Receivables from REPO transactions are measured at fair value through profit or loss (FVPL), following the Bank's strategy and allocation to the business model for REPO transactions (see Note 2.12 Financial instruments).

| 31 December 2019 (CZK million) | Stage 1 | Stage 2 | Total |
|---|---|---|---|
| **Carrying amount gross as at 1 January 2019** | **58,659** | **64** | **58,723** |
| Newly acquired assets | 73,509 | 0 | **73,509** |
| Repaid assets | (57,530) | 0 | **(57,530)** |
| Transfer to Stage 1 | 0 | 0 | **0** |
| Transfer to Stage 2 | 0 | 0 | **0** |
| Transfer to Stage 3 | 0 | 0 | **0** |
| Partially repaid assets | (1,193) | 0 | **(1,193)** |
| Partial increase in assets | 1,047 | 0 | **1,047** |
| **Carrying amount gross as at 31 December 2019** | **74,492** | **64** | **74,556** |

| 31 December 2018 (CZK million) | Stage 1 | Stage 2 | Total |
|---|---|---|---|
| **Carrying amount gross as at 1 January 2018** | **47,622** | **1** | **47,623** |
| Newly acquired assets | 36,381 | - | **36,381** |
| Repaid assets | (24,880) | (1) | **(24,881)** |
| Transfer to Stage 1 | - | - | **-** |
| Transfer to Stage 2 | (64) | 64 | **-** |
| Transfer to Stage 3 | - | - | **-** |
| Partially repaid assets | (489) | - | **(489)** |
| Partial increase in assets | 89 | - | **89** |
| **Carrying amount gross as at 31 December 2018** | **58,659** | **64** | **58,723** |

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

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

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Commerzbank, Bratislava branch | 7,721 | 5,781 |
| Commerzbank, Frankfurt (head office) | 895 | 900 |
| **Total** | **8,616** | **6,681** |

## 5. Due from customers

### 5.1. Due by customer type

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Receivables measured at amortized cost** | | |
| Current accounts of legal entities and individuals – overdraft | 3,618 | 4,033 |
| of which classified as Stage 1 | 3,138 | 3,946 |
| of which classified as Stage 2 | 480 | 87 |
| Customer loans | 12,929 | 15,319 |
| of which classified as Stage 1 | 11,297 | 13,702 |
| of which classified as Stage 2 | 0 | 410 |
| of which classified as Stage 3 | 1,632 | 1,207 |
| **Total receivables measured at amortized cost** | **16,547** | **19,352** |
| **Receivables measured at fair value** | | |
| Customer loans | 1,760 | 0 |
| **Total receivables measured at fair value** | **1,760** | **0** |
| **Total due from customers** | **18,307** | **19,352** |
| Allowance Stage 1 | (20) | (47) |
| Allowance Stage 2 | (26) | (89) |
| Allowance Stage 3 (Note 9) | (1,018) | (518) |
| **Total due from customers, net** | **17,243** | **18,698** |

Syndicate loans forming part of Due from customers totaled CZK 9,239 million at 31 December 2019 (2018: CZK 9,954 million).

| 31 December 2019 (CZK million) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Carrying amount gross as at 1 January 2019** | **17,648** | **497** | **1,207** | **19,352** |
| Newly acquired assets | 12,353 | 7 | 2 | **12,362** |
| Repaid assets | (14,544) | (369) | (128) | **(15,041)** |
| Transfer to Stage 1 | 16 | (16) | 0 | **0** |
| Transfer to Stage 2 | (414) | 414 | 0 | **0** |
| Transfer to Stage 3 | (447) | (70) | 517 | **0** |
| Partially repaid assets | (3,048) | (145) | (1,119) | **(4,312)** |
| Partial increase in assets | 2,871 | 162 | 1,153 | **4,186** |
| **Carrying amount gross as at 31 December 2019** | **14,435** | **480** | **1,632** | **16,547** |

| 31 December 2018 (CZK million) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Carrying amount gross as at 1 January 2018** | **16,524** | **557** | **1,313** | **18,394** |
| Newly acquired assets | 8,264 | - | - | **8,264** |
| Repaid assets | (6,803) | (148) | - | **(6,951)** |
| Transfer to Stage 1 | - | - | - | **0** |
| Transfer to Stage 2 | (112) | 112 | - | **0** |
| Transfer to Stage 3 | (13) | - | 13 | **0** |
| Partially repaid assets | (1,539) | (25) | (196) | **(1,760)** |
| Partial increase in assets | 1,327 | 1 | 77 | **1,405** |
| **Carrying amount gross as at 31 December 2018** | **17,648** | **497** | **1,207** | **19,352** |

### 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 distrain title, the Bank uses all available legal means for collection of these loans including involvement of bailiffs.

Under IFRS 9 the due from customer balances are classified into three categories as per the credit risk level: "Stage 1", "Stage 2"and "Stage 3".

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Stage 1 | 14,435 | 17,648 |
| Stage 2 | 480 | 497 |
| Stage 3 | 1,632 | 1,207 |
| **Total due from customers** | **16,547** | **19,352** |

Restructured loans totaled CZK 61 million in 2019 (2018: CZK 96 million). Receivables are considered to be restructured in case the Bank grants relief to a customer because it is likely that the Bank would incur losses in case the Bank did not do it. Roll-over of a short-term loan is not considered to be restructuring of the loan in the case that the customer has fulfilled all the terms of the loan agreement.

### 5.3. Loans to related parties

As at 31 December 2019 and 2018, the Bank did not provide any loans to its related parties.

As at 31 December 2019 and 2018, the Bank did not provide any loans to its senior management members.

### 5.4. Guarantees from related parties

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Commerzbank, Frankfurt – head office | 507 | 469 |
| Commerzbank, Berlin branch | 380 | 156 |
| Commerzbank, Essen branch | 258 | 249 |
| Commerzbank, Budapest branch | 189 | 0 |
| Commerzbank, Hamburg branch | 127 | 174 |
| Commerzbank, Bratislava branch | 7 | 15 |
| Commerzbank, Düsseldorf branch | 2 | 79 |
| Commerzbank, Leipzig branch | 0 | 5 |
| Commerzbank, Nürnberg branch | 3 | 3 |
| Commerzbank, New York branch | 0 | 1 |
| **Total** | **1,473** | **1,151** |

## 6. Securities

The Bank did not hold any securities as at 31 December 2019 and 2018, respectively.

