

Partnership is not just a word



Annual report for the year 2009

Contents

4 – 5

Management Report

4 2009 Bank Management Report

6 – 9

Commerzbank AG

6 Commerzbank worldwide
7 Commerzbank in the Czech Republic
8 General Managers, Heads of departments

10 – 11

Independent auditor's report

10 Independent auditor's report on the Annual report
11 Independent auditor's report on the financial statements

13 – 40

Financial statements

13 Balance sheet as at 31 December 2009
14 Off-balance sheet as at 31 December 2009
15 Income statement for the year ended 31 December 2009
17 Notes to the financial statements
17 1 General information
17 2 Accounting policies
21 3 Cash and deposits with central banks
21 4 Due from banks
22 5 Due from customers
23 6 Debt Securities
24 7 Long term intangible and tangible fixed assets
25 8 Other assets
25 9 Allowances, provisions and write offs
26 10 Due to banks
27 11 Due to customers
27 12 Other liabilities
27 13 Equity and profit distribution
28 14 Contingencies and commitments
29 15 Interest receivable and similar income
30 16 Interest payable and similar expense
30 17 Fee and commission income
30 18 Fee and commission expense
30 19 Gains less losses from financial transactions
30 20 Other operating income
31 21 Administrative expenses
31 22 Taxation
32 23 Financial risks
40 24 Subsequent events

2009 Bank Management Report

»Last year posed a great challenge for the Commerzbank AG, Prague Branch. Despite the economic environment, we further expanded our position in cross-border bank services for Czech exporters in 2009 – relating in particular to guarantees securing international trading transactions – and considerably boosted revenues in this area.«


2009 was a difficult year due to the continuing global financial crisis. The economic downturn that began already in 2007 in a number of countries around the world further deepened, spreading into the Czech Republic. The Czech economy dropped by 4,1 % in 2009.

Last year posed a great challenge for the Commerzbank AG, Prague Branch. Despite the economic environment, we further expanded our position in cross-border bank services for Czech exporters in 2009 – relating in particular to guarantees securing international trading transactions – and considerably boosted revenues in this area.

Even though the Czech Republic was less affected than most Central & Eastern European countries by the crisis, we restructured our lending portfolio in favour of medium-sized companies and significantly reduced it overall. Loan loss provisions were kept to a low level following the successful restructuring of individual credit exposures. The emphasis was also on reducing risks and costs, optimizing funding and liquidity.

Like in previous years, the Commerzbank AG, Prague Branch relocated additional processes away from other European locations, including Germany, to the Czech Republic in 2009, expanding the regional centre for payment services in Prague. Payment processing for the Milan branch was transferred in autumn 2009, following in the footsteps of Paris, Brussels and Amsterdam in 2008. Prague is scheduled to take over this activity for the Madrid branch in 2010. The integration of Dresdner Bank at these locations will also have a positive effect on capacity expansion in Prague.

The merger of Commerzbank and Dresdner Bank in May 2009 became an important milestone in the history of Commerzbank. A significant step in the integration of Dresdner Bank was the launch of our new brand identity presented by the Chairman of the Board of Managing Directors Martin Blessing at the end of October 2009. The central image of the new brand identity is our new logo, which consists of three main elements: the



name “Commerzbank” with the new modern font, the lively yellow colour and the three-dimensional ribbon and it hereby combines the elements of the both banks. Our new brand promise, “Achieving more together”, encapsulates our core values of “partnership” and “performance” and describes what we stand for and what we promise to our customers. Introducing of the new logo on a step-by-step basis will last till October 2010.

Commerzbank in the Czech Republic won plaudits for its social responsibility there, last year. It was one of three finalists for the VIA BONA award in the long-term partnership category. The VIA BONA award in this category acknowledges companies’ strong commitment to non-profit organizations in the Czech Republic over an extended period; in this specific case, the support was for the Music Faculty of the Academy for the Performing Arts in Prague over a period of 15 years.

In 2010 Commerzbank AG, Prague Branch will build on our position on the Czech market in Corporate Banking and Private Banking segments by adding new products. We also see opportunities to offer German mid-sized companies – customers of the former Dresdner Bank – the extensive products and services of Commerzbank in the Czech Republic and Slovakia. Some of them became our clients already.

