

***COMMERZBANK Aktiengesellschaft,
pobočka zahraničnej banky, Bratislava***

Financial statements prepared in accordance
with International Financial Reporting Standards
as adopted by the EU

31 December 2017

Note

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

Independent Auditor's Report

To the Founder of COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava (the "Branch") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The financial statements of COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava comprise:

- The statement of comprehensive income for the year then ended;
- The statement of financial position as at 31 December 2017;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Branch are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Article 5 Regulation (EU) No. 537/2014.

The non-audit services that we have provided to the Branch, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 10 to the financial statements.

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The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.



Our audit approach

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the Branch's internal structure, the accounting processes and controls, and the financial services industry in which the Branch operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	EUR 4,285,000
<i>How we determined it</i>	We based the materiality on total assets
<i>Rationale for the materiality benchmark applied</i>	Materiality is a matter of professional judgment and in drawing conclusions about materiality, we considered both quantitative and qualitative factors. Since the Branch was primarily established for the purpose of strategic position in the Slovak market of the global Commerzbank AG Group, we chose total assets as the benchmark. The quantitative threshold of approximately 1% applied to total assets is within a range set out in our internal firm's guidance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Credit risk and valuation of loans to customers

In the balance sheet and in note 17 of the financial statements, the Branch presents its customer loan portfolio of EUR 199,173 thousands, of which five biggest customer exposures represent 90% of the total balance.

The risk of irrecoverability of these individually significant exposures is an inherent part of banking activities. However the impairment quantification through specific loan loss provisions („SLLP”) is a subjective area that has significant impact on the profits of the Bank and therefore we focused on it.

The SLLP is calculated by the Branch as a difference between the loan's carrying amount and the present value of expected cash flows discounted at the loan's original effective interest rate. Future cash flows (and thus the SLLP) are assessed at least quarterly, based on reasonable assumptions and projections.

Due to the fact that 90% of the Branch's customer loan portfolio is represented by five customer exposures (each assessed as individually significant), we focused our audit procedures on SLLP.

We verified that the Branch follows its accounting policies for SLLP calculation and that these policies are in line with International Financial Reporting Standards as adopted by the European Union. As the internal control system design and inputs into banking systems have a key role in the identification of impaired loans and models facilitate appropriate quantification of the SLLP, we focused our audit procedures particularly on these areas.

We verified the process of granting of loans to satisfy ourselves that the banking system uses appropriate and complete data, that the processes are in line with internal guidelines and that the procedures ensure timely recognition of incurred credit losses. We also verified control procedures for monitoring and measurement of collaterals and observed that the processes and controls operate as we expected.

We verified the principles used by the Branch for allocation of ratings to customer loans and observed that the implemented procedures result in an appropriate setting of customers' rating. Since all customer exposures are neither past due nor impaired, there are no SLLP allocated to the customer loans.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial reporting Standards as adopted by the European Union, and for such internal control as management 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, management 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 management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.



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 International Standards on Auditing 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 our audit, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Reporting on Other Legal and Regulatory Requirements

Our appointment as independent auditor

We were first appointed as auditors of the Branch for the year 2003. Our appointment has been renewed annually by a Member of Board of Managing Directors for a total uninterrupted period of fifteen years.

PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Bratislava, 27 March 2018



Tučný

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

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Statement of comprehensive income for the year ended 31 December 2017

(EUR'000)	Note	Year ended	
		31 December 2017	31 December 2016
Interest and similar income	5.1	4,508	3,899
Interest expense and similar charges	5.2	(823)	(1,116)
Net interest income		3,685	2,783
Loan impairment charges	6	(102)	(214)
Net interest income after loan impairment charges		3,583	2,569
Fee and commission income	7.1	1,607	1,668
Fee and commission expense	7.2	(25)	(113)
Net fee and commission income		1,582	1,555
Net trading loss	8	(6)	(5)
Employee benefit expenses	9	(508)	(481)
General and administrative expenses	10	(2,783)	(2,548)
Depreciation and amortisation expenses	11	(13)	(19)
Other operating expenses	12	(889)	(788)
Profit before income tax and re-measurement of net assets attributable to head office		966	283
Income tax	13.25	(224)	(107)
Profit before re-measurement of net assets attributable to head office		742	176
Re-measurement of net assets attributable to head office	2.20	(742)	(176)
Net profit of the year attributable to head office		-	-
Total comprehensive income for the year attributable to head office		-	-

Statement of financial position as at 31 December 2017

(EUR'000)	Note	31 December 2017	31 December 2016
ASSETS			
Cash and balances with central banks	14	160,344	160,143
Loans to banks	15	67,535	78,466
Loans to customers	17	199,173	136,106
Intangible assets	18	5	8
Property, plant and equipment	19	38	19
Deferred income tax asset	25	252	266
Other assets	21	1,552	269
Total assets		428,899	375,277
LIABILITIES			
Deposits from banks	22	339,646	280,051
Due to customers	23	87,448	92,959
Current income tax liabilities	13	219	99
Provisions for liabilities and charges	26	470	670
Other liabilities	24	972	1,352
Net assets attributable to head office	2.20	144	146
Total liabilities		428,899	375,277

Statement of cash flows for the year ended 31 December 2017

(EUR'000)	Note	Year ended	
		31 December 2017	31 December 2016
Profit before income tax and re-measurement of net assets attributable to head office		966	283
<i>Non-cash positions in net profit and adjustments to reconcile net profit with net cash provided by operating activities:</i>			
Write-downs, depreciation, adjustments and changes in provisions	11, 17, 26	112	207
Net interest income	5	(3,685)	(2,783)
Net fee and commission income	7	(1,582)	(1,555)
Sub-total		(4,189)	(3,848)
<i>Change in assets and liabilities from operating activities after adjustment for non-cash components:</i>			
Loans to customers		(63,359)	(33,462)
Other assets from operating activities		(1,206)	(25)
Liabilities to banks		58,640	119,140
Liabilities to customers		(5,511)	(4,628)
Other liabilities from operating activities		(291)	623
Interest received		4,498	3,908
Interest paid		(820)	(1,082)
Fee and commission received		1,544	1,724
Fee and commission paid		(114)	290
Income tax paid		(99)	(127)
Net cash flows from operating activities		(10,907)	82,513
<i>Payments for the acquisition of:</i>			
Property, plant and equipment	19	(30)	(11)
Net cash flows from investing activities		(30)	(11)
Settlement of losses by head office		207	73
Net cash flows from financing activities		207	73
Net increase in cash and cash equivalents		(10,730)	82,575
Cash and cash equivalents at the end of the previous period	27	238,609	156,034
Cash and cash equivalents at the end of the period	27	227,879	238,609

1. General information

COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava (“the Branch”) provides corporate banking services in the Slovak Republic.

The Branch is domiciled in Slovakia. The address of its registered office is Rajská 15/A, 811 08 Bratislava. Corporate identification number (IČO) is 308 47 737; tax identification number (IČ DPH): SK 20 21 75 10 61.

The Branch was established and registered in the Commercial Register in 2003 as an organisational branch of a foreign legal entity, COMMERZBANK AG seated in Frankfurt am Main. It is entered in the commercial register at the county court, Frankfurt am Main, under HRB 32000, Germany. The Branch obtained a banking license from the National Bank of Slovakia (“NBS”) based on banking license by the Authority Bundesanstalt für Finanzdienstleistungsaufsicht Graurheindorfer Str. 108, 531 17 Bonn. The Branch began its business activity on 18 August 2003.

