COMMERZBANK

Partnership is not just a word

Annual report for the year 2011

Contents

Bank Management Report for 2011

»In 2011, the Bratislava Branch recorded 1.73 million euros in profit, mainly thanks to provisions that were lower than in the year before.«

Slovak economic growth, strongly affected by the situation in the Eurozone, fell to 3.1% in 2011, as it did in most other euro countries, including Germany.

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

For Bratislava Branch, the new strategy means even stronger orientation towards business with corporate clients, mainly subsidiaries of German corporations as well as local Slovak companies. A number of specialized products enhanced our offerings for corporate customers. For instance, our clients from the SME segment took advantage of the attractive terms of Global Loans provided by the European Investment Bank (EIB) for the mid- and long-term financing of their investment needs and operating capital.

For their part, Slovak exporters received support from Commerzbank Bratislava in the documentary business, where we recorded a strong year-on-year upsurge in turnover.

Revenues from guarantees and payments transactions increased by 140% and 26% on the preceding year, respectively.

Total assets increased by 6% from the previous year. Despite a portfolio restructuring, the volume of loans was maintained at almost the same level. In addition, we made a successful transfer from the segment of leasing companies and financial institutions to the financing of manufacturing. Deposits developed favorably as well, growing by 11%.

In 2011, the Bratislava Branch recorded 1.73 million euros in profit, mainly thanks to provisions that were lower than in the year before.

The year 2012 is expected to bring significant slow down of the Slovak economy. Preliminary forecasts suggest that GDP will grow by no more than 2.1%, owing to the debt crisis in the Eurozone that will likely affect Slovak exports due to cost-cutting efforts in other countries.

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

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

Peter Dávid

Commerzbank AG

Commerzbank worldwide

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

Commerzbank in Slovakia

Commerzbank launched its presence in the Slovakian banking market by opening a representative office in Bratislava in May 1995. After obtaining the banking licence in December 2003, it became a fully operative foreign branch establishment. Furthermore, a second office was opened in 2006 in Košice.

Commerzbank in Slovakia specializes in serving large and medium-sized companies, with its clients including both German & other international firms as well as local Slovak corporates.

In addition to all standard corporate banking services, ranging from overdraft accounts and electronic banking to more complex financing structures, our extensive trade financing services are unrivalled on the market, including documentary collections and export financing.

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

Report on Verifying Consistency of the Annual Report with the Financial Statements, as required by § 23 of Act No. 540/2007 Coll. (Addendum to the Auditor's Report)

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

We have audited the financial statements COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava ("the Branch") at 31 December 2011, on which we issued Auditor's Report on 9 March 2012 and on which we expressed an unqualified audit opinion as follows:

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava at 31 December 2011, 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.

In accordance with the Act No. 431/2002 Coll. on Accounting, as amended, we also verified whether accounting information included in the Branch's annual report at 31 December 2011 is consistent with the audited financial statements referred to above.

Management's Responsibility for the Annual Report

The Branch's management is responsible for the preparation, accuracy, and completeness of the annual report in accordance with the Slovak Accounting Act.

Auditor's Responsibility for Verifying Consistency of the Annual Report with the Financial Statements

Our responsibility is to express an opinion on whether the accounting information presented in the annual report is consistent, in all material respects, with the information in the Branch's audited financial statements. We conducted the verification in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the verification to obtain reasonable assurance whether the annual report is free from accounting information that would significantly differ from the information stated in the financial statements.

The scope of work includes performing procedures to verify that the accounting information presented in the annual report is consistent with the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Branch's preparation and fair presentation of the annual report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal controls. We did not verify those data and information in the annual report that were not derived from the financial statements.

We believe that the verification performed provides sufficient and appropriate basis for our opinion.

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Opinion

In our opinion, the accounting information presented in the Branch's annual report prepared for the year ended on 31 December 2011 is consistent, in all material respects, with the audited financial statements referred to above.

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

Bratislava, 13 April 2012

Slovenská komora audítorov
SKAU
Č.licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Eva Hupková
SKAU licence No. 672

Our report 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.

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INDEPENDENT AUDITOR'S REPORT

To the Management of COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava

We have audited the accompanying financial statements of COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava, with registered office at Rajská 15/A, Bratislava ("the Branch"), which comprise the balance sheet at 31 December 2011 and the statements of comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava at 31 December 2011, 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.

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

Slovenská komora audítorov
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Č.licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Eva Hupková
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Bratislava, 9 March 2012

Our report 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.

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Financial statements

Statement of comprehensive income for the year ended 31 December 2011

(EUR'000)	Note	Year ended 31 December 2011	Year ended 31 December 2010
Interest and similar income	5.1	4,019	3,943
Interest expense and similar charges	5.2	(1,305)	(1,146)
Net interest income		**2,714**	**2,797**
Loan impairment charges	6	(270)	(2,549)
Net interest income after loan impairment charges		**2,444**	**248**
Fee and commission income	7.1	1,614	840
Fee and commission expense	7.2	(168)	(29)
Net fee and commission income		**1,446**	**811**
Net trading income	8	(16)	(10)
Personnel expenses	9	(613)	(611)
General and administrative expenses	11	(1,701)	(1,428)
Depreciation and amortisation expenses	10	(72)	(100)
Other operating expenses	12	(100)	(195)
Profit/(Loss) before income tax and distributions to Commerzbank head office		**1,388**	**(1,285)**
Income tax	13	342	(271)
Profit/(Loss) before distributions to Commerzbank head office		**1,730**	**(1,556)**
Re-measurement of net assets attributable to Commerzbank head office	2.21	**(1,730)**	**1,556**
Net profit/(loss) of the year attributable to Commerzbank head office		-	-
Total comprehensive income for the year attributable to Commerzbank head office		-	-

Statement of financial position as at 31 December 2011

(EUR'000)	Note	31 December 2011	31 December 2010
ASSETS			
Cash and balances with central banks	14	386	201
Loans to banks	15	35,060	28,003
Loans to customers	17	98,045	97,884
Intangible assets	18	49	85
Property, plant and equipment	19	114	82
Deferred income tax assets	25	593	-
Other assets	21	416	237
Total assets		**134,663**	**126,492**
LIABILITIES			
Deposits from banks	22	91,542	87,767
Due to customers	23	40,957	36,755
Current income tax liabilities	26	258	277
Deferred income tax liabilities	25	-	9
Provisions for liabilities and charges	27	1,023	694
Other liabilities	24	503	382
Net assets attributable to Commerzbank AG	2.21	380	608
Total liabilities		**134,663**	**126,492**

Statement of cash flows for the year ended 31 December 2011

(EUR'000)	Note	Year ended 31 December 2011	31 December 2010
Profit/Loss before income tax and distributions to Commerzbank head office		**1,388**	**(1,285)**
Non-cash positions in net profit and adjustments to reconcile net profit with net cash provided by operating activities:			
Write-downs, depreciation, adjustments and changes in provisions	10, 17, 27	(617)	2,712
Other adjustments (net interest and fee income)	5, 7	(4,160)	(3,608)
Sub-total		**(3, 389)**	**(2,181)**
Change in assets and liabilities from operating activities after correction for non-cash components:			
Claims on customers		600	21,328
Other assets from operating activities		(631)	20
Liabilities to banks		(253)	(20,433)
Liabilities to customers		4,201	(21,127)
Other liabilities from operating activities		56	(305)
Fee and commission received		1,553	767
Interest received		4,275	3,709
Interest paid		(1,390)	(1,045)
Income tax paid		131	86
Net cash provided by operating activities		**5,153**	**(19,181)**
Proceeds from the sale of:			
Property, plant and equipment and intangible assets	18, 19	-	10
Payments for the acquisition of:			
Property, plant and equipment	19	(67)	(51)
Net cash used by investing activities		**(67)**	**(41)**
Settlement of losses by Commerzbank head office		2,156	742
Net cash provided by financing activities		**2,156**	**742**
Net decrease in cash and cash equivalents		**7,242**	**(17,066)**
Cash and cash equivalents at the end of the previous period	28	28,204	45,270
Cash and cash equivalents at the end of the period	28	**35,446**	**28,204**

Notes to the financial statements

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 30847737; tax identification number (IČ DPH): SK 2021751061.