All the other planned measures are still aimed at reducing risks, optimizing portfolio and creating an efficient platform for profitable growth beyond the end of the global financial and economic crisis.

Dr. Jutta Walter



Rainer Ottenstein



Commerzbank AG

Commerzbank worldwide

As a large, integrated bank, **Commerzbank** is one of Europe's leading financial institutions and the second-largest in Germany and is operating more than 130 years on global financial markets. With the merging of Dresdner Bank into Commerzbank in May 2009, a new leading bank is formed: the new Commerzbank as a strong universal bank. Commerzbank is a competent service provider for private and business customers in Germany as well as small and mid-sized companies, while also serving numerous large and multinational corporate customers. In many branches private-banking facilities exist for wealthy private customers.

In the nineties, the bank substantially expanded its presence in Central and Eastern Europe. Nowadays it has the largest branch network from all German banks in this region and due to its acquisition of Dresdner Bank is the largest German bank in Central and Eastern Europe.

The Central & Eastern Europe segment comprises BRE Bank in Poland (operating in the Czech Republic under the brand "mBank"), Ukraine's Bank Forum, Russia's Commerzbank (Eurasija) SAO, Hungary's Commerzbank ZRT, branches in the Czech Republic and Slovakia, and investments in seven microfinance banks and Russia's Promsvyazbank. These are grouped together under a management holding company, which acts as the operational management unit, as the interface between the local units and



the central departments in Germany and as the strategic decision-maker. Commerzbank units are the contact points for local business in Central and Eastern Europe, as well as for cross-border activities of its domestic and international customers.

The Central and Eastern Europe region suffered considerably in 2009 from the tough economic conditions and the financial crisis, which had an impact on the segment's results too. Business in Central Europe was relatively stable and benefited towards the end of the last year from the slight financial market recovery.

Commerzbank in the Czech Republic

Commerzbank AG entered the Czech market in 1992. With a sophisticated product line and high-quality services for both private and corporate clients, Commerzbank has established itself as a leading financial institution in the Czech Republic.

Commerzbank AG, Prague Branch is focused mainly on corporate clients and Private Banking, providing a comprehensive line of products customized to meet the needs of individual customers, and ranging from standard daily banking services to complex structured financings. The Bank's local operations are closely connected to the global network of the Commerzbank Group, providing its clients with the international know-how and greater opportunities to operate in the world markets.

Commerzbank is also very successful in the area of Private Banking, offering a broad array of unique financial products tailor made to each client's needs and risk tolerances. Every client is provided with exclusive services, an individual approach, true professionalism and complex financial products.

With its focus on international entrepreneurship, strong know-how across a variety of industry sectors, and a comprehensive range of products, the bank offers better, more innovative and prompt financing solutions.

In order to better serve the needs of its clients Commerzbank has expanded its branch network in the Czech Republic and has established branches in Brno (since 1998), in Ostrava (since 2001), in Hradec Králové and Plzen (since 2007).

Commerzbank offices are the first contact address, which German firms use by entering the Czech market and which local firms use if they aim to widen their activities in Europe.

There are another companies operating on Czech market, which are part of Commerzbank Group – mBank (subsidiary of BRE Bank), Transfinance, Commerz Real, EUROHYPO and Bank FORUM.

Organization structure

Prague branch

General Managers:



Dr. Jutta Walter



Rainer Ottenstein

Heads of departments:

Ludovít Bán

Corporate Banking Department

Iva Gottliebová

Marketing and Communication

Thomas Baumgart

Corporate Banking Department

Joachim Spengler

Administration

Margaret Dvorak

Structured Finance

Bernd Krönke

ZTB B RC Prag

Daniel Steinmetz

Credit Office

Petr Nentvich

Corporate Banking Department,
Brno Office

Alena Štefaňáková

Private Banking

René Mewald

Corporate Banking Department,
Hradec Králové Office

Jaromír Hronek

Treasury

Ondřej Eliáš

Corporate Banking Department,
Plzeň Office

Kai Grosse

Trade Finance & Financial Services

Eva Collardová

Accounting Department

Roman Zedníček

Corporate Banking Department,
Ostrava Office

Renata Kloubek

Personnel Department





PricewaterhouseCoopers Audit, s.r.o.