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

## 7. Tangible and intangible fixed assets

| (CZK million) | 31. 12. 2018 | Adoption of IFRS 16 as of 1. 1. 2019 | Additions / reclassification | 31. 12. 2019 |
|---|---|---|---|---|
| **Acquisition cost as at 31. 12. 2019** | **171** | **56** | **211** | **438** |
| Intangible assets | 14 | 0 | 1 | 15 |
| Buildings | 100 | 0 | 1 | 101 |
| Equipment | 57 | 0 | 3 | 60 |
| Building with the right of use | 0 | 56 | 206 | 262 |
| **Accumulated amortization and depreciation** | **(86)** | **0** | **(61)** | **(147)** |
| Intangible assets | (13) | 0 | (1) | (14) |
| Buildings | (27) | 0 | (3) | (30) |
| Equipment | (46) | 0 | (4) | (50) |
| Building with the right of use | 0 | 0 | (53) | (53) |
| **Net book value** | **85** | **56** | **150** | **291** |

Net book value by asset classes:

| (CZK million) | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Intangible fixed assets | 1 | 1 |
| Tangible fixed assets | 81 | 84 |
| Fixed assets and right-of-use assets | 209 | 0 |
| **Net book value** | **291** | **85** |

As at 31 December 2019 and 2018, the Bank did not provide any tangible and intangible fixed assets as collateral.

| Effects of adoption of IFRS 16 as of 1 January 2019 | 56 |
|---|---|
| Change of contractual terms | 206 |
| Payments | (53) |
| **Lease liabilities as at 31 December 2019** | **209** |

As at 1 January 2019, the Bank recognized assets and liabilities of CZK 56 million related to leases under IFRS 16. During 2019, the amount increased to CZK 206 million due to the extension of lease terms. The amount as at 31 December 2019, net of the payments made during the year, totaled CZK 209 million.

## 8. Other assets

| (CZK million) | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| Derivative financial instruments (Note 24.2) | 1,493 | 714 |
| Settlement clearance accounts | 89 | 138 |
| Deferred tax asset (Note 23) | 23 | 13 |
| Operating advances granted | 1 | 1 |
| Other receivables | 129 | 33 |
| **Total other assets** | **1,735** | **899** |

## 9. Allowances, provisions and write offs

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

| (CZK million) | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| **Income tax provision** | | |
| Income tax provision | 26 | 163 |
| Advance for income tax | (26) | (101) |
| **Income tax provision** | **0** | **62** |
| **Provisions for contingent liabilities** | | |
| Provisions for potential litigation | 5 | 4 |
| Provisions for other payables | 57 | 34 |
| **Total other provisions** | **62** | **38** |

| (CZK million) | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| **Allowances** | | |
| Stage 1 | 20 | 47 |
| Stage 2 | 26 | 89 |
| Stage 3 | 1,018 | 518 |
| **Total allowances** | **1,064** | **654** |

Movements in the provision for income tax can be analyzed as follows:

| (CZK million) | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | 62 | 40 |
| Additions | 26 | 66 |
| Release/use | (62) | (44) |
| **As at 31 December** | **26** | **62** |

Movements in the provision for contingent litigation can be analyzed as follows:

| (CZK million) | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | 4 | 28 |
| Additions | 4 | 4 |
| Release/use | (3) | (24) |
| Foreign exchange differences and discounting effects | 0 | (4) |
| **As at 31 December** | **5** | **4** |

Movements in the provisions for other payables can be analyzed as follows:

| (CZK million) | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | 34 | 8 |
| Change under IFRS 9 measurement 1 January 2018 | 0 | 44 |
| Additions | 94 | 50 |
| Release | (71) | (68) |
| **As at 31 December** | **57** | **34** |

Change in allowances can be analyzed as follows:

| (CZK million) | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | 654 | 618 |
| Change under IFRS 9 measurement 1 January 2018 | 0 | 101 |
| Additions | 626 | 475 |
| Foreign exchange differences and discounting effects | (1) | (12) |
| Release | (230) | (528) |
| Use | (71) | 0 |
| Other | 86 | 0 |
| **As at 31 December** | **1,064** | **654** |

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

| (CZK million) | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| **Balance sheet impairment** | | |
| LLP provisions, stage 1 – customers | **20** | **47** |
| of which: a) current accounts | 9 | 13 |
| b) borrowings | 11 | 34 |
| LLP provisions, stage 2 – customers | **26** | **89** |
| of which: a) current accounts | 20 | 50 |
| b) borrowings | 6 | 39 |
| LLP provisions, stage 3 – customers | **1,018** | **518** |
| of which: a) current accounts | 557 | 136 |
| b) borrowings | 461 | 382 |
| **Off-balance sheet impairment** | | |
| LLP provisions, stage 1 – customers | **7** | **14** |
| of which: a) guarantees | 0 | 6 |
| b) revocable loan commitments | 5 | 5 |
| c) irrevocable loan commitments | 2 | 3 |
| LLP provisions, stage 2 – customers | **11** | **20** |
| of which: a) guarantees | 9 | 19 |
| b) irrevocable loan commitments | 2 | 1 |
| LLP provisions, stage 3 – customers | **35** | **0** |
| of which: a) guarantees | 35 | 0 |
| **Total** | **1,117** | **688** |