The Branch was established by the resolution of its founder on 18 August 2003 and registered in the Commercial Register on 24 September 2003. The Branch was established as an organisational branch of a foreign legal entity, COMMERZBANK AG seated in Frankfurt am Main and entered in the commercial register at the county court, Frankfurt am Main, under HRB 32000, Germany. The Branch obtained a banking license on 12 August 2003 from the National Bank of Slovakia ("NBS") based on banking license by the Authority Bundesanstalt für Finanzdienstleistungsaufsicht Graurheindorfer Str. 108, 53117 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.

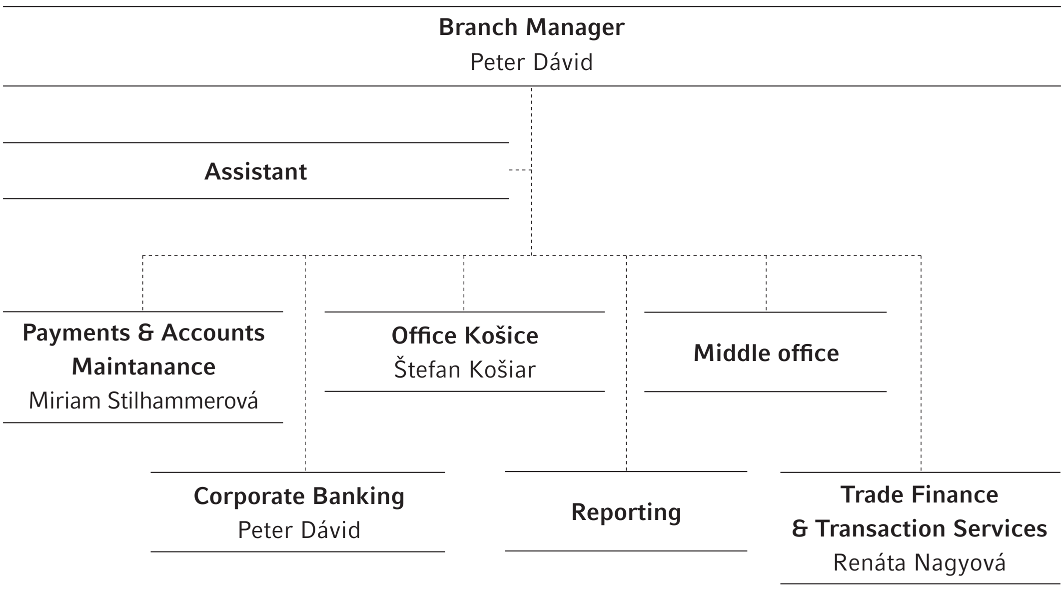
The average number of staff was 18 in 2011 and 2010.

The Branch is not a separate legal person and is not an 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 2011 and approved for issue by the Director of the Branch on 9 March 2012 (ref. to Code of Accounting 431/2002 par. 17a). The financial statements as at 31 December 2010 have been approved by the management of the Branch on 9 March 2011.

1.1 Statutory, supervisory, managing bodies and the organisation chart as at 31 December 2011

Name	Position
HEAD OF BRANCH:	
Peter Dávid	Director of Branch
GENERAL POWER OF REPRESENTATION:	
Miriam Stilhammerová	Proxy
Renata Nagyová	Proxy
BOARD OF DIRECTORS OF COMMERZBANK AG:	
Martin Blessing	Chairman
Markus Beumer	Member
Frank Annuscheit	Member
Dr. Stefan Schmittmann	Member
Dr. Eric Strutz	Member
Michael Reuther	Member
Ulrich Sieber	Member
Jochen Klösges	Member
Martin Zielke	Member
SUPERVISORY BOARD OF COMMERZBANK AG:	
Klaus-Peter Müller	Chairman
Uwe Tschäge	Deputy Chairman
Hans-Hermann Altenschmidt	Member
Dott. Sergio Balbinot	Member
Mark Roach (since Januar 2011)	Member
Astrid Evers	Member
Uwe Foullong	Member
Daniel Hampel	Member
Dr.-Ing. Otto Happel	Member
Beate Hoffmann (since May 2011)	Member
Dr.-Ing. Burckhard Bergmann	Member
Karin van Brummelen	Member
Dr. Nikolaus von Bomhard	Member
Prof. Dr.-Ing.Dr.-Ing.E.h. Hans-Peter Keitel	Member
Prof. h.c. (CHN) Dr.rer.oec. Ulrich Middelmann	Member
Dr. H.c. Edgar Meister	Member
Alexandra Krieger	Member
Barbara Priester	Member
Dr. Marcus Schenck	Member
Dr. Helmut Perlet	Member



1.2 Shareholders information of Commerzbank Aktiengesellschaft as at 31 December 2011

	Shares of capital held
Institutional investors	65%
Government of Germany	25%
Allianz	5%
BlackRock	3%
Private investors	2%

Stock exchange listings:

Germany:	Europe:	North America:
Berlin	London	Sponsored ADR (CRZBY)
Düsseldorf	Switzerland	CUSIP: 202597308
Frankfurt		
Hamburg		
Hanover		
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, except for all derivative contracts, which have been measured at fair value.

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

The financial statements are presented in EUR, which is the Branch's presentation currency. The figures 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 28 shows in which item of the statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by noncash items, such as changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interests received or paid are classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method.

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 effective for annual periods beginning on or after 1 January 2011

a. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

- **Amendment to IAS 24, Related Party Disclosures** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Branch now also discloses contractual commitments to purchase and sell goods or services to its related parties. For other transactions the Branch discloses only a description indicating extent of these transactions. This amendment was approved by European Union on 19 July 2010.

- **Improvements to International Financial Reporting Standards** (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). This improvement was approved by European Union on 18 February 2011.

- **Other revised standards and interpretations effective for the current period.** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

b. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted.

- **IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- 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.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Branch as a part of the Group is considering the implications of the standard and its impact. The timing of adoption will be done at the same time as the IFRS 9 will be adopted by the Group. IFRS 9 has not yet been approved by the European Union.

- **IFRS 10, Consolidated Financial Statements** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Branch does not expect any impact of the amended standard on its financial statements. This standard has not yet been approved by the European Union.

- **IFRS 11, Joint Arrangements** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The standard is not relevant for the Branch. This standard has not yet been approved by the European Union.

- **IFRS 12, Disclosure of Interests in Other Entities** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The standard is not relevant for the Branch. This standard has not yet been approved by the European Union.