Kateřinská 40/466

120 00 Praha 2

Česká republika

Telephone +420 251 151 111

Facsimile +420 251 156 111

Independent auditor's report

To the management of Commerzbank Aktiengesellschaft, pobočka Praha

We have audited the financial statements of Commerzbank AG, pobočka Praha, identification number 47610921, with registered office at Jugoslavska 1, Praha 2, 120 21 („the Branch“) for the year 2009 ended 31 December 2009 disclosed in the annual report on pages 13 to 40 and issued the opinion dated 22 April 2010 and disclosed on page 11.

Report on the Annual Report

We have verified that the other information included in the annual report of the Branch for the year 2009 ended 31 December is consistent with the financial statements referred to above. The Management of the Branch is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Branch for the year 2009 ended 31 December 2009 is consistent, in all material respects, with the financial statements. The maintenance and integrity of the Branch's website is the responsibility of its Management; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

26 April 2010

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Ing. Petr Kříž

Statutory Auditor, Licence No. 1140

Note

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



PricewaterhouseCoopers Audit, s.r.o.

Kateřinská 40/466

120 00 Praha 2

Česká republika

Telephone +420 251 151 111

Facsimile +420 251 156 111

Independent auditor's report

To the management of Commerzbank Aktiengesellschaft, pobočka Praha

We have audited the accompanying financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha, identification number 47610921, with registered office at Jugoslávská 1, Praha 2, 120 21 ("the Branch"), which comprise the balance sheet as at 31 December 2009, the income statement, statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Management's responsibility for the Financial Statements

Management of the Branch is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Branch as at 31 December 2009, its financial performance for the year then ended in accordance with Czech accounting legislation.

22 March 2010

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Petr Kříž

Auditor, Licence No. 1140

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

© 2010 PricewaterhouseCoopers Audit, s.r.o. All rights reserved. „PricewaterhouseCoopers“ refers to the Czech firm of PricewaterhouseCoopers Audit, s.r.o. or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.



Structuring capital. One can achieve more together through long term cooperation in partnership. Martin Kubů (left), CEO, Petr Voborník (right), General Manager and Jan Lisa (2nd from left), Investment Director of the Czech biodiesel producer PREOL a.s., are equally convinced of this as is Luboš Křen (2nd from right) from Corporate Banking of Commerzbank.

PREOL belongs to the Agrofert-Group, the fourth largest Czech company and the most important investor in Germany, with whom Commerzbank has been associated for many years. In this way Commerzbank undertook the structuring of a complex syndicated loan for the construction of environmentally friendly plant and equipment for PREOL.

Financial statements

Balance sheet as at 31 December 2009

Assets:		31 December 2009	31 December 2008
	Note	CZK'000	CZK'000
Cash and deposits with central banks	3	780,702	1,146,217
Due from banks	4	11,675,934	8,320,280
a) repayable on demand		5,176,280	3,649,965
b) other receivables		6,499,654	4,670,315
Due from customers	5	50,160,682	63,457,532
a) repayable on demand		4,220,222	3,743,242
b) other receivables		45,940,460	59,714,290
Debt securities	6	1,148,282	1,278,832
a) issued by government institutions		555,475	563,566
b) issued by other entities		592,807	715,266
Long-term intangible fixed assets	7	27,164	36,964
Long-term tangible fixed assets	7	34,691	31,823
of which: buildings for operating activities		21,229	19,568
Other assets	8	2,401,887	14,245,828
Prepayments and accrued income		19,887	13,683
Total assets		66,249,229	88,531,159

Liabilities:		31 December 2009	31 December 2008
	Note	CZK'000	CZK'000
Due to banks	10	45,899,669	52,646,694
a) repayable on demand		5,945,252	12,906,089
b) other payables		39,954,417	39,740,605
Due to customers	11	16,732,962	24,076,310
a) repayable on demand		6,531,146	6,031,866
b) other payables		10,201,816	18,044,444
Other liabilities	12	2,673,366	10,953,616
Accruals and deferred income		62,857	58,264
Provisions	9	90,130	1,000
Revaluation differences from assets and liabilities		(127,356)	(34,582)
Retained earnings (losses) from previous periods		391,608	80,170
Profit for the accounting period	13	525,993	749,687
Total liabilities		66,249,229	88,531,159