Principal business activities carried out and permitted by the banking license are:

- Granting loans;
- Accepting deposits;
- Domestic and cross-border money transfers (payment transactions and clearing);
- Issuing and administering means of payment;
- Providing advisory services and banking information, financial mediation;
- Doing business on its own or on the client’s account with money market financial instruments; capital market financial instruments and precious metal coins, commemorative banknotes and coins;
- Providing guarantees, opening and confirming letters of credit;
- Exchange services.

Business activities permitted by the banking license but not carried out are:

- Processing banknotes and coins;
- Financial leasing;
- Administering client’s receivables and securities on their account, including related advisory services;
- Depositing securities or items, renting safe deposit boxes.

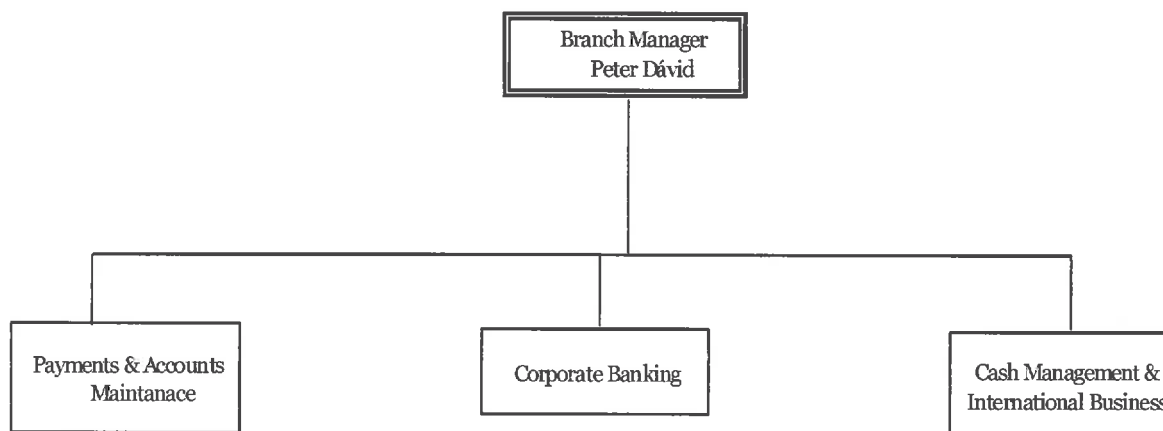
The average number of staff was 12 in 2017 (2016: 11).

The Branch is not a separate legal person and is not shareholder or unlimited liability partner in any other company.

These financial statements have been prepared on a going-concern basis as ordinary financial statements at 31 December 2017 and approved for issue by the Director of the Branch on 27 March 2018.

**1.1 Statutory, supervisory, managing bodies and the organisation chart
as at 31 December 2017**

Name	Position
Director of branch:	
Peter Dávid	Director of Branch
General power of representation:	
Anna Bajúszová	Proxy
Štefan Košiar	Proxy
Miriám Štilhammerová (since June 2017)	Proxy
Board of directors of COMMERZBANK AG:	
Martin Zielke	Chairman
Frank Annuscheit	Member
Dr. Marcus Johanner Chromik	Member
Stephan Engels	Member
Michael Reuther	Member
Michael Mandel	Member
Bettina Orlopp	Member
Supervisory board of COMMERZBANK AG:	
Klaus-Peter Müller	Chairman
Uwe Tschäge	Deputy Chairman
Hans-Hermann Altenschmidt	Member
Gunnar de Buhr	Member
Stefan Burghardt	Member
Sabine U. Dietrich	Member
Karl – Heinz Flöther	Member
Dr. Marcus Kerber	Member
Alexandra Krieger	Member
Oliver Leiberich	Member
Dr. Stefan Lippe	Member
Beate Mensch	Member
Anja Mikus	Member
Dr. Tobias Guldemann	Member
Dr. Helmut Perlet	Member
Heike Anscheit	Member
Mark Roach	Member
Stefan Jennes	Member
Dr. Gertrude Tumpel- Gugerell	Member
Nicholas Teller	Member



Shareholders' information of Commerzbank AG at 31 December 2017 and 2016.

Shares of capital held:	2017	2016
Institutional investors	50%	50%
Government of Germany	15%	15%
BlackRock	5%	5%
Private investors	25%	25%
Capital Group	-	5%
Cerberus	5%	-

Stock exchange listings:

Germany:	Europe:	North America:
Berlin	London	Sponsored ADR (CRZBY)
Düsseldorf	Switzerland	CUSIP: 202597308
Frankfurt		
Hamburg		
Hannover		
Munich		
Stuttgart		
XETRA		

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Branch's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and in accordance with the Slovak Act on Accounting. Additional information required by national regulations is included where appropriate.

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows and the notes.

The financial statements have been prepared under the historical cost convention.

The Branch classifies its expenses by the nature of expense method.

The financial statements are presented in EUR, which is the Branch's functional and presentation currency. The balances shown in the financial statements are stated in EUR thousands.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 27 shows in which item of the statement of financial position cash and cash equivalents are included.

Net cash from operating activities includes payments (inflows and outflows) relating to claims on banks and customers and other assets. Increases and decreases in liabilities to banks and customers and other liabilities also belong to operating activities. The interest payments resulting from operating activities are also reflected in net cash from operating activities.

2.1.1 Framework for preparation

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Branch's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.1.2 Standards or interpretations effective for the first time for years ended 31 December 2017

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. This standard has been endorsed by the European Union with effective date for annual periods beginning on or after 1 January 2017. There is no impact of this standard on the financial statements of the Branch.

Disclosure Initiative Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment to IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. This standard has been endorsed by the European Union with effective date for annual periods beginning on or after 1 January 2017. There is no impact of this standard on the financial statements of the Branch.

Annual Improvements to IFRSs 2014-2016 cycle - amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. The amendments have been endorsed by the European Union in February 2018 with a retroactive effective date from 1 January 2017.

2.1.3 Standards or interpretations effective for the first time from 1 January 2018 which were not early adopted

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Branch is currently assessing the impact of the standard on the financial statements of the Branch.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Branch is currently assessing the impact of the standard on the financial statements of the Branch.

IFRS 9 “Financial Instruments” (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

An estimated decrease in provision for impairment will be less than EUR 500,000 for the financial assets and corresponding increase in opening retained profits is expected to arise from the application of the expected credit losses impairment model.

No changes are expected for financial liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Branch's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Branch is currently assessing the impact of the standard on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Branch's financial statements.

2.2 Foreign currency translation

a. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Branch operates ("the functional currency"), which is EUR.

The financial statements and tabular information in the notes are presented in thousands.

b. Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition, non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

All foreign exchange gains and losses recognised in the statement of comprehensive income are presented net within the corresponding item.

2.3 Financial assets and financial liabilities

2.3.1 Financial assets

The Branch classifies all its financial assets in the category loans and receivables. Management determines the classification of its investments at initial recognition.

a. Loans and receivables (LaR)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- Those that the entity upon initial recognition designates as available for sales; or
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers. Interest on loans is included in the statement of comprehensive income and is reported as Interest and similar income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as Loan impairment charges.

2.3.2 Financial liabilities

The Branch classifies all liabilities in category liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

a. Liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised costs. Financial liabilities measured at amortised cost include deposits from banks or customers and other financial liabilities.

2.3.3 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4 Classes of financial instruments

The Branch classifies the financial instruments into classes that reflect the nature and take into account the characteristics of those financial instruments.