- **IFRS 13, Fair Value Measurement**, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Branch expects no major impact of the amended standard on its financial statements.

- **IAS 27, Separate Financial Statements**, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The standard is not relevant for the Branch. This standard has not yet been approved by the European Union.

- **IAS 28, Investments in Associates and Joint Ventures**, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The standard is not relevant for the Branch. This standard has not yet been approved by the European Union.

- **Amendments to IFRS 7 Disclosures—Transfers of Financial Assets** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Branch is currently assessing the impact of the amended standard on disclosures in its financial statements but does not expect to have a major impact on the financial statements. This amendment has not yet been approved by the European Union.

- **Amendments to IAS 1, Presentation of Financial Statements** (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Branch expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances. This amendment has not yet been approved by the European Union.

- **Amended IAS 19, Employee Benefits** (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income. The Branch does not expect the amended standard to have the impact on its financial statements. This amendment has not yet been approved by the European Union.

- **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Branch is considering the implications of the amendment, the impact on the Branch and the timing of its adoption by the Branch. This amendment has not yet been approved by the European Union.

- **Other revised standards and interpretations**
  The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. This revision has not yet been approved by the European Union.

  IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. This interpretation has not yet been approved by the European Union.

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 are presented in thousands EUR, which is the Branch's presentation currency.

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 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract to sell or repledge the collateral, the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.4 Financial assets and financial liabilities

2.4.1 Financial assets

The Branch classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its investments at initial recognition.

a. Financial assets at fair value through profit or loss (FVPL)

This category comprises the two sub categories: financial assets classified as held for trading and financial assets designated by the Branch as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments. They are recognised in the statement of financial position as financial derivatives.

Financial instruments included in this category are recognised initially at fair value, transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income. The instruments are derecognised when the rights to receive cash flows have expired or the Branch has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

b. 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:

i. 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;
ii. those that the entity upon initial recognition designates as available for sales; or
iii. 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.

c. Held-to-maturity financial assets & Available-for-sale financial assets

There was no asset classified as held-to-maturity (HTM) or as available-for-sale (AFS) during the years 2011 and 2010.

2.4.2 Financial liabilities

The Branch classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (FVPL) and liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

a. Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

b. Other 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.

2.4.3 Determination of fair value

Derivatives are represented only by over-the-counter (OTC) derivatives. The fair value is determined using observable market data and valuation methods that are commonly accepted in the financial markets, such as present value techniques. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

The fair values of irrevocable loan commitments correspond to their carrying amounts.

2.4.4 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.

2.5 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 2011:

Classes / Categories (EUR'000)	Loans and Receivables	Financial liabilities measured at amortised cost	Total
Assets			
Cash and balances with central banks	386	-	386
Loans and advances to banks	35,060	-	35,060
Loans and advances to customers	98,045	-	98,045
Other financial assets	72	-	72
Total financial assets	**133,563**		**133,563**
Liabilities			
Deposits from banks	-	91,542	91,542
Due to customers	-	40,957	40,957
Other financial liabilities	-	274	274
Total financial liabilities	-	**132,773**	**132,773**

Classes vs categories as at 31 December 2010:

Classes / Categories (EUR'000)	Loans and Receivables	Financial liabilities measured at amortised cost	Total
Assets			
Cash and balances with central banks	201	-	201
Loans and advances to banks	28,003	-	28,003
Loans and advances to customers	97,884	-	97,884
Other financial assets	112	0	112
Total financial assets	**126,200**	**0**	**126,200**
Liabilities			
Deposits from banks	-	87,767	87,767
Due to customers	-	36,755	36,755
Other financial liabilities	-	232	232
Total financial liabilities	-	**124,754**	**124,754**

2.6 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.

2.7 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.

2.8 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. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.9 Impairment of financial assets

2.9.1 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:

a. significant financial difficulty of the obligor,
b. a breach of contract, such as a default or deliquency in interest or principal payments,
c. 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,
d. it becomes probable that the borrower will enter bankruptcy or other financial reorganisation,
e. the disappearance of an active market for that financial asset because of financial difficulties, or
f. 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:
   i. adverse changes in the payment status of borrowers in the portfolio, and
   ii. 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. Impairment charges relating to loans and advances to customers are classified in loan impairment charges. The amount of losses from impairment of loans to customers is recognised in the statement of comprehensive income a loan impairment charges.

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 impairment charge for credit losses.

2.9.2 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.

2.10 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 an impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were identified as impaired in 2011 and 2010.

2.11 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.

2.12 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.

2.13 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.

2.13.1 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.

2.13.2 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.

2.14 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 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.

2.15 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 straightline 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
Furniture	2 - 6 years
Hardware	2 - 4 years

The asset's 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. No property, plant and equipment were impaired as at 31 December 2011 (2010: nil).

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.

2.16 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 dates, 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 3 – 4 years.

2.17 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.

2.17.1 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.

2.17.2 Deferred income tax

Deferred income tax is provided in full, using the 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.

2.18 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.

2.19 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.

2.20 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.

2.21 Net assets attributable to Commerzbank AG

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 Commerzbank AG 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 Commerzbank AG can be analyzed as follows:

(EUR'000)	Net assets attributable to Commerzbank AG
Balance 1 January 2010	**8**
Re-measurement in the amount of loss before distributions to Commerzbank AG in accordance with IFRS for the period ended 31 December 2010	(1,556)
Reclassification of receivable from Commerzbank AG into Loans to banks in the amount of German GAAP loss for the period ended 31 December 2010	2,156
Balance 31 December 2010	**608**
Re-measurement in the amount of profit before distributions to Commerzbank AG in accordance with IFRS for the period ended 31 December 2011	1,730
Reclassification of payable to Commerzbank AG into Deposits to banks in the amount of German GAAP profit for the period ended 31 December 2011	(1,958)
Balance 31 December 2011	**380**

2.22 Offsetting financial instruments
Financial assets and liabilities are offset and the net amount is shown on the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.23 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 reports to the Board of Directors.

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:

i. the probability of default (PD) by the client or counterparty on its contractual obligations;
ii. current exposures to the counterparty and its likely future development, from which the Branch derive the exposure at default (EAD), and
iii. 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.

i. 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	Investment grade
1,2	0.01	0 – 0.02		
1,4	0.02	0.02 – 0.03	AA +	
1,6	0.04	0.03 – 0.05	AA, AA -	
1,8	0.07	0.05 – 0.08	A +, A,	
2,0	0.11	0.08 – 0.13	A -	
2,2	0.17	0.13 – 0.21	BBB +	
2,4	0.26	0.21 – 0.31	BBB	
2,6	0.39	0.31 – 0.47		
2,8	0.57	0.47 – 0.68	BBB -	
3,0	0.81	0.68 – 0.96	BB +	Non-investment grade
3,2	1.14	0.96 – 1.34	BB	
3,4	1.56	1.34 – 1.81		
3,6	2.10	1.81 – 2.40	BB -	
3,8	2.74	2.40 – 3.10	B +	
4,0	3.50	3.10 – 3.90		
4,2	4.35	3.90 – 4.86	B	
4,4	5.42	4.86 – 6.04		
4,6	6.74	6.04 – 7.52		
4,8	8.39	7.52 – 9.35	B -	
5,0	10.43	9.35 – 11.64		
5,2	12.98	11.64 – 14.48	CCC +	
5,4	16.15	14.48 – 18.01		
5,6	20.09	18.01 – 22.41	CCC to CC -	
5,8	25.00	22.41 – 30.00		
6,1	100.00	Imminent insolvency	C, D-I, D-II	Default
6,2	100.00	Restructuring		
6,3	100.00	Restructuring with recapitalization / partial waiver of claims		
6,4	100.00	Cancellation without insolvency		
6,5	100.00	Insolvency		

* EL = Expected loss

ii. 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.

iii. 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 (for derivative and loan books)

The Branch maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

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.

a. Specific loan loss provision (SLLP)

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.