### Balance sheet impairment:

| 31 December 2019 (CZK million) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Carrying amount of allowances as at 1 January 2019** | **47** | **89** | **518** | **654** |
| Newly acquired assets | 4 | 0 | 0 | **4** |
| Repaid assets | (14) | (4) | (56) | **(74)** |
| Transfer to Stage 1 | 1 | (9) | 0 | **(8** |
| Transfer to Stage 2 | (2) | 32 | 0 | **30** |
| Transfer to Stage 3 | 0 | (45) | 312 | **267** |
| Other changes | (16) | (37) | 244 | **191** |
| **Carrying amount of allowances as at 31 December 2019** | **20** | **26** | **1,018** | **1,064** |

| 31 December 2018 (CZK million) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Carrying amount of allowances as at 1 January 2018** | **28** | **73** | **618** | **719** |
| Newly acquired assets | 23 | 35 | 72 | **130** |
| Repaid assets | (13) | (9) | (111) | **(133)** |
| Transfer to Stage 1 | 2 | (2) | 0 | **0** |
| Transfer to Stage 3 | (2) | (32) | 34 | **0** |
| Discounted changes | 0 | 0 | (12) | **(12)** |
| Other changes | 9 | 24 | (83) | **(50)** |
| **Carrying amount of allowances as at 31 December 2018** | **47** | **89** | **518** | **654** |

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

**Off-balance sheet impairment:**

| 31 December 2019 (CZK million) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Carrying amount of allowances as at 1 January 2019** | **14** | **20** | **0** | **34** |
| Newly acquired assets | 5 | 5 | 0 | **10** |
| Repaid assets | (16) | (19) | 0 | **(35)** |
| Transfer to Stage 1 | 0 | 0 | 0 | **0** |
| Transfer to Stage 2 | (1) | 7 | 0 | **6** |
| Transfer to Stage 3 | 0 | 0 | 36 | **36** |
| Other changes | 5 | (2) | (1) | **2** |
| **Carrying amount of allowances as at 31 December 2019** | **7** | **11** | **35** | **53** |

| 31 December 2018 (CZK million) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Carrying amount of allowances as at 1 January 2018** | **10** | **34** | **8** | **52** |
| Newly acquired assets | 6 | 9 | 1 | **16** |
| Repaid assets | (5) | (6) | (8) | **(19)** |
| Transfer to Stage 1 | 1 | (1) | - | **0** |
| Transfer to Stage 2 | 2 | (2) | 0 | **0** |
| Other changes | 0 | (14) | (1) | **(15)** |
| **Carrying amount of allowances as at 31 December 2018** | **14** | **20** | **0** | **34** |

## 10. Due to banks

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Current accounts with banks | 474 | 741 |
| Term deposits due up to 24 hours | 29,890 | 19,299 |
| Other term deposits | 43,897 | 43,498 |
| **Total due to banks** | **74,261** | **63,538** |

### 10.1. Deposits from related parties

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Commerzbank Frankfurt - head office | 73,695 | 62,478 |
| Commerzbank, Bratislava branch | 566 | 1,060 |
| **Total deposits from related parties** | **74,261** | **63,538** |

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

Deposits from related parties bore interest at the rate ranging from (0.42%) to 1.99% (2018: from (0.6%) to (0.39%)).

## 11. Due to customers

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Due to customers | 16,700 | 13,141 |
| **Total due to customers** | **16,700** | **13,141** |

### 11.1. Due to customers by type

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Liabilities repayable on demand | 10,122 | 11,927 |
| Term accounts for fixed term | 6,577 | 1,144 |
| Other amounts due to private customers | 1 | 70 |
| **Total due to customers** | **16,700** | **13,141** |

### 11.2. Deposits from related parties

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Companies under common control | 0 | 3 |
| Associated undertakings | 126 | 114 |
| **Total deposits from related parties** | **126** | **117** |

The Bank did not accept any deposits from senior management members as at 31 December 2019 and 2018, respectively.

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 unfavorable features.

Deposits from related parties bore interest at the rate of 0% (2018: 0%).

## 12. Other liabilities

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Derivative financial instruments (Note 24.3) | 2,234 | 904 |
| Settlement clearance accounts | 273 | 152 |
| Lease liabilities | 209 | 0 |
| Estimated payables | 153 | 117 |
| Other liabilities | 13 | 53 |
| **Total other liabilities** | **2,882** | **1,226** |

The Bank did not have any overdue liabilities to finance authorities, social insurance authorities or health insurance companies as at 31 December 2019 and 2018, respectively.

## 13. Equity and profit distribution

The net profit of CZK 170 million for 2019 is proposed to be distributed as follows:

| (CZK million) | 2019 |
|---|---|
| Allocation to Commerzbank AG (profit according to German accounting standards) | (38) |
| Transfer to accumulated loss/retained earnings | 145 |
| **Net profit** | **107** |

The transfer to retained earnings represents the difference between the net accounting profit in accordance with the Czech accounting standards and the net accounting profit in accordance with the German accounting standards. The difference predominantly arises from the different accounting treatment of allowances, provisions and revaluation of financial derivatives.

The net profit of CZK 688 million for 2018 was distributed as follows:

| (CZK million) | 2018 |
|---|---|
| Allocation to Commerzbank AG (profit according to German accounting standards) | 611 |
| Transfer to retained earnings | 77 |
| **Net profit** | **688** |

## 14. Contingencies and commitments

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

### 14.1. Guarantees granted

| (CZK million) | 31. 12. 2019 | 31. 12. 2018 |
|---|---|---|
| **Guarantees granted** | | |
| Banks in the group - subsidiaries and other controlled banks | 20,608 | 1,163 |
| Other banks | 261 | 725 |
| Other customers | 5,109 | 17,463 |
| **Guarantees granted** | **25,978** | **19,351** |
| Stage 1 | 0 | (6) |
| Stage 2 | (9) | (18) |
| Stage 3 | (35) | 0 |
| **Total carrying value of the guarantees** | **25,934** | **19,327** |

### 14.2. Commitments granted

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Irrevocable loan commitments | | |
| - On behalf of customers | 3,511 | 2,977 |
| **Total carrying value of commitments and guarantees** | **3,511** | **2,977** |

The Bank did not grant any guarantees or commitments to its management as at 31 December 2019 and 2018, respectively.

## 15. Interest income calculated using effective interest rate

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Inter-bank transactions | 1,161 | 468 |
| Receivables from customers | 283 | 520 |
| **Total interest and similar income** | **1,444** | **988** |

CZK 18.3 million of interest income was recognized on impaired loans in the year ended 31 December 2019 (2018: CZK 29.3 million).

The bank recognized unpaid penalty interest income outstanding in the amount of CZK 11 million as at 31 December 2019 (2018: CZK 63.4 million).