Classes vs. categories as at 31 December 2017:

Classes / Categories (EUR'000)	Loans and Receivables	Financial liabilities measured at amortised cost	Total
Assets			
Cash and balances with central banks	160,344	-	160,344
Loans and advances to banks	67,535	-	67,535
Loans and advances to customers	199,173	-	199,173
Other financial assets	1,458	-	1,458
Total financial assets	428,510	-	428,510
Liabilities			
Deposits from banks	-	339,646	339,646
Due to customers	-	87,448	87,448
Other financial liabilities	-	382	382
Total financial liabilities	-	427,476	427,476

Classes vs. categories as at 31 December 2016:

Classes / Categories (EUR'000)	Loans and Receivables	Financial liabilities measured at amortised cost	Total
Assets			
Cash and balances with central banks	160,143	-	160,143
Loans and advances to banks	78,466	-	78,466
Loans and advances to customers	136,106	-	136,106
Other financial assets	123	-	123
Total financial assets	374,838	-	374,838
Liabilities			
Deposits from banks	-	280,050	280,050
Due to customers	-	92,959	92,959
Other financial liabilities	-	537	537
Total financial liabilities	-	373,546	373,546

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.6 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within interest income and interest expense in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipt through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment and administration fees for the loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Branch has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

2.8 Impairment of financial assets

2.8.1 Assets carried at amortised cost

The Branch assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Branch uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties, or
- Observable data indicating there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - Adverse changes in the payment status of borrowers in the portfolio, and
 - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used to vary between three months and 12 months, in exceptional cases, longer periods are warranted.

The Branch first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Branch may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the bases of similar credit risk characteristics (i.e. on the bases of the grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. The amount of losses from impairment of loans to customers is recognised in the statement of comprehensive income as a loan impairment charge.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income as an impairment charge for credit losses.

2.8.2 Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were identified as impaired in 2017 and 2016.

2.10 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and balances with central banks, obligatory minimum reserves and loans and advances to banks.

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques (for example for swaps and currency transactions, including discounted cash flow models). All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.12 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases.

The Branch is a lessee.

2.12.1 Operating lease

Leases where a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.12.2 Finance lease

Leases of assets, where the Branch has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the leases' commencement date at the lower of the fair value of the lease property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations net of finance charges are included in deposits from customers. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

2.13 Staff costs, pensions and social fund

Staff costs are included in Personnel expense and they also include management emoluments.

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

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

The Branch creates a social fund to finance the social needs of its employees and employees' benefit programme according to the local legislation. Allocation is recognised in the statement of comprehensive income and the fund is recognised as a liability.

2.14 Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the operating expenses during the financial period in which they are incurred.

Depreciation of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Fixed assets	Estimated useful life
Safes	12 years
Leasehold improvements	over the period of lease
Cars	4 years
Furniture	4 - 6 years
Hardware	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the statement of comprehensive income.

2.15 Intangible assets

Intangible assets comprise separately identifiable intangible items arising from computer software licences and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, at each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. Impairment loss is recognized if the carrying amount exceeds the recoverable amount.

The estimated useful life of software is 4 years.

2.16 Income tax

The income tax arising from the result of operations of the current period consists of the tax due and deferred tax. The income tax is recognized in the income statement, except for the tax that relates to items recognized directly in other comprehensive income. In that instance also the income tax is posted directly to other comprehensive income.

2.16.1 Current income tax

The income tax due is the expected tax liability relating to the taxable profit for the current period, computed using the tax rate applicable at the balance sheet date. The tax due also includes adjustments of the tax liabilities of past accounting periods.

2.16.2 Deferred income tax

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions and tax loss carry-forwards.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.17 Provisions

Provisions for legal claims are recognised when the Branch has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Branch recognises no provisions for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature equals the agreed premium. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Branch's liabilities from such guarantees are measured at the higher of the initial amount, less amortization of fees recognised, and the best estimate of the amount required to settle the guarantee. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

2.19 Related parties

The Branch's related parties are considered to be the following:

- Parties, of which the Branch is a subsidiary or an associate, directly or indirectly, and other subsidiaries and associates of these parties; and / or
- Members of the Branch's or parent company's statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence; and / or
- Material transactions and outstanding balances with related parties.

2.20 Net assets attributable to head office

As the Branch is part of the legal entity Commerzbank AG, there is a regular transfer of annual profit or loss in accordance with German Commercial Code (HGB) and related German Accounting Standards ("German GAAP") at the request of Commerzbank AG. The related liability or receivable is reclassified into Deposits to banks or Loans to banks in the respective financial period. Difference between total external assets and total external liabilities is considered to be a non-financial asset / liability. Net assets attributable to head office are re-measured at present value of redemption amount and considered as payable on demand, since the settlement is fully controlled by Commerzbank AG.

The movements in net assets attributable to head office can be analysed as follows:

(EUR'000)	Net assets attributable to head office
Balance 1 January 2016	237
Re-measurement in the amount of profit before distributions to head office in accordance with IFRS for the period ended 31 December 2016	176
Reclassification of payable to head office into Deposits from banks in the amount of German GAAP profit for the period ended 31 December 2016	(267)
Balance 31 December 2016	146
Re-measurement in the amount of profit before distributions to head office in accordance with IFRS for the period ended 31 December 2017	742
Reclassification of payable to head office into Deposits from banks in the amount of German GAAP profit for the period ended 31 December 2017	(744)
Balance 31 December 2017	144

2.21 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3. Financial risk management

The Branch's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Branch's risk management are to identify all key risks for the Branch, measure these risks and manage the risk positions. The Branch regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The aim of the Branch is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Branch's financial performance. The Branch defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by central departments under policies approved by the Board of Directors. Risk departments identify and evaluate financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Branch is exposed are financial risks, which include credit risk, liquidity risk, market risk and operational risk.

3.1 Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Branch's customers, clients or market counterparties fail to fulfil their contractual obligations to the Branch. Credit risk arises mainly from commercial loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit.

The Branch is also exposed to other credit risks arising from exposures from its trading activities (trading exposures), including derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the business of the Branch; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which ultimately reports to the Board of Directors of Commerzbank AG.

3.1.1 Credit risk measurement

Loans and advances (incl. loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring.

In order to support the quantification of the credit risk, different models are applied. These rating and scoring models are in use for all the credit portfolio and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Branch considers three components:

- The probability of default (PD) by the client or counterparty on its contractual obligations;
- Current exposures to the counterparty and its likely future development, from which the Branch derive the exposure at default (EAD); and
- The likely recovery ratio on the defaulted obligations (the loss given default) (LGD).

The models are reviewed regularly.

These credit risk measurements, which reflect expected loss, are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee) and are embedded in the daily operational management of the Branch.

- Probability of default

The Branch assesses the probability of default of individual counterparties over the next 12 months using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. The rating method comprises of 25 rating levels for loans not in default and five default classes. The master scale assigns each rating category exactly one range of probabilities of default, which is stable over time.

The rating methods are subject to regular validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

The internal ratings scale and mapping of external ratings are as follows:

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

* EL = Expected loss

- Exposure at default

EAD is based on the amounts the Branch expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Branch includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

- Loss given default

Loss given default represents the expectation of the Branch of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type of claim and availability of collateral or other credit support.

The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II.

3.1.2 Credit risk limit control and mitigation policies

The Branch manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Branch structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors. The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

a. Collateral

The Branch employs a range of policies and practices to mitigate credit risk. The Branch implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over business assets such as premises, inventory and accounts receivable;
- Guarantees;
- Mortgages over residential properties.

Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss the Branch seeks additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

b. Lending limits

The Branch maintains strict overall lending limits by customers.

c. Financial commitments (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit are collateralised by underlyings to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Branch is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Branch monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The internal rating system described in Note 3.1.1 focuses on expected credit losses – that is, taking into account the risk of future events giving rise to losses.

In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

a. Specific loan loss provision (SLLP)

The SLLP is used in the significant loan portfolio to determine the provisions for incurred loan losses.