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.

c. General loan loss provisions (GLLP)

The loan portfolio comprises all on-balance transactions as well as financial guarantees and other liabilities (e.g. 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:

1. There is no objective indication of impairment from the outset.
2. 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)	Maximum exposure	
Class	31 December 2011	31 December 2010
Cash and balances with central banks	**386**	**201**
Loans to banks	35,060	28,003
- Nostro accounts and other balances	590	547
- Term loans	34,413	25,289
- Cash in transit	57	2,167
Loans to customers	98,045	97,884
- Commercial loans (after allowance for impairment)	85,734	80,893
- Overdrafts	12,289	16,956
- Cash in transit	22	35
Other financial assets	72	112
Total on-balance sheet financial assets	**133,563**	**126,200**
Loan commitments	197,979	80,569
Guarantees and standby letters of credit	30,401	22,909
Total	**361,943**	**229,678**

The balances of Property, plant and equipment and Intangible assets are not included.

The table above represents a worst case scenario of credit risk exposure to the Branch at 31 December 2011 and 2010, 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 2011. 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.

Financial assets as at 31 December 2011:

(EUR'000)	Slovakia	European Union	Other countries	Total
Cash and balances with central banks	350	5	31	386
Loans and advances to banks	116	34,855	89	35,060
- Nostro accounts and other balances	70	431	89	590
- Term loans	-	34,413	-	34,413
- Cash in transit	46	11	-	57
Loans and advances to customers	97,897	148	-	98,045
- Commercial loans (after allowance for impairment)	85,734	-	-	85,734
- Overdrafts	12,143	146	-	12,289
- Cash in transit	20	2	-	22
Other financial assets	68	3	1	72
Total financial assets	**98,431**	**35,011**	**121**	**133,563**
Loan commitments	196,944	1,025	10	197,979
Guarantees and standby letters of credit	24,556	5,845	-	30,401

Financial assets as at 31 December 2010:

(EUR'000)	Slovakia	European Union	Other countries	Total
Cash and balances with central banks	143	16	42	201
Loans and advances to banks	109	27,768	126	28,003
- Nostro accounts and other balances	108	313	126	547
- Term loans	-	25,289	-	25,289
- Cash in transit	1	2,166	-	2,167
Loans and advances to customers	97,883	-	1	97,884
- Commercial loans (after allowance for impairment)	80,893	-	-	80,893
- Overdrafts	16,956	-	-	16,956
- Cash in transit	35	-	-	35
Other financial assets	111	-	1	112
Total financial assets	**98,246**	**27,784**	**170**	**126,200**
Loan commitments	80,569	-	-	80,569
Guarantees and standby letters of credit	9,127	13,666	116	22,909

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.

Financial assets as at 31 December 2011:

(EUR'000)	Financial Institution	Leasing	Other financial companies	Manufacturing	Other industries & individuals	Total
Loans and advances to banks	35,060	-	-	-	-	35,060
- Nostro accounts and other balances	590	-	-	-	-	590
- Term loans	34,413	-	-	-	-	34,413
- Cash in transit	57	-	-	-	-	57
Loans and advances to customers	-	8,177	11,021	35,123	43,724	98,045
- Overdrafts	-	1,732	-	6,852	3,705	12,289
- Commercial loans (after allowance for impairment)	-	6,445	11,021	28,271	39,997	85,734
- Cash in transit	-	-	-	-	22	22
Other financial assets	-	-	-	3	69	72
Total financial assets	**35,060**	**8,177**	**11,021**	**35,126**	**43,793**	**133,177**
Loan commitments	-	8,617	1,949	170,599	16,814	197,979
Guarantees and standby letters of credit	18,548	17	-	6,108	5,728	30 401

Cash and balances with central bank of EUR 386,000 as at 31 December 2011 are not included.

Financial assets as at 31 December 2010:

(EUR'000)	Financial Institution	Leasing	Other financial companies	Manufacturing	Other Industries & Individuals	Total
Loans and advances to banks	28,003	-	-	-	-	28,003
- Nostro accounts and other balances	547	-	-	-	-	547
- Term loans	25,289	-	-	-	-	25,289
- Cash in transit	2,167	-	-	-	-	2,167
Loans and advances to customers	-	13,481	29,620	12,845	41,938	97,884
- Overdrafts	-	99	3,209	10,761	2,887	16,956
- Commercial loans (after alowance for impairment)	-	13,382	26,411	2,084	39,016	80,893
- Cash in transit	-	-	-	-	35	35
Other financial assets	-	-	-	-	112	112
Total financial assets	**28,003**	**13,481**	**29,620**	**12,845**	**42,050**	**125,999**
Loan commitments	-	3,808	5,660	64,091	7,010	80,569
Guarantees and standby letters of credit	13,781	26	-	3,886	5,216	22,909

Cash and balances with central bank of EUR 201,000 as at 31 December 2010 are not included.

3.1.6 Financial assets

Financial assets as at 31 December 2011:

(EUR'000)	Loans and advances to banks	Loans and advances to customers	Cash and other receivables	Total
Financial assets:				
Neither past due nor impaired	35,060	97,554	458	133,072
Impaired	-	3,174	-	3,174
GLLP – Loan loss provisions	-	(315)	-	(315)
PLLP – Loan loss provisions	-	(116)	-	(116)
SLLP – Loan loss provisions	-	(2,252)	-	(2,252)
Total	**35,060**	**98,045**	**458**	**133,563**

Financial assets as at 31 December 2010:

(EUR'000)	Loans and advances to banks	Loans and advances to customers	Cash and other receivables	Total
Financial assets:				
Neither past due nor impaired	28,003	96,049	313	124,365
Impaired	-	5,419	-	5,419
GLLP – Loan loss provisions	-	(183)	-	(183)
SLLP – Loan loss provisions	-	(3,401)	-	(3,401)
Total	**28,003**	**97,884**	**313**	**126,200**

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 Aktiengesellshaft group's rating.