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

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Commerzbank, Bratislava branch | 4 | 6 |
| Commerzbank Frankfurt - head office | 4 | 9 |
| **Total** | **8** | **15** |

## 16. Interest expense calculated using effective interest rate

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Inter-bank transactions | 70 | 39 |
| Due to customers | 48 | 24 |
| **Total interest and similar expense** | **118** | **63** |

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

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Commerzbank Frankfurt - head office | 33 | 17 |
| Commerzbank, Bratislava branch | 1 | 2 |
| mBank (BRE Bank) S.A., Warsaw | 2 | 1 |
| **Total** | **36** | **20** |

## 17. Fee and commission income

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Domestic and foreign transfers | 154 | 171 |
| Loan origination fees and commission | 148 | 94 |
| Income from guarantees | 55 | 51 |
| Income from document collections and letters of credit | 9 | 11 |
| Other fees and commissions | 13 | 14 |
| **Total fee and commission income** | **379** | **341** |

## 18. Fee and commission expense

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Fees and commissions from loans | 32 | 8 |
| Fees and commissions from other financial activities | 24 | 18 |
| Domestic and foreign transfers | 6 | 5 |
| **Total fee and commission expense** | **62** | **31** |

## 19. Gains less losses from financial transactions

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Gains/(Losses) from foreign currency transactions | 641 | 200 |
| Gains/(Losses) from transactions with FX financial derivatives | (1,161) | (129) |
| Gains/(Losses) from interest rate financial derivatives | (2) | 21 |
| Gains/(Losses) from revaluation of financial assets at fair value | 58 | 0 |
| **Total gains less losses from financial transactions** | **(464)** | **92** |

## 20. Other operating income

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Income from intercompany re-invoicing | 959 | 390 |
| Other operating income | 84 | 158 |
| **Total other operating income** | **1,043** | **548** |

Income from intercompany re-invoicing represents re-invoicing of costs related to activities carried out for the head office Commerzbank AG in Frankfurt am Main and income from invoicing of management and administration services. These services are provided to the European branches and subsidiaries. The significant year-on-year increase can be particularly attributed to the fact that the Bank took over the services previously provided by CS, as described in Note 1 to the financial statements, and also to the expansion of the services provided to the Frankfurt am Main head office.

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

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Commerzbank, Amsterdam | 16 | 15 |
| Commerzbank, Bratislava | 27 | 25 |
| Commerzbank, Brussels | 18 | 18 |
| Commerzbank (Budapest) Zrt., Budapest | 9 | 13 |
| Commerzbank Frankfurt – head office | 708 | 148 |
| Commerzbank, Lodz | 7 | 4 |
| Commerzbank, London | 61 | 59 |
| Commerzbank, Luxembourg | 6 | 6 |
| Commerzbank, Madrid | 17 | 18 |
| Commerzbank, Milan | 17 | 16 |
| Commerzbank, Moscow | 11 | 9 |
| Commerzbank, Paris | 19 | 19 |
| Commerzbank, Singapore | 2 | 1 |
| Commerzbank, Tokyo | 1 | 1 |
| Commerzbank, Wien | 18 | 18 |
| Commerzbank, Zürich | 22 | 21 |
| **Total** | **959** | **391** |

## 21. Revenues by geographical markets

| (CZK million) | Domestic | European Union | Rest of Europe | Other | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| 1. Interest and similar income | 1,247 | 196 | 1 | 0 | **1,444** |
| 2. Fee and commission income | 300 | 79 | 0 | 0 | **379** |
| 3. Gains less losses from financial transactions | (464) | 0 | 0 | 0 | **(464)** |
| 4. Other operating income | 780 | 228 | 33 | 2 | **1,043** |
| **Total** | **1,863** | **503** | **34** | **2** | **2,402** |

| (CZK million) | Domestic | European Union | Rest of Europe | Other | Total |
|---|---|---|---|---|---|
| **2018** | | | | | |
| 1. Interest and similar income | 842 | 144 | 2 | 0 | **988** |
| 2. Fee and commission income | 334 | 7 | 0 | 0 | **341** |
| 3. Gains less losses from financial transactions | 92 | 0 | 0 | 0 | **92** |
| 4. Other operating income | 193 | 323 | 30 | 2 | **548** |
| **Total** | **1,461** | **474** | **32** | **2** | **1,969** |

## 22. Administrative expenses

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Staff costs | 615 | 321 |
| Intercompany expenses – head office in Frankfurt am Main – COBA FFM | 396 | 333 |
| External staff costs | 234 | 43 |
| Outsourcing | 71 | 59 |
| IT expenses | 63 | 53 |
| Short-term leases and leases of low-value assets | 4 | 51 |
| Services provided by the auditing company: | | |
| - compulsory audit of the financial statements | | |
| Tax and legal advisory services | 3 | 3 |
| Rent and lease charges | 2 | 10 |
| **Other administrative expenses** | **79** | **60** |
| **Total administrative expenses** | **1,467** | **933** |

In 2019, the management of the Bank was paid wages and salaries of CZK 39 million (2018: CZK 43 million), social and health insurance paid by the Bank amounted to CZK 5.3 million (2018: CZK 5.1 million). The management of the Bank includes its directors and managers on the first level of the organizational structure (as at 31 December 2019 and 2018 a total of 13 employees).

### 22.1. Staff statistics

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Average number of employees | 434 | 220 |

In 2019, the Bank provided contributions of CZK 2 million to its employees for supplementary pension insurance (2018: CZK 1 million).

## 23. Taxation

The income tax expense consists of the following:

| (CZK million) | 2019 | 2018 |
|---|---|---|
| Income tax expense | 27 | 163 |
| Tax expense/(income) related to previous period | (20) | 10 |
| Deferred tax expense/(income) | (10) | 6 |
| **Total income tax expense** | **(3)** | **179** |

Advance for income tax was paid in the amount of CZK 135 million (2018: CZK 101 million), income tax provision was created in the amount of CZK 27 million (2018: CZK 62 million).

Tax expense/(income) related to the previous period represents the difference between the tax expense recognized in the previous period and the actual tax liability.