When determining the SLLP, a distinction is made between “impaired” and “non-impaired” loans according to the rating master scale.

b. Portfolio loan loss provision (PLLP)

The PLLP is used in the insignificant loan portfolio to determine the provisions for incurred loan losses.

When determining the PLLP, a distinction is made between “impaired” and “non-impaired” loans according to the rating master scale.

The threshold for significance has been determined of EUR 3 mil as for 2017 (2016: EUR 3 mil).

c. General loan loss provisions (GLLP)

The loan portfolio comprises all on-balance transactions as well as off-balance transactions (e.g. financial guarantees and loan commitments). Loans for which there is no objective indication of an impairment on an individual basis are divided into groups of loans with similar loss risk profiles (e.g. with regard to the type of asset/collateral or industry affiliation) – homogeneous partial portfolios and investigated for impairment together. A distinction can be made here between the following two cases:

- There is no objective indication of impairment from the outset;
- An objective indication of impairment exists, but individual investigation yields the result that the loan must be assessed as being non-impaired.

The scope of the GLLP therefore includes all loans for which one of the following criteria is met:

- A default has not yet been identified in the individual case; and
- No objective indications of impairment have been established in the individual case.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet and off-balance sheet assets are as follows:

(EUR'000) Class	Maximum exposure	
	31 December 2017	31 December 2016
Cash and balances with central banks	160,344	160,143
Loans to banks	67,535	78,466
- Nostro accounts and other balances	322	1,378
- Term loans	66,993	76,674
- Loans and advances to other banks	202	404
- Cash in transit	18	10
Loans to customers	199,173	136,107
- Commercial loans	178,234	118,556
- Overdrafts	20,939	17,549
- Cash in transit	-	2
Other financial assets	1,458	123
Total on-balance sheet financial assets	428,510	374,838
Loan commitments	117,146	192,841
of which: irrevocable	-	131,579
revocable	117,146	61,262
Guarantees and standby letters of credit	131,054	143,191
Total off-balance sheet items (contingent liabilities)	248,200	336,032

The table above represents a worst case scenario of credit risk exposure to the Branch at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements attached.

For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

3.1.5 Concentration of risks of financial assets with credit risk exposure

a. Geographical sectors

The following tables break down the Branch's main credit exposures at their carrying amount (without taking into account any collateral held or other credit support), as categorised by geographical regions as of 31 December 2017. For this table, the Branch has allocated exposures to regions based on the country of domicile of counterparties. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

31 December 2017 (EUR'000)	Slovakia	European Union	Other countries	Total
Cash and balances with central banks	160,344	-	-	160,344
Loans and advances to banks	125	67,208	202	67,535
- Nostro accounts and other balances	118	204	-	322
- Term loans	-	66,993	-	66,993
- Loans and advances to other banks	-	-	202	202
- Cash in transit	7	11	-	18
Loans and advances to customers	199,173	-	-	199,173
- Commercial loans	178,234	-	-	178,234
- Overdrafts	20,939	-	-	20,939
Other financial assets	1,458	-	-	1,458
Total financial assets	361,100	67,208	202	428,510
Loan commitments	117,146	-	-	117,146
Guarantees and standby letters of credit	104,585	26,469	-	131,054

31 December 2016 (EUR'000)	Slovakia	European Union	Other countries	Total
Cash and balances with central banks	160,143	-	-	160,143
Loans and advances to banks	60	78,002	404	78,466
- Nostro accounts and other balances	60	1,318	-	1,378
- Term loans	-	76,674	-	76,674
- Loans and advances to other banks	-	-	404	404
- Cash in transit	-	10	-	10
Loans and advances to customers	136,106	-	-	136,106
- Commercial loans	118,556	-	-	118,556
- Overdrafts	17,549	-	-	17,549
- Cash in transit	2	-	-	2
Other financial assets	123	-	-	123
Total financial assets	296,432	78,002	404	374,838
Loan commitments	192,841	-	-	192,841
Guarantees and standby letters of credit	112,655	29,997	539	143,191

b. Industry sectors

The following table breaks down the credit exposures of the Branch at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the counterparties. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

31 December 2017 (EUR'000)	Financial institution	Manufacturing	Other industries & individuals	Total
Loans and advances to banks	67,535	-	-	67,535
- Nostro accounts and other balances	322	-	-	322
- Term loans	66,993	-	-	66,993
- Loans and advances to other banks	202	-	-	202
- Cash in transit	18	-	-	18
Loans and advances to customers	-	94,347	104,826	199,173
- Overdrafts	-	17,502	3,437	20,939
- Commercial loans	-	76,845	101,389	178,234
Other financial assets	-	1,458	-	1,458
Total financial assets	67,535	95,805	104,826	268,166
Loan commitments	-	-	117,146	117,146
Guarantees and standby letters of credit	30,384	18,732	81,938	131,054

Cash and balances with central bank of EUR 160,344,000 as at 31 December 2017 are not included. As at 31 December 2017 the Branch had no exposures to other financial companies.

31 December 2016 (EUR'000)	Financial institution	Manufacturing	Other industries & individuals	Total
Loans and advances to banks	78,466	-	-	78,466
- Nostro accounts and other balances	1,378	-	-	1,378
- Term loans	76,666	-	-	76,666
- Loans and advances to other banks	404	-	-	404
- Cash in transit	18	-	-	18
Loans and advances to customers	-	79,624	56,482	136,106
- Overdrafts	-	15,416	2,133	17,549
- Commercial loans	-	64,208	54,348	118,556
- Cash in transit	-	-	1	1
Other financial assets	-	-	123	123
Total financial assets	78,466	79,624	56,606	214,695
Loan commitments	-	79,322	113,515	192,837
Guarantees and standby letters of credit	39,990	21,027	82,174	143,191

Cash and balances with central bank of EUR 160,143,000 as at 31 December 2016 are not included.
As at 31 December 2016 the Branch had no exposures to other financial companies.

3.1.6 Financial assets

31 December 2017 (EUR'000)	Loans and advances to banks	Loans and advances to customers	Cash and other receivables	Total
Financial assets:				
Neither past due nor impaired	67,534	199,631	160,344	427,509
GLLP	-	(458)	-	(458)
Total	67,534	199,173	160,344	427,051

Other financial assets of EUR 1,458,000 as at 31 December 2017 are not included.

31 December 2016 (EUR'000)	Loans and advances to banks	Loans and advances to customers	Cash and other receivables	Total
Financial assets:				
Neither past due nor impaired	78,468	136,262	160,143	374,873
Impaired	-	-	-	-
GLLP	(2)	(156)	-	(158)
PLLP	-	-	-	-
Total	78,466	136,106	160,143	374,715

Other financial assets of EUR 268,000 as at 31 December 2016 are not included.

Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 15 and 17.

a. Loans neither past due nor impaired

The internal credit rating master scale does not apply for every Branch's loans or receivable. These are mainly loans and receivables to related parties and other financial institutions where the Branch has their accounts (nostros or loros). Recognition of credit risk by these counterparties is defined by Moody's or Standard and Poor's rating. Credit ratings to related parties were taken from Commerzbank Aktiengesellschaft group's rating.