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

(EUR'000)	31 December 2011			
	Nostro/Loro	Cash in transit	Term loans	Moody's/S&P
Related parties:				
of which: Commerzbank, Prague Branch	167	-	34,413	Aa3 / A
Commerzbank, New York Branch	4	-	-	Aa3 / A
Commerzbank, Budapest	33	-	-	Aa3 / A
Commerzbank, Tokyo	24	-	-	Aa3 / A
Commerzbank, Frankfurt	-	11	-	Aa3 / A
BRE Bank S.A., Warsaw	231	-	-	Baa1 /
Other banks:				
Unicredit Bank Slovakia, a.s.	51	-	-	A3 / -
Tatrabanka, a.s.	19	-	-	A2 /
HSBC Bank PLC London	21	-	-	Aa2 / AA
Credit Suisse Zurich	40	-	-	Aa2 / A
Cash in transit:	-	46	-	-
Total	**590**	**57**	**34,413**	

(EUR'000)	31 December 2010			
	Nostro/Loro	Cash in transit	Term loans	Moody's/S&P
Related parties:				
of which: Commerzbank, Prague Branch	286	-	25,289	Aa3 / A
Commerzbank, New York Branch	50	-	-	Aa3 / A
Commerzbank, Budapest	8	-	-	Aa3 / A
Commerzbank, Frankfurt	-	2,166	-	Aa3 / A
BRE Bank S.A., Warsaw	20	-	-	Baa1 /
Other banks:				
Unicredit Bank Slovakia, a.s.	82	-	-	A3 / -
Tatrabanka, a.s.	26	-	-	A2 /
HSBC Bank PLC London	28	-	-	Aa2 / AA
Credit Suisse Zurich	47	-	-	Aa2 / A
Cash in transit:	-	1	-	-
Total	**547**	**2,167**	**25,289**	

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

At 31 December 2011

(EUR'000)	To customers: Overdrafts	Commercial loans	Term loans	Other receivable	Total loans to customers
Internal rating scale					
Investment grade	3,020	45,986	-	-	49,006
Non-investment grade	1,577	41,493	-	-	43,070
Default – restructured and fully collateralised	5,456	-	-	22	5,478
Total	**10,053**	**87,479**	**-**	**22**	**97,554**

As at 31 December 2011, the Branch had no loans to banks that would be internally rated.

At 31 December 2010

(EUR'000)	To customers: Overdrafts	Commercial loans	Term loans	Other receivable	Total loans to customers
Internal rating scale					
Investment grade	3,878	62,000	-	-	65,878
Non-investment grade	10,823	19,288	-	-	30,111
Default – restructured and fully collateralised	25	-	-	35	60
Total	**14,726**	**81,288**	**-**	**35**	**96,049**

As at 31 December 2010, 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

The Branch did not hold any loans or receivables past due but not impaired at 31 December 2011 and 2010.

c. Loans individually impaired

(EUR'000)	31. 12. 2011	31. 12. 2010
Brutto:	**3,174**	**5,419**
of which: overdrafts	2,351	2,231
commercial loans	823	3,188
Loan loss provisions (PLLP and SLLP)	(2,368)	(3,401)
Total	**806**	**2,018**

Above mentioned individually impaired loans are collaterised by obtained guarantees from holding company, mortgage over residential properties, charges over business assets and bills of exchange.

d. The financial effect of collateral

Potential financial effect of collateral 9disclosure 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 2011 (EUR'000)	Carrying value of the asset	Fair value of collateral
Under-collateralised loans and advances to customers	98,045	10,608
Over-collateralised loans and advances to customers	-	-

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.

The fair value of assets received as collateral and its effect on measurement for loans individually impaired can be analysed as follows:

(EUR'000)	31. 12. 2011	31. 12. 2010
Land and buildings	-	358
Charges over business assets – technology	267	267
Charges over business assets – supplies	451	551
Charges over business assets – receivables	465	348
Total	**1,183**	**1,524**

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. The Branch separates exposures to market risk into either trading or non-trading portfolios.

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). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 60-day periods in the past.

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 2011 and 2010 the Stress Test Risk never exceeded the Branch's limit of 400 thousand EUR. The average utilization was 2.76% for the year (2010: 6.51%).

3.2.2 VaR Summary for 2011 and 2010

2011 (EUR'000)	Average	Maximum	Minimum
Foreign exchange risk	1	6	1
Interest rate risk	2	4	1

2010 (EUR'000)	Average	Maximum	Minimum
Foreign exchange risk	1	5	1
Interest rate risk	5	11	3

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 by currency, which are monitored daily.

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.

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.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate team.

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

The table below presents the cash flows receivable by the Branch under non-derivative 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.

At 31 December 2011

(EUR'000)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets						
Deposits in banks	34,715	316	32	-	-	35,063
Due from customers	49,255	42,304	2,984	3,834	235	98,612
Other financial assets	72	-	-	-	-	72
Total balance sheet assets	**84,042**	**42,620**	**3,016**	**3,834**	**235**	**133,747**
Total off-balance sheet items	**-**	**-**	**-**	**-**	**-**	**-**
Total	**84,042**	**42,620**	**3,016**	**3,834**	**235**	**133,747**

Cash and balances with central bank of EUR 386,000 as at 31 December 2011 are not included.

At 31 December 2010

(EUR'000)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets						
Deposits in banks	26,964	1,042	-	-	-	28,006
Due from customers	31,680	50,700	3,752	9,699	3,911	99,742
Other financial assets	112	-	-	-	-	112
Total balance sheet assets	**58,756**	**51,742**	**3,752**	**9,699**	**3,911**	**127,860**
Total off-balance sheet items	**151**	**-**	**-**	**-**	**-**	**151**
Total	**58,907**	**51,742**	**3,752**	**9,699**	**3,911**	**128,011**

Cash and balances with central bank of EUR 201,000 as at 31 December 2010 are not included.

The table below presents the cash flows payable by the Branch under non- derivative 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.

At 31 December 2011

(EUR'000)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	42,961	42,201	2,912	3,611	203	91,888
Due to customers	40,607	317	35	-	-	40,959
Net assets attributable to Commerzbank AG	380	-	-	-	-	380
Other financial liabilities	274	-	-	-	-	274
Total balance sheet liabilities	**84,222**	**42,518**	**2,947**	**3,611**	**203**	**133,501**
Total off-balance sheet items	**170,001**	**7,922**	**10,985**	**37,477**	**1,995**	**228,380**
Total	**254,223**	**50,440**	**13,932**	**41,088**	**2,198**	**361,881**

At 31 December 2010

(EUR'000)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	21,476	51,285	1,376	12,648	1,970	88,755
Due to customers	35,699	1,045	11	5	-	36,760
Net assets attributable to Commerzbank AG	608	-	-	-	-	608
Other financial liabilities	232	-	-	-	-	232
Total balance sheet liabilities	**58,015**	**52,330**	**1,387**	**12,653**	**1,970**	**126,355**
Total off-balance sheet items	**19,518**	**7,166**	**6,053**	**70,883**	**8**	**103,628**
Total	**77,533**	**59,496**	**7,440**	**83,536**	**1,978**	**229,983**

3.3.4 Liquidity ratio

The Branch is obliged to adhere to NBS regulations regarding the liquidity, namely to ratio of liquid assets (sum of liquid assets to sum of volatile liabilities). The ratio as per 31 December 2011 reached value of 1.81 (2010: 1.93).

3.3.5 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.

At 31 December 2011

EUR thousand	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Loan commitments	167,752	2,049	-	27,151	1,027	197,979
of which: non-cancellable	-	2,049	-	25,551	1,027	28,627
Guarantees and standby letters of credit	2,249	5,873	10,985	10,326	968	30,401
Total	**170,001**	**7,922**	**10,985**	**37,477**	**1,995**	**228,380**

At 31 December 2010

EUR thousand	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Loan commitments	17,603	6,073	1,968	54,925	-	80,569
of which: non-cancellable	1,000	4,022	840	54,897	-	60,759
Guarantees and standby letters of credit	1,765	1,093	4,085	15,958	8	22,909
Total	**19,368**	**7,166**	**6,053**	**70,883**	**8**	**103,478**

3.4 Fair values of financial assets and liabilities

3.4.1 Fair value hierarchy

IFRS 7 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.