The current tax expense was computed as follows:

| (CZK million) | 2019 | 2018 |
|---|---|---|
| **Profit before taxation** | **104** | **867** |
| Non-taxable income | (190) | (116) |
| Non-deductible expenses | 226 | 110 |
| **Tax base** | **140** | **861** |
| **Current tax charge at 19%** | **27** | **163** |

Deferred income tax asset is calculated at the rate of 19% (income tax rate for 2019 and 2018, respectively), depending on the period, in which the temporary difference is expected to be compensated, and can be analyzed as follows:

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Deferred tax asset as at 31 December 2018 | 13 | 11 |
| Application of IFRS 9 | - | 8 |
| **Deferred tax asset as at 1 January** | **13** | **19** |
| Allowances and provisions for loans | 5 | (7) |
| Tax non-deductible social insurance | 6 | 2 |
| Difference between tax and accounting NBV of assets | (1) | (1) |
| **Deferred tax asset as at 31 December** | **23** | **13** |

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Deferred tax asset** | | |
| Allowances and provisions for loans | 13 | 8 |
| Tax non-deductible social insurance | 11 | 5 |
| **Net deferred tax asset (Note 8)** | **24** | **13** |

## 24. Financial risks

### 24.1. 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 credit risk is the largest risk which the Branch takes and therefore management carefully manages the Branch's exposure towards the risk. Credit risk management and control are the responsibility of a specialized team which reports to COMMERZBANK AG board of directors.

The Bank considers its current credit portfolio to be high quality since the value of allowances is approximately 6.4% of the nominal value of the credit portfolio. The Bank uses pledges to real estate, cession of receivables, insurance, guarantees and guarantors' statements, etc. The Bank monitors the concentration of risks based on geographical and industry segments.

### Členění aktiv podle zeměpisných segmentů

| 31 December 2019 (CZK million) | Domestic | European Union | Rest of Europe | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash deposits with central banks | 99 | 0 | 0 | 0 | **99** |
| Due from banks | 65,311 | 8,621 | 579 | 45 | **74,556** |
| Due from customers | 11,987 | 5,177 | 79 | 0 | **17,243** |
| Other assets | 1,490 | 662 | 0 | 0 | **2,152** |
| **Total assets** | **78,887** | **14,460** | **658** | **45** | **94,050** |
| **Off-balance sheet assets** | | | | | |
| Commitments and guarantees given | 9,745 | 19,504 | 35 | 205 | **29,489** |
| Receivables from spot transactions | 0 | 47 | 0 | 0 | **47** |
| Receivables from term instruments | 48,486 | 272,468 | 0 | 0 | **320,954** |
| Provided collateral from reverse REPO transactions | 48,487 | 0 | 0 | 0 | **48,487** |
| **Total off-balance sheet assets** | **106,718** | **292,019** | **35** | **205** | **398,977** |

| 31 December 2018 (CZK million) | Domestic | European Union | Rest of Europe | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash deposits with central banks | 247 | 0 | 0 | 0 | **247** |
| Due from banks | 51,040 | 6,760 | 827 | 96 | **58,723** |
| Due from customers | 14,747 | 3,663 | 288 | 0 | **18,698** |
| Other assets | 782 | 221 | 0 | 0 | **1,003** |
| **Total assets** | **66,816** | **10,644** | **1,115** | **96** | **78,671** |
| **Off-balance sheet assets** | | | | | |
| Commitments and guarantees given | 8,654 | 13,100 | 0 | 574 | **22,328** |
| Receivables from spot transactions | 0 | 99 | 0 | 0 | **99** |
| Receivables from term instruments | 68,571 | 106,534 | 0 | 0 | **175,105** |
| Provided collateral from reverse REPO transactions | 47,040 | 0 | 0 | 0 | **47,040** |
| **Total off-balance sheet assets** | **124,265** | **119,733** | **0** | **574** | **244,572** |

## Banking business segmentation

| 31 December 2019 (CZK million) | Corporate banking | Treasury and other | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash deposits with central banks | 99 | 0 | **99** |
| Due from banks | 14,517 | 60,039 | **74,556** |
| Due from customers | 17,243 | 0 | **17,243** |
| Other assets | 1,647 | 505 | **2,152** |
| **Total assets** | **33,506** | **60,544** | **94,050** |
| **Off-balance sheet assets** | | | |
| Commitments and guarantees given | 9,860 | 19,629 | **29,489** |
| Receivables from spot transactions | 47 | 0 | **47** |
| Receivables from term instruments | 320,446 | 508 | **320,954** |
| Provided collateral from reverse REPO transactions | 0 | 48,487 | **48,487** |
| **Total off-balance sheet assets** | **330,353** | **68,624** | **398,977** |

| 31 December 2018 (CZK million) | Corporate banking | Treasury and other | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash deposits with central banks | 247 | 0 | **247** |
| Due from banks | 3,928 | 54,795 | **58,723** |
| Due from customers | 18,698 | 0 | **18,698** |
| Other assets | 922 | 81 | **1,003** |
| **Total assets** | **23,795** | **54,876** | **78,671** |
| **Off-balance sheet assets** | | | |
| Commitments and guarantees given | 22,328 | 0 | **22,328** |
| Receivables from spot transactions | 99 | 0 | **99** |
| Receivables from term instruments | 156,602 | 18,503 | **175,105** |
| Provided collateral from reverse REPO transactions | 0 | 47,040 | **47,040** |
| **Total off-balance sheet assets** | **179,029** | **65,543** | **244,572** |