The tables below summarize loans and receivables where Branch does not apply internal credit rating system:

31 December 2017 (EUR'000)	Nostro / Loro	Cash in transit	Term loans	Loans and advances	Moody's / S&P
Related parties:					
of which: Commerzbank, Prague Branch	-	-	66 993	-	Baa1 / A-
Commerzbank, Frankfurt	204	11	-	-	Baa1 / A-
Other banks:					
Unicredit Bank Slovakia, a.s.	118	-	-	-	Baa2 / BBB-
Cash in transit:	-	-	-	-	-
Total	322	11	66 993	-	

31 December 2016 (EUR'000)	Nostro / Loro	Cash in transit	Term loans	Loans and advances	Moody's / S&P
Related parties:					
of which: Commerzbank, Prague Branch	590	-	76,674	-	Baa1 / A-
Commerzbank, Frankfurt	728	-	-	-	Baa1 / A-
Other banks:					
Unicredit Bank Slovakia, a.s.	42	-	-	-	Baa2 / BBB-
Tatrabanka, a.s.	18	-	-	-	Baa1 / -
Belarusbank	-	-	-	404	Caa1 / B-
Cash in transit:	-	163	-	-	
Total	1,378	163	76,674	404	

Loans summarized by the internal rating grade and class and product:

31 December 2017 (EUR'000)	To customers			Total loans to customers
	Overdrafts	Commercial loans	Other receivable	
Internal rating scale				
Investment grade	7,754	68,361	-	76,115
Non-investment grade	13,184	110,329	-	123,513
Total	20,938	178,690	-	199,628

31 December 2016 (EUR'000)	To customers			Total loans to customers
	Overdrafts	Commercial loans	Other receivable	
Internal rating scale				
Investment grade	6,526	64,167	-	70,693
Non-investment grade	11,023	54,543	-	65,566
Default – restructured and fully collateralised	1	-	2	3
Total	17,550	118,710	2	136,262

As at 31 December 2017 and 2016, the Branch had no loans to banks that would be internally rated.

For description of collateral see Note 3.1.2.

b. Financial assets past due but not impaired

There were no financial assets past due but not impaired as at 31 December 2017 and 2016.

c. Loans impaired

There were no Loans impaired as at 31 December 2017 and 2016.

d. The financial effect of collateral

Potential financial effect of collateral (disclosure required by amended standard IFRS 7) is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets” and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

31 December 2017 (EUR'000)	Carrying value of the asset	Fair value of collateral
Under-collateralised loans and advances to customers	31 711	13 792

31 December 2016 (EUR'000)	Carrying value of the asset	Fair value of collateral
Under-collateralised loans and advances to customers	41,277	19,994

There were no over-collateralised loans and advances to customers as at 31 December 2017 and 2016.

The fair value of collateral is derived from open market values of collateral adjusted by collateral realisation quota depending on various collateral specific characteristics and cost of realisation. There are no loans individually impaired.

The financial effect of collateral for loans not individually impaired is inherent in the models for GLLP provisions, but due to the statistical nature of these models cannot be isolated and quantified.

3.2 Market risk

The Branch takes exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency 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 and foreign exchange rates.

3.2.1 Market risk measurement techniques

a. Value at risk – VaR

The Branch applies a value at risk (VaR) methodology to its portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value for risk that may be accepted, which are monitored on a daily basis.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the maximum amount the Branch might lose, but only to a certain level of confidence (97.5%). There is therefore a specified statistical probability (2.5%) that actual loss could be greater than the VaR estimate. The VaR model assumes a certain holding period until positions can be closed (1 day).

As VaR constitutes an integral part of the Branch's market risk control regime, VaR limits are established by the management for all trading and banking operations; actual exposure against limits is reviewed daily by management. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The quality of the VaR model is continuously monitored by back-testing the VaR results.

b. Stress testing

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. Branch measures both the VaR and Stress Test to better quantify the Risk.

VaR figures and Stress Test results are reported on a Daily basis to the Management and Commerzbank AG Treasury. In 2017 and 2016 the Stress Test Risk never exceeded the Branch's limit.

3.2.2 VaR Summary for 2017 and 2016

The table below summarizes the VaR for treasury portfolio only. All other portfolios are concluded on back-to-back basis and therefore do not bear interest rate and foreign exchange risk.

2017 (EUR'000)	Average	Maximum	Minimum
Foreign exchange risk	-	19	-
Interest rate risk	1	5	-

2016 (EUR'000)	Average	Maximum	Minimum
Foreign exchange risk	-	-	(6)
Interest rate risk	(1)	-	(2)

3.2.3 Foreign exchange risk

The Branch takes exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set on the level of exposure, which are monitored daily. Foreign exchange risk is included in VaR and stress testing limits.

The table below summarizes the Branch's exposure of financial assets and financial liabilities to foreign currency exchange rate risk at the end of reporting period:

(EUR'000)	31 December 2017			31 December 2016		
	Financial assets	Financial liabilities	Net position	Financial assets	Financial liabilities	Net position
EUR	410,331	409,226	1,105	349,170	348,058	1,112
USD	18,166	18,135	31	24,824	24,752	72
CZK	8	68	(60)	600	698	(98)
Other	5	47	(42)	37	39	(2)
Total	428 510	427 476	1,034	374,601	373,546	1,054

3.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Branch takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The limits of VaR are set up and monitored daily. Interest rate risk is included in VaR and stress testing limits.

The table below summarizes the Branch's exposure to interest rate risks. The table presents the aggregated amounts of the Branch's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

2017 (EUR'000)	Demand and less than 1 month	From 1 to 6 month	From 6 to 12 months	More than 1 year	Total
Financial assets	255,797	169,327	999	2,387	428,510
Financial liabilities	174,662	252,814	-	-	427,476
Net interest sensitivity gap at 31 December 2017	81,135	(83,487)	999	2,387	1,034

2016 (EUR'000)	Demand and less than 1 month	From 1 to 6 month	From 6 to 12 months	More than 1 year	Total
Financial assets	305,877	65,818	1,161	1,982	374,838
Financial liabilities	224,136	149,048	-	331	373,515
Net interest sensitivity gap at 31 December 2016	81,741	(83,230)	1,161	1651	1,323

3.3 Liquidity risk

Liquidity risk is the risk that the Branch is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

3.3.1 Liquidity risk management process

Liquidity management process that is monitored by a separate team includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include a replenishment of funds as they mature or are borrowed by customers;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements.

Sources of liquidity are regularly reviewed by a separate team.

3.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows receivable by the Branch under financial assets by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the carrying amounts including future interest receivable from interest bearing assets.

31 December 2017 (EUR'000)	Up to 1 month	1 – 3 months	3 – 12 Months	1 – 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank	160,344	-	-	-	-	160,344
Deposits in banks	67,332	-	202	-	-	67,534
Due from customers	26,485	111,736	6,096	54,857	-	199,174
Other financial assets	1,458	-	-	-	-	1,458
Total balance sheet assets	255,619	111,736	6,298	54,857	-	428,510

31 December 2016 (EUR'000)	Up to 1 month	1 – 3 months	3 – 12 Months	1 – 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank	160,143	-	-	-	-	160,143
Deposits in banks	78,083	-	203	201	-	78,487
Due from customers	67,469	7,078	3,598	59,600	189	137,934
Other financial assets	269	-	-	-	-	269
Total balance sheet assets	305,964	7,078	3,801	59,801	189	376,833

As at 31 December 2017 and 2016, the Branch had no off-balance sheet assets.

The table below presents the cash flows payable by the Branch under financial liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows including future interests payable from interest bearing liabilities.