3.4.2 Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Branch's statement of financial position at their fair value.

31 December 2011 (EUR'000)	Carrying value	Fair value
Financial Assets		
Loans to banks	35,060	35,063
Loans to customers	98,045	98,506
Financial liabilities		
Deposits from banks	91,542	91,888
Due to customers	40,957	40,959

31 December 2010 (EUR'000)	Carrying value	Fair value
Financial Assets		
Loans to banks	28,003	28,006
Loans to customers	97,884	97,855
Financial liabilities		
Deposits from banks	87,767	87,945
Due to customers	36,755	36,757

Fair value recognition is determined by different type and quality of market information. Fair value of financial instruments is determined by using own valuation techniques.

Bid prices are used to estimate fair values of financial assets held, whereas asking 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 fair value of interbank placements and overnight deposits is based on discounted cash flows using current market rates.

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 market rates plus credit spread to determine fair value (from 0.4% to 5.01% p.a.).

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 deposits and other borrowings without quoted market prices is based on discounted cash flows using current market rates.

See Notes 2.4 and 2.12

3.4.3 Financial assets and liabilities not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Branch's statement of financial position at their fair value:

31 December 2011 (EUR'000)	Carrying value	Fair Value				
		Loans & advances to banks	Loans & advances to customers	Cash & balances with central banks	Other financial assets	Total
Financial assets						
Loans and receivables	133,563	35,063	98,506	386	72	134,027

31 December 2011 (EUR'000)	Carrying value	Fair Value			
		Deposits from banks	Due to customers	Other financial liabilities	Total
Financial liabilities					
Financial liabilities at amortised cost	132,773	91,888	40,959	274	133,121

31 December 2010 (EUR'000)	Carrying value	Fair Value				
		Loans & advances to banks	Loans & advances to customers	Cash & balances with central banks	Other financial assets	Total
Financial assets						
Loans and receivables	126,200	28,006	97,855	201	112	126,174

31 December 2010 (EUR'000)	Carrying value	Fair Value			
		Deposits from banks	Due to customers	Other financial liabilities	Total
Financial liabilities					
Financial liabilities at amortised cost	124,754	87,946	36,758	232	124,936

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 individually for impairment changes by 5%, the provision would change by EUR 326,418 at 31 December 2011 (2010: 89,000 EUR). If the net present value of estimated cash flows of loans assessed on a portfolio basis for impairment changes by 5%, the provision would change by EUR 28,000 at 31 December 2011 (2010: 29,000 EUR).

5 Net interest income

5.1 Interest income

(EUR'000)	2011	2010
Interest income from loans and advances:	3,986	3,921
- to banks	207	70
- to customers	3,779	3,851
Interest income from placements with central banks	33	22
Total interest income	**4,019**	**3,943**

The interest income for years 2011 and 2010 was realized from category of loans and receivables. Interest income includes 126,000 EUR (2010: 462,000 EUR) of interest income accrued on impaired financial assets.

5.2 Interest expense

(EUR'000)	2011	2010
Interest expense from deposits from banks	1,211	1,113
Interest expense from due to customers	94	33
Total interest expense	**1,305**	**1,146**
Of which: Interest expenses from financial leases	1	2

6 Loan impairment charges

(EUR'000)	2011	2010
Increase of impairment	**2,790**	**3,183**
of which:		
Allocation of provision for loan impairment – SLLP	2,089	2,857
Allocation of provision for loan impairment – PLLP	116	-
Allocation of provision for loan impairment – GLLP	132	-
Allocation of provision for liabilities and charges – cancellable loan Commitments	33	-
Allocation of provision for liabilities and charges – non-cancellable loan Commitments	407	326
Allocation of provision for liabilities and charges – letters of credit	13	-
Reversal of impairment	**(2,520)**	**(634)**
of which:		
Release of provision for loan impairment – GLLP	-	(331)
Release of provision for loan impairment – SLLP	(2,404)	(267)
Release of provision for liabilities and charges – cancellable loan commitments	-	(8)
Release of provision for liabilities and charges – non-cancellable loan Commitments	(111)	-
Release of provision for liabilities and charges – guarantees	(5)	(28)
Total loan impairment charges	**(270)**	**(2,549)**

7 Net fee and commission income

7.1 Fee and commission income

(EUR'000)	2011	2010
Payment transactions	558	444
Credit related fees and commissions	24	20
Guarantees	445	185
Documentary business	543	104
Other fees	44	87
Total	**1,614**	**840**

7.2 Fee and commission expense

(EUR'000)	2011	2010
Intercompany fees	152	16
Bank charges to the NBS	13	12
Payment transactions	3	1
Total	**168**	**29**

8 Net gains/(losses) on financial instruments classified as held for trading

(EUR'000)	2011	2010
Foreign exchange:		
- transaction gains less losses	(16)	(10)
Net gain / (loss)	**(16)**	**(10)**

Foreign exchange net trading income includes gains and losses from translation of foreign currency assets and liabilities.

9 Personnel expenses

(EUR'000)	2011	2010
Wages and salaries	466	466
Social security costs	147	145
Total	**613**	**611**

In 2011 EUR 1,000 as regular contributions were made to the supplementary pension scheme (2010: EUR 1,000) and EUR 109,000 as contributions to state pension scheme (2010: EUR 98,000).

10 Depreciation and amortisation

(EUR'000)	2011	2010
Depreciation of property, plant and equipment incl. disposals	35	59
Amortisation of software	37	41
Total	**72**	**100**

11 General and administrative expenses

(EUR'000)	2011	2010
Outsourced back-office activities	780	699
Head office charges	445	236
IT operating and project costs	74	64
Advisory and consultancy services	68	66
Advertising and public relations	35	53
Other services	93	86
Other	206	224
Total	**1,701**	**1,428**

In 2011, the other administrative expenses from transactions with related parties were EUR 1,230,000 (2010: EUR 974,000).

In 2011 the costs for audit were EUR 34,000 (in 2010: EUR 36,000) and for tax advisory provided by the auditing company EUR 9,000 (in 2010: EUR 9,000).

12 Other operating expenses

(EUR'000)	2011	2010
Operating lease rentals expense	107	104
Provisions for potential liability	(7)	91
Total	**100**	**195**

13 Income tax expense

(EUR'000)	2011	2010
Current taxes on income for the reporting period	258	277
Current taxes related to previous periods	2	(6)
Total current tax	**260**	**271**
Deferred tax (Note 25)	(602)	-
Total deferred tax	**(602)**	**-**
Income tax expense/(income)	**(342)**	**271**

The income tax rate applicable for 2011 and 2010 is 19%.

Further information about deferred income tax is presented in Note 25.

(EUR'000)	2011	2010
Loss or profit before taxes	**1,388**	**(1,285)**
Expenses not deductible for tax purposes (permanent differences)	326	3,383
Income not subject to tax (permanent differences)	(358)	(638)
Tax base	**1,356**	**1,460**
Tax calculated at a tax rate of 19%	**258**	**277**

14 Cash and balances with central banks

(EUR'000)	31 December 2011	31 December 2010
Cash in hand	386	200
Mandatory deposits reserve with NBS	-	1
Total	**386**	**201**

Cash in hand is non-interest-bearing. The yield on mandatory deposits reserve was 1.00% p.a. at the end of 2011 and 2010.