## Information about customer segmentation

| 31 December 2019 (CZK million) | Local banks | Foreign banks | Corporate sector | Individuals | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash deposits with central banks | 99 | 0 | 0 | 0 | **99** |
| Due from banks | 62,529 | 12,027 | 0 | 0 | **74,556** |
| Due from customers | 0 | 0 | 17,240 | 3 | **17,243** |
| Other assets | 0 | 293 | 1,859 | 0 | **2,152** |
| **Total assets** | **62,628** | **12,320** | **19,099** | **3** | **94,050** |

| 31 December 2019 (CZK million) | Local banks | Foreign banks | Corporate sector | Financial auxiliaries | Total |
|---|---|---|---|---|---|
| **Off-balance sheet assets** | | | | | |
| Commitments and guarantees given | 0 | 19,584 | 9,891 | 14 | **29,489** |
| Receivables from spot transactions | 0 | 47 | 0 | 0 | **47** |
| Receivables from term instruments | 3,346 | 191,541 | 123,115 | 2,952 | **320,954** |
| Provided collateral from reverse REPO transactions | 48,487 | 0 | 0 | 0 | **48,487** |
| **Total off-balance sheet assets** | **51,833** | **211,172** | **133,006** | **2,966** | **398,977** |

| 31 December 2018 (CZK million) | Local banks | Foreign banks | Corporate sector | Individuals | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash deposits with central banks | 247 | 0 | 0 | 0 | **247** |
| Due from banks | 51,024 | 7,699 | 0 | 0 | **58,723** |
| Due from customers | 0 | 0 | 18,695 | 3 | **18,698** |
| Other assets | 19 | 201 | 783 | 0 | **1,003** |
| **Total assets** | **51,290** | **7,900** | **19,478** | **3** | **78,671** |

| 31 December 2018 (CZK million) | Local banks | Foreign banks | Corporate sector | Financial auxiliaries | Total |
|---|---|---|---|---|---|
| **Off-balance sheet assets** | | | | | |
| Commitments and guarantees given | 0 | 737 | 21,110 | 481 | **22,328** |
| Receivables from spot transactions | 0 | 99 | 0 | 0 | **99** |
| Receivables from term instruments | 10,546 | 100,900 | 58,657 | 5,002 | **175,105** |
| Provided collateral from reverse REPO transactions | 47,040 | 0 | 0 | 0 | **47,040** |
| **Total off-balance sheet assets** | **57,586** | **101,736** | **79,767** | **5,483** | **244,572** |

**Maximum credit exposure**

| 31 December 2019 (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash and cash deposits with central banks | 99 | 247 |
| Due from banks | 74,556 | 58,723 |
| Due from customers | 17,243 | 18,698 |
| Other assets | 2,152 | 1,003 |
| **Total assets** | **94,050** | **78,671** |
| Commitments and guarantees given | 29,489 | 22,328 |
| Receivables from spot transactions | 47 | 99 |
| Receivables from term instruments | 320,954 | 175,105 |
| Pledges from reverse REPO | 48,487 | 47,040 |
| **Total off-balance sheet** | **398,977** | **244,572** |

### 24.2. Market risk

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

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

For assessment of market losses arising from extreme market changes the Bank defined the stress scenarios, based on which a value of Stress test is calculated – an expected maximum loss under unfavorable 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. As at 31 December 2019, VAR of the Bank was CZK 7.9 million (2018: CZK 10.3 million). An average consolidated daily VAR was CZK 6.7 million in 2019 (2018: CZK 6.4 million).

### 24.3. 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 analyzed as follows:

**Total financial derivatives**

| 31 December 2019 (CZK million) | Nominal amount assets | Nominal amount liabilities | Positive fair value | Negative fair value |
|---|---|---|---|---|
| Interest rate derivatives | 229,260 | 219,621 | 1,084 | 1,108 |
| Currency derivatives | 91,694 | 92,587 | 409 | 1,126 |
| **Total** | **320,954** | **312,208** | **1,493** | **2,234** |

| 31 December 2018 (CZK million) | Nominal amount assets | Nominal amount liabilities | Positive fair value | Negative fair value |
|---|---|---|---|---|
| Interest rate derivatives | 75,575 | 75,576 | 455 | 460 |
| Currency derivatives | 99,530 | 99,861 | 259 | 444 |
| **Total** | **175,105** | **175,437** | **714** | **904** |

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

### 24.3.1. Derivatives held for trading

| 31 December 2019 (CZK million) | Nominal amount assets | Nominal amount liabilities | Positive fair value | Negative fair value |
|---|---|---|---|---|
| **Interest rate derivatives** | | | | |
| Swaps | 229,260 | 219,621 | 1,084 | 1,108 |
| **Interest rate derivatives total** | **229,260** | **219,621** | **1,084** | **1,108** |
| **Currency derivatives** | | | | |
| Forwards | 18,170 | 18,252 | 195 | 246 |
| Swaps | 73,524 | 74,335 | 214 | 880 |
| **Currency derivatives total** | **91,694** | **92,587** | **409** | **1,126** |
| **Total derivatives held for trading** | **320,954** | **312,208** | **1,493** | **2,234** |

| 31 December 2018 (CZK million) | Nominal amount assets | Nominal amount liabilities | Positive fair value | Negative fair value |
|---|---|---|---|---|
| **Interest rate derivatives** | | | | |
| Swaps | 75,575 | 75,576 | 455 | 460 |
| **Interest rate derivatives total** | **75,575** | **75,576** | **455** | **460** |
| **Currency derivatives** | | | | |
| Forwards | 27,563 | 27,722 | 121 | 118 |
| Swaps | 71,967 | 72,139 | 138 | 326 |
| **Currency derivatives total** | **99,530** | **99,861** | **259** | **444** |
| **Total derivatives held for trading** | **175,105** | **175,437** | **714** | **904** |