31 December 2017 (EUR'000)	Up to 1 month	1 – 3 months	3 – 12 Months	1 – 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	86,832	191,659	6,297	54,858	-	339,646
Due to customers	87,447	-	-	-	-	87,447
Other financial liabilities	383	-	-	-	-	383
Total balance sheet financial liabilities	174,662	191,659	6,297	54,858	-	427,476
Total off-balance sheet items	247,909	-	-	-	-	247,909
Total	422,571	191,659	6,297	54,858	-	675,385

31 December 2016 (EUR'000)	Up to 1 month	1 – 3 months	3 – 12 Months	1 – 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	130,970	87,859	3,542	57,390	163	279,924
Due to customers	92,963	-	-	-	-	92,963
Other financial liabilities	1,351	-	-	-	-	1,351
Total balance sheet financial liabilities	225,284	87,859	3,542	57,390	163	374,238
Total off-balance sheet items	336,032	-	-	-	-	336,032
Total	561,316	87,859	3,542	57,390	163	710,270

Commitments and contingent liabilities

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Branch does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

31 December 2017 (EUR'000)	Up to 1 month	Total
Loan commitments	117,146	117,146
<i>of which: irrevocable</i>	-	-
Guarantees	131,054	131,054
Standby letters of credit	291	291
Total	248,491	248,491

31 December 2016 (EUR'000)	Up to 1 month	Total
Loan commitments	192,841	192,841
<i>of which: irrevocable</i>	131,579	131,579
Guarantees	143,191	143,191
Standby letters of credit	-	-
Total	336,032	336,032

3.4 Fair values of financial assets and liabilities

3.4.1 Fair value hierarchy

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the market assumptions of the Branch. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Branch considers relevant and observable market prices in its valuations where possible. There are no assets or liabilities measured at fair value in the financial statements of the Branch as at 31 December 2017 and 2016.

3.4.2 Offsetting of financial assets and liabilities

There were no financial assets and liabilities subject to offsetting, enforceable master netting arrangements or similar agreements.

3.4.3 Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of financial assets and liabilities.

31 December 2017 (EUR'000)	Carrying value					Fair Value
		Loans to banks	Loans to customers	Cash & balances with central banks	Other financial assets	Total
Financial assets						
Loans and receivables	428,510	67,534	199,417	160,344	1,458	428,753

31 December 2017 (EUR'000)	Carrying value				Fair Value
		Deposits from banks	Due to customers	Other financial liabilities	Total
Financial liabilities					
Financial liabilities at amortised cost	427,476	339,475	87,448	382	427,305

31 December 2016 (EUR'000)	Carrying value					Fair Value
		Loans to banks	Loans to customers	Cash & balances with central banks	Other financial assets	Total
Financial assets						
Loans and receivables	374,838	78,482	136,250	160,143	123	374,999

31 December 2016 (EUR'000)	Carrying value				Fair Value
		Deposits from banks	Due to customers	Other financial liabilities	Total
Financial liabilities					
Financial liabilities at amortised cost	373,546	279,929	92,963	537	373,429

The fair values of all assets and liabilities not measured at fair value but for which the fair values are disclosed in the tables above are all level 3 in the fair value hierarchy. Loans to banks include only balances with related parties (Note 15, 29).

Fair values are determined by different type and quality of market information and valuation techniques described below.

Bid prices are used to estimate fair values of financial assets held, whereas ask prices are applied for financial liabilities held.

a. Due from other banks

Due from other banks includes interbank placements and items in the course of collection. The estimated fair value of interbank placements and overnight deposits is based on discounted cash flows using current interbank offered rates for respective currencies.

b. Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current zero yield curves for respective currencies plus current credit spread to determine fair value (from 0.0% to 3.55% p.a.) unless impairment identified.

c. Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of other deposits and borrowings without quoted market prices is based on discounted cash flows using current market interest rates for respective currencies. Since floating rates are predominantly used and there has been no change in own credit risk, there are no differences between carrying amounts and fair values for deposits and borrowings from customers.

See Notes 2.3 and 2.11

3.5 Capital management

As the Branch is operating under united European licence, there is no externally imposed capital requirement and all the capital requirements are consolidated in Commerzbank AG. All the objectives of management, control and reporting to regulator are executed by the head office of Commerzbank AG Frankfurt am Main.

4. Critical accounting estimates and judgments

The financial statements of the Branch and its financial result are influenced by accounting policies, assumptions, estimates and management judgements, which necessarily have to be made in the course of preparation of the financial statements.

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities during the future financial periods. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the results and financial situation of the Branch due to their materiality.

4.1 Impairment losses on loans

The Branch reviews its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Branch makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group of loans.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. If the net present value of estimated cash flows of loans assessed on a portfolio basis for impairment decreased by 5%, the provision would change by EUR 8,000 at 31 December 2017 (2016: EUR 8,000).

Provisions for loan losses to significant loans for which a trigger event exists (SLLP) are determined as the difference between the loan's carrying amount and the present value of expected cash flows discounted at the loan's original effective interest rate. Future cash flows (and therewith the review of the SLLP) are determined at least once a quarter on the basis of the loan officer's individual estimate based on reasonable and supportable assumptions and projections. All available evidence, including estimated external costs to sell and profits from using collateral, is considered for estimating future cash flow. The fair value of collateral is derived from open market values of collateral adjusted by collateral realisation quota depending on various collateral specific characteristics and cost of realisation.

There is no individually assessed loan as at 31 December 2017 and 2016.

5. Net interest income

5.1 Interest income

(EUR'000)	2017	2016
Interest income from loans	4,508	3,899
- to banks	898	789
- to customers	3,610	3,110
Total interest income	4,508	3,899

There is no interest income accrued on impaired financial assets for year 2017 and 2016.

5.2 Interest expense

(EUR'000)	2017	2016
Interest expense from deposits from banks	795	910
Interest expense from due to customers	28	206
Total interest expense	823	1,116

6. Loan impairment charges

(EUR'000)	2017	2016
Charges of impairment	(410)	(384)
of which:		
Allocation of provision for loan impairment	(303)	(337)
Allocation of provision for liabilities and charges – guarantees	(107)	(47)
Reversal of impairment	308	170
of which:		
Release of provision for loan impairment	1	166
Release of provision for liabilities and charges – loan commitments	303	-
Release of provision for liabilities and charges – guarantees	4	-
Release of provision for liabilities and charges - letters of credit	-	4
Net total loan impairment charges	(102)	(214)

7. Net fee and commission income

7.1 Fee and commission income

(EUR'000)	2017	2016
Guarantees	620	639
Payment transactions	650	572
Documentary business	79	97
Credit related fees and commissions	97	150
Other fees	161	210
Total	1,607	1,668

7.2 Fee and commission expense

(EUR'000)	2017	2016
Intercompany fees	14	50
Payment transactions	-	44
Other fees	9	19
Bank charges to the NBS	2	-
Total	25	113

8. Net trading losses

Net trading losses include solely gains and losses from translation of foreign currency assets and liabilities.

9. Employee benefit expenses

(EUR'000)	2017	2016
Wages and salaries	370	360
Social security costs	137	121
Total	507	481

In 2017 EUR 1,000 as regular contributions were made to the supplementary pension scheme (2016: EUR 1,000) and EUR 90,000 as contributions to state pension scheme (2016: EUR 83,000).

10. General and administrative expenses

(EUR'000)	2017	2016
Outsourced back-office activities	785	645
Head office charges	1,415	1,311
Other services	443	344
IT operating and project costs	72	80
Advisory and consultancy services	65	61
Not claim VAT	-	99
Advertising and public relations	3	8
Total	2,783	2,548

In 2017, the other administrative expenses from transactions with related parties were EUR 2,131,160 (2016: EUR 1,875,000).

In 2017 the costs for audit were EUR 32,236 (in 2016: EUR 28,000) and for tax advisory provided by the auditing company EUR 7,080 (in 2016: EUR 4,000).

Costs for audit include audit of statutory financial statements, audit of prudential returns and long-form audit report for National Bank of Slovakia. All these services are part of the audit fee based on the audit agreement.