15 Loans and advances to banks

(EUR'000)	31 December 2011	31 December 2010
Loans and advances to banks:		
- Term loans	34,413	25,289
- Nostro accounts and other balances	590	547
Cash in transit	57	2,167
Total	**35,060**	**28,003**
Current	35,060	28,003

Loans and advances to banks include balances with related parties (Note 30).

16 Derivative financial instruments

The Branch uses the following derivative instruments:

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place.

The notional amounts of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms.

There were no open derivative positions as at 31 December 2011 and 2010.

17 Loans to customers

(EUR'000)	31 December 2011	31 December 2010
Gross loans and advances	100,728	101,468
Less: allowance for impairment (GLLP)	(315)	(183)
allowance for impairment (SLLP)	(116)	-
allowance for impairment (SLLP)	(2,252)	(3,401)
Net	**98,045**	**97,884**
Current	94,233	85,799
Non-current	3,812	12,085

Allowance for impairment:

(EUR'000)	SLLP	PLLP	GLLP
Balance at 1 January 2010	**810**	**-**	**514**
Release of provision for loan impairment	(266)	-	(331)
Allocation of provision for loan impairment	2,857	-	-
Balance 31 December 2010	**3,401**	**-**	**183**
Release of provision for loan impairment	(2,404)	-	-
Utilization of provision for loan impairment	(834)	-	-
Allocation of provision for loan impairment	2,089	(116)	132
Balance 31 December 2011	**2,252**	**116**	**315**

18 Intangible assets

(EUR'000)	Software acquired	Assets not yet available for use	Total
Net book value at 1 January 2011	**61**	**24**	**85**
Additions	-	-	-
Amortisation	(36)	-	(36)
Net book value at 31 December 2011	**25**	**24**	**49**
Acquisition cost	522	24	546
Accumulated amortisation	(497)	-	(497)
Net book amount	**25**	**24**	**49**

(EUR'000)	Software acquired	Assets not yet available for use	Total
Net book value at 1 January 2010	**103**	**-**	**103**
Additions	-	24	24
Amortisation	(42)	-	(42)
Net book value at 31 December 2010	**61**	**24**	**85**
Acquisition cost	522	24	546
Accumulated amortisation	(461)	-	(461)
Net book amount	**61**	**24**	**85**

19 Property, plant and equipment

(EUR'000)	Computer equipment	Leasehold improvement	Furniture	Safes	Assets not yet available for use	Financial lease assets	Vehicle	Total
NBV at 1 January 2011	**19**	**-**	**6**	**19**	**5**	**33**	**-**	**82**
Additions	11	-	-	17	16	-	23	67
Disposals	-	-	-	-	-	-	-	-
Depreciation	(11)	-	(4)	(4)	-	(16)	-	(35)
NBV at 31 December 2011	**19**	**-**	**2**	**32**	**21**	**17**	**23**	**114**
Acquisition cost	109	94	113	55	21	95	23	510
Accumulated depreciation	(90)	(94)	(111)	(23)	-	(78)	-	(396)
Net book amount	**19**	**-**	**2**	**32**	**21**	**17**	**23**	**114**
NBV at 1 January 2010	**35**	**4**	**7**	**10**	**-**	**57**	**-**	**113**
Additions	9	-	3	11	5	-	-	28
Disposals	(10)	-	-	-	-	-	-	(10)
Depreciation	(15)	(4)	(4)	(2)	-	(24)	-	(49)
NBV at 31 December 2010	**19**	**-**	**6**	**19**	**5**	**33**	**-**	**82**
Acquisition cost	170	94	128	38	5	155	-	590
Accumulated depreciation	(151)	(94)	(122)	(19)	-	(122)	-	(508)
Net book amount	**19**	**-**	**6**	**19**	**5**	**33**	**-**	**82**

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 846,000 (2010: EUR 432,000). The insurance covers the compensation for damages caused by:

a) Natural disasters; and
b) Theft, burglary, and assault with robbery.

At the same time, the Branch has also insured leased tangible assets (cars covered by both general liability and accident insurance). The insurance premium totals about EUR 5,000 per annum (2010: EUR 5,000).

Sets of non-current intangible assets are not insured separately.

20 Leases

20.1 Financial leases

Net book value of the property and equipment (cars) acquired under the financial leasing was EUR 17,000 at 31 December 2011 (2010: EUR 34,000). The liabilities from financial leasing are reported within due to customers (note 23).

Break down of finance lease liabilities:

31 December 2011 (EUR'000)	Minimum lease payments	Present value of the minimum lease payments
No later than 1 year	5	5
Later than 1 year and no later than 5 years	-	-
Total	**5**	**5**

31 December 2010 (EUR'000)	Minimum lease payments	Present value of the minimum lease payments
No later than 1 year	15	15
Later than 1 year and no later than 5 years	5	4
Total	**20**	**19**

20.2 Operating leases

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

(EUR'000)	31 December 2011	31 December 2010
No later than 1 year	95	142
Later than 1 year and no later than 5 years	16	21
Total	**111**	**163**

21 Other assets

(EUR'000)	31 December 2011	31 December 2010
Other financial assets	**72**	**112**
of which: Accrued income	59	102
Vouchers	13	10
Other non-financial assets	**937**	**125**
of which: Prepayments	4	13
Deferred income tax assets	593	-
Payments in advance to the tax authority	280	97
Other	60	15
Total	**1,009**	**237**

There were no assets overdue at 31 December 2011 and 2010.

22 Deposits from banks

(EUR'000)	31 December 2011	31 December 2010
Current accounts	334	1,220
Term deposits	88,353	86,544
NBS clearing settlement	781	3
Other liabilities to banks	116	-
Cash in transit	1,958	-
Total	**91,542**	**87,767**
Current	87,913	73,984
Non-current	3,629	13,783

Deposits from banks only include financial instruments classified as financial liabilities at amortised cost.
Deposits from banks include balances with related parties (Note 30).

23 Due to customers

(EUR'000)	31 December 2011	31 December 2010
Current accounts	26,215	21,046
Term deposits	13,076	15,488
Other liabilities to customers and temporary items	1,666	221
Total	**40,957**	**36,755**
Current	40,957	36,751
Non-current	-	4

Deposits due to customers only include financial instruments classified as financial liabilities at amortised cost.

24 Other liabilities

(EUR'000)	31 December 2011	31 December 2010
Other financial liabilities	**274**	**232**
of which: Accruals	249	227
Other	25	5
Other non- financial liabilities	**229**	**150**
Total	**503**	**382**
Current	503	382

There were no other liabilities overdue.

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

(EUR'000)	31 December 2011	31 December 2010
Opening balance at 1 January	**1**	**1**
Release	(2)	(3)
Allocation	3	3
Closing balance at 31 December	**2**	**1**

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

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 19% (2010: 19%).

Deferred income tax is attributable to the following items:

(EUR'000)	31 December 2011	31 December 2010
Deferred income tax assets		
- personal provision	(7)	-
- lawsuit provision	(57)	-
- provision for loan impairment	(528)	-
of which: previously unrecognised provision for loan impairment	(646)	-
- depreciation	(1)	-
- leasing	-	(1)
Deferred income tax liabilities		
- depreciation	-	9
Total deferred income tax (asset) / liability	**(593)**	**8**
Deferred income tax assets		
- Deferred tax assets to be recovered after more than 12 months	505	1
- Deferred tax assets to be recovered within 12 months	88	-
Deferred tax liabilities		
- Deferred tax liability to be recovered after more than 12 months	-	11
- Deferred tax liability to be recovered within 12 months	-	(2)

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

(EUR'000)	31 December 2011	31 December 2010
Temporary differences		
Personal provision	(7)	-
Lawsuit provision	(57)	-
Provision for loan impairment	(528)	-
Leasing	(1)	(1)
Depreciaton	(9)	1
Total deferred income tax expense	**(602)**	-

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

26 Current income tax liabilities

(EUR'000)	31 December 2011	31 December 2010
Current income tax liabilities	258	277
Total	**258**	**277**

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.