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

### 24.4. Currency risk

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

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

| 31 December 2019 (CZK million) | CZK | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash deposits with central banks | 99 | 0 | 0 | 0 | **99** |
| Due from banks | 62,530 | 11,089 | 718 | 219 | **74,556** |
| Due from customers | 8,376 | 8,296 | 571 | 0 | **17,243** |
| Other assets | 1,078 | 1,073 | 1 | 0 | **2,152** |
| **Total assets** | **72,083** | **20,458** | **1,290** | **219** | **94,050** |
| **Liabilities** | | | | | |
| Due to banks | 2,194 | 71,388 | 679 | 0 | **74,261** |
| Due to customers | 6,822 | 9,059 | 614 | 205 | **16,700** |
| Provisions | 22 | 40 | 0 | 0 | **62** |
| Other liabilities | 1,554 | 1,296 | 16 | 161 | **3,027** |
| **Total liabilities and equity** | **10,592** | **81,783** | **1,309** | **366** | **94,050** |
| **Net assets/(liabilities)** | **61,491** | **(61,325)** | **(19)** | **(147)** | **0** |
| **Net off-balance sheet currency positions** | **14,621** | **(10,861)** | **0** | **0** | **3,760** |
| **Net open currency position** | **76,112** | **(72,186)** | **(19)** | **(147)** | **3,760** |

| 31 December 2018 (CZK million) | CZK | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash deposits with central banks | 230 | 8 | 4 | 5 | **247** |
| Due from banks | 51,041 | 6,786 | 774 | 122 | **58,723** |
| Due from customers | 6,494 | 11,516 | 688 | 0 | **18,698** |
| Other assets | 488 | 513 | 2 | 0 | **1,003** |
| **Total assets** | **58,253** | **18,823** | **1,468** | **127** | **78,671** |
| **Liabilities** | | | | | |
| Due to banks | 3,188 | 60,345 | 3 | 2 | **63,538** |
| Due to customers | 7,415 | 4,185 | 1,360 | 181 | **13,141** |
| Provisions | 86 | 11 | 1 | 2 | **100** |
| Other liabilities | 38 | 1,837 | 8 | 9 | **1,892** |
| **Total liabilities and equity** | **10,727** | **66,378** | **1,372** | **194** | **78,671** |
| **Net balance sheet assets/(liabilities)** | **47,526** | **(47,542)** | **96** | **(67)** | **13** |
| **Net off-balance sheet currency positions** | **(46,508)** | **46,214** | **(100)** | **62** | **(332)** |
| **Net open currency position** | **1,018** | **(1,328)** | **(4)** | **(5)** | **(319)** |

### 24.5. Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken. These limits are monitored daily. Assets and liabilities bearing fixed interest rate prevail in the balance sheet of the Bank.

### 24.6. 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 daily. Fair values of derivatives are recognized 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.

Residual maturity:

| 31 December 2019 (CZK million) | Within 3 months | 3 – 12 months | 1 - 5 years | More than 5 years | Undefined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash deposits with central banks | 0 | 0 | 0 | 0 | 99 | **99** |
| Due from banks | 68,450 | 1,177 | 1,925 | 160 | 2,844 | **74,556** |
| Due from customers | 5,834 | 294 | 8,289 | 172 | 2,654 | **17,243** |
| Other assets | 409 | 101 | 273 | 842 | 527 | **2,152** |
| **Total assets** | **74,693** | **1,572** | **10,487** | **1,174** | **6,124** | **94,050** |
| **Liabilities** | | | | | | |
| Due to banks | 67,042 | 584 | 6,635 | 0 | 0 | **74,261** |
| Due to customers | 16,598 | 5 | 0 | 0 | 97 | **16,700** |
| Provisions | 4 | 0 | 0 | 0 | 58 | **62** |
| Other liabilities | 1,024 | 184 | 320 | 846 | 653 | **3,027** |
| **Total liabilities and equity** | **84,668** | **773** | **6,955** | **846** | **808** | **94,050** |
| **Net assets/(liabilities)** | **(9,975)** | **799** | **3,532** | **328** | **5,316** | **0** |

| 31 December 2018 (CZK million) | Within 3 months | 3 – 12 months | 1 - 5 years | More than 5 years | Undefined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash deposits with central banks | 25 | 0 | 0 | 0 | 222 | **247** |
| Due from banks | 55,397 | 2,228 | 861 | 141 | 96 | **58,723** |
| Due from customers | 6,361 | 1,179 | 8,213 | 2,332 | 613 | **18,698** |
| Other assets | 131 | 129 | 195 | 384 | 164 | **1,003** |
| **Total assets** | **61,914** | **3,536** | **9,269** | **2,857** | **1,095** | **78,671** |
| **Liabilities** | | | | | | |
| Due to banks | 56,230 | 0 | 5,250 | 2,058 | 0 | **63,538** |
| Due to customers | 13,129 | 12 | 0 | 0 | 0 | **13,141** |
| Provisions | 0 | 0 | 0 | 0 | 100 | **100** |
| Other liabilities | 286 | 161 | 245 | 399 | 801 | **1,892** |
| **Total liabilities and equity** | **69,645** | **173** | **5,495** | **2,457** | **901** | **78,671** |
| **Net assets/(liabilities)** | **(7,731)** | **3,363** | **3,774** | **400** | **194** | **0** |

Estimated maturity:

| 31 December 2019 (CZK million) | Within 3 months | 3 – 12 months | 1 - 5 years | More than 5 years | Undefined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash deposits with central banks | 0 | 0 | 0 | 0 | 99 | **99** |
| Due from banks | 68,450 | 1,177 | 1,925 | 160 | 2,844 | **74,556** |
| Due from customers | 5,834 | 294 | 8,289 | 172 | 2,654 | **17,243** |
| Other assets | 409 | 101 | 273 | 842 | 527 | **2,152** |
| **Total assets** | **74,693** | **1,572** | **10,487** | **1,174** | **6,124** | **94,050** |
| **Liabilities** | | | | | | |
| Due to banks | 67,042 | 584 | 6,635 | 0 | 0 | **74,261** |
| Due to customers | 16,598 | 5 | 0 | 0 | 97 | **16,700** |
| Provisions | 4 | 0 | 0 | 0 | 58 | **62** |
| Other liabilities | 1,024 | 184 | 320 | 846 | 653 | **3,027** |
| **Total liabilities and equity** | **84,668** | **773** | **6,955** | **846** | **808** | **94,050** |
| **Net assets/(liabilities)** | **(9,975)** | **799** | **3,532** | **328** | **5,316** | **0** |

| 31 December 2018 (CZK million) | Within 3 months | 3 – 12 months | 1 - 5 years | More than 5 years | Undefined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash deposits with central banks | 25 | 0 | 0 | 0 | 222 | **247** |
| Due from banks | 55,397 | 2,228 | 861 | 141 | 96 | **58,723** |
| Due from customers | 7,049 | 2,588 | 7,525 | 923 | 613 | **18,698** |
| Other assets | 131 | 129 | 208 | 371 | 164 | **1,003** |
| **Total assets** | **62,602** | **4,945** | **8,594** | **1,435** | **1,095** | **78,671** |
| **Liabilities** | | | | | | |
| Due to banks | 56,230 | 0 | 5,250 | 2,058 | 0 | **63,538** |
| Due to customers | 13,130 | 12 | 0 | 0 | 0 | **13,142** |
| Provisions | 0 | 0 | 0 | 0 | 100 | **100** |
| Other liabilities | 285 | 161 | 245 | 399 | 801 | **1,892** |
| **Total liabilities and equity** | **69,645** | **173** | **5,495** | **2,457** | **901** | **78,671** |
| **Net assets/(liabilities)** | **(7,043)** | **4,772** | **3,099** | **(1,022)** | **194** | **0** |