11. Depreciation and amortisation

(EUR'000)	2017	2016
Depreciation of property, plant and equipment incl. disposals	10	11
Amortisation of software	3	8
Total	13	19

12. Other operating expenses

(EUR'000)	2017	2016
Bank levy	796	695
Operating lease rentals expense	93	93
Total	889	788

13. Income tax expense

(EUR'000)	2017	2016
Current income taxes related to current period	219	99
Current income taxes related to previous period	(10)	8
Total current income tax	209	107
Deferred income tax (Note 25)	15	-
Total deferred income tax	15	-
Income tax expense	224	107

The income tax rate applicable for 2017 is 21%. The income tax rate applicable for 2016 is 22%. Further information about deferred income tax is presented in Note 25.

The tax on the profit before tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits as follows:

(EUR'000)	2017	2016
Profit / Loss before taxes	966	283
Tax calculated at domestic tax rate 21%	203	62
Tax effects of:		
• Income not subject to tax	(105)	(124)
• Expenses not deductible for tax purposes	98	116
• Expenses not deductible for tax purposes previously included in deferred tax (non-tax settlement of customer loan)	28	53
Income tax expense	224	107

14. Cash and balances with central banks

(EUR'000)	31 December 2017	31 December 2016
Cash in hand	356	163
Other balances with National Bank of Slovakia	159,987	159,980
Total	160,343	160,143

Cash in hand is non-interest-bearing. The yield on mandatory deposits reserve was 0.0% p.a. at the end of 2017 and 0.0% p.a. at the end of 2016.

The base for calculation of minimum reserves is deposits due to customers and banks and debt securities issued. Reserve ratio of 0% is applying for deposits, debt securities, repos with agreed maturity date over two years. A reserve ratio of 2.0% shall apply to all other liabilities included in the reserve base.

The average daily balance for period from 20.12. 2017 to 30.1 2018 was required at a level of EUR 3,250,550 per day. The actual balance as at 31 December 2016 was EUR 122,750,040. Cumulated volume of obligatory reserves for the last period in 2017 was EUR 136,523,100 (EUR 3,250,550 * 42 days). Actual cumulated volume of obligatory reserves was EUR 136,523,100.

15. Loans to banks

(EUR'000)	31 December 2017	31 December 2016
Loans to banks:		
- Term loans	66,993	76,685
- Nostro accounts and other balances	322	1,378
- Loans and advances to other banks	202	403
Cash in transit	18	2
Less: allowance for impairment (GLLP)	-	(2)
Total	67,535	78,466
Current	67,535	78,264
Non-current	-	202

(EUR'000)	GLLP
Balance at 1 January 2016	12
Release of provision for loan impairment	(10)
Balance 31 December 2016	2
Release of provision for loan impairment	(2)
Balance 31 December 2017	-

Loans to banks include balances with related parties (Note 29).

16. Derivative financial instruments

The Branch does not deal with derivative instruments. Consequently there were no open derivative positions as at 31 December 2017 and 2016.

17. Loans to customers

(EUR'000)	31 December 2017	31 December 2016
Gross loans and advances	199,631	136,262
Less: allowance for impairment (GLLP)	(458)	(156)
Net	199,173	136,106
Current	144,316	78,016
Non-current	54,857	58,090

Allowance for impairment:

(EUR'000)	SLLP	PLL	GLLP
Balance at 1 January 2016	-	33	279
Allocation of provision for loan impairment	-	(33)	(123)
Balance 31 December 2016	-	-	156
Allocation of provision for loan impairment	-	-	302
Balance 31 December 2017	-	-	458

Two top customers represent more than 70% of the Branch's loans to customers portfolio thus resulting in a concentration of credit risk. The Branch structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower. A single large exposure must not exceed 25 % of the eligible capital of Commerzbank as a whole. Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

18. Intangible assets

(EUR'000)	Software acquired	Total
Net book value at 1 January 2017	8	8
Amortisation	(3)	(3)
Net book value at 31 December 2017	5	5
Acquisition cost	126	126
Accumulated amortisation	(121)	(121)
Net book amount	5	5

(EUR'000)	Software acquired	Total
Net book value at 1 January 2016	16	16
Amortisation	(8)	(8)
Net book value at 31 December 2016	8	8
Acquisition cost	127	127
Accumulated amortisation	(119)	(119)
Net book amount	8	8

19. Property, plant and equipment

(EUR'000)	Computer equipment	Leasehold improvement	Furniture	Safes	Other	Vehicle	Total
NBV at 1 January 2017	7	-	11	1	-	-	19
Additions	18	-	-	2	10	-	30
Depreciation	-	-	11	-	-	-	(11)
NBV at 31 December 2017	25	-	-	3	10	-	38
Acquisition cost	83	94	46	21	15	23	282
Accumulated depreciation	(58)	(94)	(46)	(18)	(5)	(23)	(244)
Net book amount	25	-	-	3	10	-	38
NBV at 1 January 2016	13	-	-	6	-	-	19
Additions	-	-	11	-	-	-	11
Depreciation	(6)	-	-	(5)	-	-	(11)
NBV at 31 December 2016	7	-	11	1	-	-	19
Acquisition cost	81	94	130	20	9	23	357
Accumulated depreciation	(74)	(94)	(119)	(19)	(9)	(23)	(338)
Net book amount	7	-	11	1	-	-	19

No property, plant and equipment were impaired as at 31 December 2017 (2016: nil).

19.1 Insurance

The insurance of non-current tangible assets is part of the International Insurance Programme for Property Insurance of COMMERZBANK AG concluded in Slovakia. It includes the insurance of the Branch's own non-current tangible assets, low-value non-current tangible assets, office equipment, and a set of electronic equipment with the total insured value of approximately EUR 478,435 (2016: EUR 467,226).

The insurance covers the compensation for damages caused by:

- Natural disasters; and
- Theft, burglary, and assault with robbery.

The Branch has insured tangible assets (cars covered by both general liability and accident insurance).

The insurance premium totals about EUR 1,000 per annum: 0,56 (2016: EUR 1,000; 0,56).

Sets of non-current intangible assets are not insured.

20. Leases

20.1 Financial leases

As per 31 December 2017 and 31 December 2016 the Branch does not hold any assets under financial leases.

20.2 Operating leases

The future minimum operating lease commitments under non-cancellable leases (rent) are as follows:

(EUR'000)	31 December 2017	31 December 2016
No later than 1 year	7	104
Later than 1 year and no later than 5 years	15	78
Total	22	182

21. Other assets

(EUR'000)	31 December 2017	31 December 2016
Other financial assets	1,458	123
of which: Accrued income	153	90
Vouchers	5	4
Other	1,300	29
Other non-financial assets	94	145
of which: Income tax advances	-	96
Deferred items	-	48
Other	94	2
Total	1,552	269

There were no assets overdue at 31 December 2017 and 2016.

22. Deposits from banks

(EUR'000)	31 December 2017	31 December 2016
Current accounts	47	680
Term deposits	338,768	279,001
Other liabilities to banks	831	370
Total	339,646	280,051
Current	284,787	222,474
Non-current	54,858	57,577

Deposits from banks only include financial instruments classified as financial liabilities at amortised cost. Deposits from banks include balances with related parties (Note 29).

23. Due to customers

(EUR'000)	31 December 2017	31 December 2016
Current accounts	83,807	70,883
Term deposits	-	18,975
Other liabilities to customers and temporary items	3,640	3,101
Total	87,447	92,959
Current	87,447	92,959

Deposits due to customers only include financial instruments classified as financial liabilities at amortised cost. In 2017 the Branch received deposits in amount EUR 32,000 (2016: EUR 39,000) as a collateral to contingent liabilities and commitments (Note 28).

24. Other liabilities

(EUR'000)	31 December 2017	31 December 2016
Other financial liabilities	382	537
of which: Accruals	377	329
Other	5	208
Other non-financial liabilities	590	815
Total	972	1,352
Current	972	1,352

There were no overdue liabilities.