27 Provisions for liabilities

(EUR'000)	31 December 2011	31 December 2010
Financial guarantees provision	9	14
Non-cancellable loan commitments provision	635	339
Cancellable loan commitments provision	67	34
Letters of credit provision	13	-
Provisions for potential liability	299	307
Total	**1,023**	**694**

(EUR'000)	Financial guarantees provisions	Letters of credit provisions	Non-cancellable loan commitments provisions	Cancellable loan commitments provisions	Provisions for potential liability
Balance at 1 January 2010	**42**	**-**	**13**	**42**	**231**
Release	(28)	-	-	(8)	-
Allocation	-	-	326	-	76
Balance 31 December 2010	**14**	**-**	**339**	**34**	**307**
Release	(5)	-	(111)	33	(24)
Allocation	-	13	407	-	16
Balance 31 December 2011	**9**	**13**	**635**	**67**	**299**

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.

28 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 2011	31 December 2010
Cash	386	200
Balances with central banks	-	1
Due from other banks	35,060	28,003
Cash in transit	-	-
Total	**35,446**	**28,204**

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 14 December 2011 to 17 January 2012 was required at a level of EUR 2,016,300 per day. The actual balance as at 31 December 2011 was EUR 0 (see Note 14). Cumulated volume of obligatory reserves for the last period in 2011 was EUR 71,954,200 (2,016,300* 34 days). Actual cumulated volume of obligatory reserves was EUR 71,954,200.

The average daily balance for period from 8 December 2010 to 18 January 2011 was required at a level of EUR 2,011,000. The actual balance as at 31 December 2010 was EUR 1,000 (see Note 14). Cumulated volume of obligatory reserves for the last period in 2010 was EUR 84,456,000 (2,011,000* 42 days). Actual cumulated volume of obligatory reserves was EUR 84,456,000.

29 Contingent liabilities and commitments

At 31 December 2011, the Branch had the following contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	31 December 2011		31 December 2010	
(EUR'000)	Fair value	Carrying value	Fair value	Carrying value
Loan commitments	-	197,979	-	80,569
Guarantees	(17)	24,556	(7)	22,876
Standby letters of credit	(108)	5,845	-	33
Total	**(125)**	**228,380**	**(7)**	**103,478**

30 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 2011 Parent	31 December 2011 Subsidiaries	31 December 2010 Parent	31 December 2010 Subsidiaries
Loans and advances to banks (Note 15)		**34,618**	**264**	**27,791**	**28**
- Nostro accounts and other balances		194	264	2,503	28
of which:	Commerzbank, Prague Branch	166	-	286	-
	Commerzbank, Frankfurt	-	-	2,167	-
	Commerzbank, New York Branch	4	-	50	-
	BRE Bank S.A., Warsaw	-	231	-	20
	Commerzbank (Budapest) R.t., Budapest	-	33	-	8
	Commerzbank Tokyo	24	-	-	-
- Term loans		34,413	-	25,288	-
of which:	Commerzbank, Prague Branch	34,413	-	25,288	-
- Cash in transit		11	-	-	-
of which:	Commerzbank, Frankfurt	11	-	-	-
Other assets		**49**	**-**	**-**	**-**
of which:	Commerzbank, Frankfurt	49	-	-	-
Deposits from banks (Note 22)		**90,422**	**261**	**87,735**	**30**
- Current accounts		73	261	1,190	30
of which:	Commerzbank, Prague Branch	4	-	1	-
	Commerzbank, Frankfurt	69	-	1,189	-
	BRE Bank S.A., Warsaw	-	261	-	30
- Term deposits		88,353	-	86,545	-
of which:	Commerzbank, Prague Branch	88,353	-	86,545	-
- Cash in transit		1,996	-	-	-
of which:	Commerzbank, Frankfurt	1,996	-	-	-
Other liabilities		**73**	**-**	**48**	**-**
of which:	Commerzbank, Prague Branch	73	-	48	-
Net assets attributable to Commerzbank AG		**380**	**-**	**608**	**-**
of which:	Commerzbank, Frankfurt	380	-	608	-
Guarantees received		**11,770**	**100**	**13,506**	**100**
of which:	Commerzbank, Essen	2,000	-	4,000	-
	Commerzbank,Stuttgart	4,460	-	800	-
	Commerzbank,Prague	300	-	-	-
	Commerzbank (Budapest) R.t., Budapest	-	100	-	100
	Commerzbank, Düsseldorf	5,010	-	8,706	-

(EUR'000)	Affiliated 31 December 2011	Affiliated 31 December 2010
Loans and advances to customers	**-**	**14,960**
Transfactor a.s.		
of which: Overdrafts	-	3,209
Commercial loans	-	11,751
Loan commitments	**-**	**1,638**
Transfactor a.s	-	1,638

Above mentioned transactions with related parties have been concluded under standard market conditions. Maturity structure of the Loans and advances to banks and Deposits from banks are disclosed in note 3.3.3.

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

	31 December 2011		31 December 2010	
(EUR'000)	Parent	Subsidiaries	Parent	Subsidiaries
Interest income	**206**	**-**	**69**	**-**
of which: Commerzbank, Prague Branch	205	-	69	-
Commerzbank, Frankfurt	1	-	-	-
Interest expense	**1,210**	**1**	**1,111**	**2**
of which: Commerzbank, Prague Branch	1,196	-	1,004	-
Commerzbank, Frankfurt	12	-	106	-
BRE Bank S.A., Warsaw	-	1	-	1
Commerzbank, New York Branch	2	-	1	-
Commerzbank (Budapest) R.t., Budapest	-	-	-	1
Fee and commission income	**40**	**-**	**79**	**-**
of which: Commerzbank, Frankfurt	40	-	79	-
Fee and commission expense	**152**	**-**	**16**	**-**
of which: Commerzbank, Frankfurt	152	-	16	-
General and administrative expenses	1,230	-	974	-
of which: Commerzbank, Frankfurt	459	-	275	-
Commerzbank, Prague Branch	771	-	699	-

(EUR'000)	Affiliated 31 December 2011	Affiliated 31 December 2010
Interest income	**420**	**252**
Transfactor a.s.	420	252
Fee and commission income	**1**	**1**
Transfactor a.s.	1	1

In 2011 the Branch's Director and proxy holders (as at 31 December 2011 and 31 December 2010: 3 employees) were paid wages and salaries of EUR 161,000 (2010: EUR 129,000), social and health insurance paid by the Branch amounted to EUR 33,000
(2010: EUR 20,000).

Administrative expenses

The Branch has outsourced to Commerzbank Prague Branch the following activities: back office, payment and settlement, loan administration, human resources and accounting, IT, marketing and risk management.

31 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 2011.

Name and signature of the Director of the Branch

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

Name and signature of the person responsible for accounting

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