## 25. Fair value

IFRS determines hierarchy of valuation techniques based on whether the inputs for these procedures are available on markets or not. Input market data are data obtained from independent sources, the input data not observable in the market are market estimates made by the Branch. These two types of input data created the following fair value measurement levels:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities. This level included quoted instruments.
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices). This level included OTC derivative transactions. The input sources, such as LIBOR yield curve of credit risk of counterparty, are Bloomberg or Reuters.
- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

The following spreadsheet summarizes net book values and fair values of financial assets and liabilities measured at amortized cost and classification of financial assets and liabilities measured at fair value into fair value stages.

| 31 December 2019 (CZK million) | Net book value | Fair value | | | |
|---|---|---|---|---|---|
| | | Due from banks | Due from customers | Cash and cash deposits with central banks | Total |
| **Assets measured at amortized cost** | | | | | |
| Stage 2 | **25,152** | 25,053 | - | 99 | **25,152** |
| Stage 3 | **15,483** | - | 16,669 | - | **16,669** |
| **Assets measured at fair value** | | | | | |
| Stage 2 | **49,477** | 49,503 | - | - | **49,503** |
| Stage 3 | **1,728** | - | 1,760 | - | **1,760** |

| 31 December 2019 (CZK million) | Net book value | Fair value | | |
|---|---|---|---|---|
| | | Due from banks | Due from customers | Total |
| **Liabilities measured at amortized cost** | | | | |
| Stage 2 | **91,961** | 74,261 | 16,700 | **90,961** |

| 31 December 2018 (CZK million) | Net book value | Fair value | | | |
|---|---|---|---|---|---|
| | | Due from banks | Due from customers | Cash and cash deposits with central banks | Total |
| **Assets** | | | | | |
| Stage 2 | **58,970** | 58,772 | - | 247 | **59,019** |
| Stage 3 | **18,698** | - | 20,268 | - | **20,268** |

| 31 December 2018 (CZK million) | Net book value | Fair value | | |
|---|---|---|---|---|
| | | Due from banks | Due from customers | Total |
| **Liabilities** | | | | |
| Stage 2 | **76,679** | 63,538 | 13,141 | **76,679** |

Assets measured at fair value include customer loans (see Note 5.1) and receivables from REPO transactions (see Note 4).

The Bank did not make any transfers between the stages and did not make any profit or loss from these transfers.

The approach to calculating fair values of assets carried at amortized cost is the same as for assets carried at fair value.

Fair values are determined based on different kind and quality of market information, using the valuation techniques described below.

Bid prices are used to estimate the fair values of financial assets, while ask prices are applied to financial liabilities.

a) Due from banks

Amounts due from banks include bank deposits and other facilities under repayment. The fair value of interbank and overnight deposits is determined based on discounted cash flows, using current market interest rates.

b) Due from customers

Amounts due from customers are presented net of allowances for doubtful receivables. The estimated fair value of amounts due from customers represents discounted expected cash flows. Expected cash flows are discounted using current market interest rates + credit spreads to determine their fair values.

c) Liabilities from deposits and loans

The estimated fair value of deposits with no stated maturity is the amount payable on demand. The estimated fair value of deposits and other loans for which market prices are not available is determined based on discounted cash flows, using current market interest rates. As floating rates are widely used and there has been no change in the Bank's own credit risk, the fair values of deposits and loans approximate their carrying amounts.

## 26. Collateral

Present value of collateral received can be analyzed as follows:

| (CZK million) | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash | 670 | 540 |
| Real estate pledge | 184 | 123 |
| Other collateral received | 568 | 716 |
| Other guarantees and commitments | 13,451 | 15,013 |
| Treasury bills pledge | 48,487 | 47,040 |
| **Total assets received as collateral for receivables from customers** | **63,360** | **63,432** |

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

## 27. Subsequent events

The current COVID-19 pandemic will result in lowering considerably economic growth, particularly in the first half of 2020. This fact has been confirmed by the economic analysis department of the parent company Commerzbank AG (the founder). The extent and severity of the decline will depend on the time span of the health crisis caused by COVID-19 and on the effectiveness of economic and political measures. The speed and extent of economic recovery is currently uncertain. The pandemic will probably deteriorate the Bank's financial performance in 2020, as the Bank will have to recognize higher allowances against bad debts. At present, however, it is not possible to reliably determine the extent of the negative effects of the pandemic, particularly due to the fact that the situation in the Group's home country has been developing differently – both economically and epidemiologically. Pursuant to the decision of the Government of the Czech Republic and following its approval by the Parliament of the Czech Republic, clients will be allowed, upon request, to defer repayments by three or six months after the respective law comes into force; the deferral does not affect interest rates applied. Management has considered the potential impact of COVID-19 on the Bank's business and has concluded that it does not have a significant impact on its ability to continue as a going concern. Accordingly, the financial statements for the year ended 31 December 2019 have been prepared on the assumption that the Bank will be able to continue as a going concern.

There were no additional events subsequent to the balance sheet date until the date of the preparation of the financial statements which would have material effects on the financial statements of the Bank for the year ended 31 December 2019.

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

27 April 2020

Michael Thomas Krüger
Statutory representative

Ing. Eva Collardová, MBA
Person responsible for accounting

Ing. Jiří Dufek
Person responsible for financial statements preparation

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