Next table summarizes release from and allocation to the social fund, which is included in other non-financial liabilities above:

(EUR'000)	2017	2016
Opening balance at 1 January	3	2
Utilization	(1)	(2)
Allocation	2	3
Closing balance at 31 December	4	3

Social fund is presented in liabilities since it represents a commitment of the Branch to the group of its employees.

25. Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities. The deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 21% (2016: 21%).

Deferred income tax is attributable to the following items:

(EUR'000)	31 December 2017	31 December 2016
Deferred income tax assets		
- provision for loan impairment	195	174
- tax losses carried forward	-	27
- other	46	53
- depreciation	7	8
- provision for personal expenses	4	4
Total deferred income tax asset	252	266

The Branch expects to use the tax losses carried forward as follows:

(EUR'000)	31 December 2017	31 December 2016
Deferred income tax assets		
- Deferred tax assets to be recovered after more than 12 months	203	182
- Deferred tax assets to be recovered within 12 months	49	85

Tax losses carried forward from which above disclosed deferred tax asset arises can be utilized as follows:

(EUR'000)	31 December 2017	31 December 2016
Tax losses carried forward		
- Utilization 2017	131	131
Total tax losses carried forward	131	131

The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:

(EUR'000)	31 December 2017	31 December 2016
Temporary differences		
Accrual for personal expenses	3	3
Provision for loan impairment	(60)	(39)
Tax losses carried forward	58	30
Others	13	6
Total deferred income tax expense	14	-

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

The tax authorities may at any time inspect the books and records of the Branch within a maximum period of five years subsequent to the reported tax year, under certain circumstances of up to ten years, and may impose additional tax assessments and penalties. The Branch's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

The Branch has no other tax-related contingent liabilities and contingent assets in accordance with IAS 37. Also, there are no changes resulting from changes in tax rates or tax laws after the reporting period.

26. Provisions for liabilities and charges

(EUR'000)	31 December 2017	31 December 2016
Loan commitments provision	250	554
Financial guarantees provision	220	116
Total	470	670

(EUR'000)	Financial guarantees provisions	Letters of credit provisions	Irrevocable loan commitments provisions	Revocable loan commitments provisions	Provision for potential legal liability
Balance at 1 January 2016	70	4	203	14	160
Allocation	46	-	332	5	-
Balance 31 December 2016	116	4	535	19	160
Allocation	104	-	-	-	(160)
Reversal	-	4	295	9	-
Balance 31 December 2017	220	-	240	10	-

The Branch recognised credit loss provisions for off-balance sheet items in accordance with Basel II parameters as described in the Note 3.1.3 Impairment and provisioning policies.

27. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition.

(EUR'000)	31 December 2017	31 December 2016
Cash	160,344	160,143
Due from other banks	67,535	78,466
Total	227,879	238,609

28. Contingent liabilities and commitments

The Branch had the following contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantees and other facilities as follows:

(EUR'000)	31 December 2017		31 December 2016	
	Fair value	Gross exposure	Fair value	Gross exposure
Loan commitments	97	117,146	84	192,841
Guarantees	620	131,054	28	143,191
Standby letters of credit	-	291	-	-
Total	717	248,491	112	336,032

29. Related-party transactions and balances

The following table shows the balances with other entities of the group and the rest of Bank. All of them are entities under common control.

(EUR'000)	31 December 2017		31 December 2016	
	Parent	Entities under common control	Parent	Entities under common control
Loans and advances to banks (Note 15)	67,196	-	78,003	-
- Nostro accounts and other balances	203	-	1,318	-
of which: Commerzbank, Prague	-	-	590	-
Commerzbank, Frankfurt	203	-	728	-
- Term loans	66,993	-	76,674	-
of which: Commerzbank, Prague	66,993	-	76,674	-
- Cash in transit	-	-	11	-
of which: Commerzbank, Frankfurt	-	-	11	-
Deposits from banks (Note 22)	338,814	-	279,001	679
- Current accounts	47	-	-	679
of which: Commerzbank, Frankfurt	39	-	-	-
Commerzbank, Prague	8	-	-	-
mBank S.A., Warsaw	-	-	-	679
- Term deposits	338,767	-	279,001	-
of which: Commerzbank, Prague	338,767	-	279,001	-
Deposits from banks (Note 24)	829	-	370	-
- Other financial liabilities	829	-	370	-

COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava

 Notes to the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU
 31 December 2017

(EUR'000)	31 December 2017		31 December 2016	
	Parent	Entities under common control	Parent	Entities under common control
Net assets attributable to head office	747	-	176	-
Guarantees received	12,560	150	19,995	7,050
Commerzbank, Essen	2,069	-	2,069	-
Commerzbank, Hamburg	1,902	-	3,685	-
Commerzbank, Frankfurt	4,534	-	9,561	-
Commerzbank, Budapest	-	150	-	150
Commerzbank, Düsseldorf	2,500	-	2,500	-
Commerzbank, Nuernberg	1,555	-	1,534	-
Commerzbank, New York	-	-	646	-
Commerzbank, Paris	-	-	-	6,900

Above mentioned transactions with related parties have been concluded under standard market conditions. The interest rates on term deposits and term loans with Commerzbank, Prague Branch were between -0,003% and 0,002% during 2017 (between -0,399% and 1,774% during 2016). Maturity analysis of the Loans and advances to banks and Deposits from banks are disclosed in note 3.1.6.

No provisions have been recognised in respect of loans given to related parties.

(EUR'000)	31 December 2017		31 December 2016	
	Parent	Entities under common control	Parent	Entities under common control
Interest income	878	-	738	-
of which: Commerzbank, Prague	870	-	737	-
Commerzbank, Frankfurt	8	-	1	-
Interest expense	323	-	471	-
of which: Commerzbank, Prague	304	-	451	-
Commerzbank, Frankfurt	17	-	14	-
Commerzbank, Paris	2	-	6	-
Fee and commission income	84	-	72	1
of which: Commerzbank, Frankfurt	47	-	43	-
Commerzbank, Budapest	-	-	-	1
Commerzbank, New York	17	-	3	-
Commerzbank, Paris	-	-	1	-
Commerzbank, London	4	-	11	-
Commerzbank, Prague	14	-	12	-
Commerzbank, Brussel	1	-	1	-
Commerzbank, Madrid	1	-	1	-
Fee and commission expense	14	-	93	-
of which: Commerzbank, Frankfurt	6	-	1	-
Commerzbank, London	7	-	-	-
Commerzbank, New York	-	-	43	-
Commerzbank, Prague	1	-	49	-
General and administrative expenses	2,083	-	1,863	-
of which: Commerzbank, Frankfurt	1,260	-	1,159	-
Commerzbank, Prague	744	-	645	-
Commerzbank, Luxembourg	79	-	59	-

(EUR'000)	31 December 2017		31 December 2016	
			Affiliated	
General and administrative expenses			40	43
Ceri International Sp.z.o.o.			40	43

In 2017 the Branch's Director and proxy holders (as at 31 December 2017: 4 employees and 2016: 4 employees) were paid wages and salaries of EUR 188,953 (2016: EUR 189,715), social and health insurance paid by the Branch amounted to EUR 64,475 (2016: EUR 50,718).

30. Events after the date of the statement of financial position

There have been no post balance-sheet events that would require adjustment to or disclosure in the financial statements for the year ended 31 December 2017.

27 March 2018

Peter David



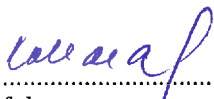
.....
Name and signature of the Director of the Branch

Jana Klokanová



.....
Name and signature of the person responsible
for the preparation of the financial statements

Eva Collardová



.....
Name and signature of the person responsible
for accounting