Off-balance sheet as at 31 December 2009

Off-balance sheet assets:		31 December 2009	31 December 2008
	Note	CZK'000	CZK'000
Commitments and guarantees given	14	10,548,045	18,127,475
Receivables from spot transactions		1,862,532	217,600
Receivables from term instruments	23(d)	150,293,849	708,492,795
Receivables from option instruments	23(d)	6,761,636	8,890,718
Receivables written-off		4,030	-
Total off-balance sheet assets		169,470,092	735,728,588

Off-balance sheet liabilities:		31 December 2009	31 December 2008
	Note	CZK'000	CZK'000
Commitments and guarantees received		30,908,441	42,057,680
Collaterals received and pledges	14	11,923,698	9,188,657
Payables from spot transactions		1,862,025	218,503
Payables from term instruments	23(d)	150,555,983	706,764,113
Payables from option instruments	23(d)	6,761,636	8,890,718
Assets under custody and managed by a third party	14	19,661,745	19,683,985
Assets under management	14	439,424	359,949
Total off-balance sheet liabilities		222,112,952	787,163,605

Income statement for the year ended 31 December 2009

	Note	31 December 2009 CZK'000	31 December 2008 CZK'000
Interest receivable and similar income	15	2,545,581	4,087,503
of which: interest income from debt securities		71,862	86,728
Interest payable and similar expense	16	(1,031,906)	(2,960,934)
Fee and commission income	17	304,006	356,485
Fee and commission expense	18	(23,358)	(59,476)
Gains from financial transactions	19	(331,738)	110,553
Other operating income	20	239,389	190,350
Other operating expense		(18,414)	(11,673)
Administrative expense	21	(688,124)	(752,770)
of which: a) staff costs		(386,580)	(380,848)
of which: aa) wages and salaries		(292,339)	(286,126)
ab) social and health insurance		(78,119)	(78,426)
ac) other staff costs		(16,122)	(16,296)
b) other administrative expenses		(301,544)	(371,922)
Depreciation of long-term tangible and intangible fixed assets	7	(27,557)	(32,628)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	9	8,935	30,285
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	9	(173,064)	(6,049)
Release and utilisation of other provisions	9	(89,050)	-
Profit on ordinary activities before taxation		714,700	951,646
Income tax	22	(188,707)	(201,959)
Profit for the year after taxation	13	525,993	749,687

Statement of changes in equity for the year ended 31 December 2009

	Note	Revaluation reserve*	Retained earnings	Profit of the current year	Total equity
		CZK'000	CZK'000	CZK'000	CZK'000
At 1 January 2008		2,297	24,425	390,468	417,190
Allocation of 2007 profit to Commerzbank AG		-	-	(336,413)	(336,413)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2007		-	54,055	(54,055)	-
Revaluation differences not reflected in profit, net of tax		(36,879)	-	-	(36,879)
Foreign exchange differences in equity		-	1,690	-	1,690
Profit for the year 2008	13	-	-	749,687	749,687
At 31 December 2008		(34,582)	80,170	749,687	795,275
Allocation of 2008 profit to Commerzbank AG	13	-	-	(439,947)	(439,947)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2008	13	-	309,740	(309,740)	-
Revaluation differences not reflected in profit, net of tax		(92,774)	-	-	(92,774)
Foreign exchange differences in equity	13	-	1,698	-	1,698
Profit for the year 2009	13	-	-	525,993	525,993
At 31 December 2009		(127,356)	391,608	525,993	790,245

* Changes in the fair value of securities in available-for-sale portfolio.

Notes to the financial statements

1 General information

COMMERZBANK Aktiengesellschaft, Prague branch (hereinafter referred to as “the Branch”) was incorporated on 1 December 1992 as a branch of Commerzbank AG, which is headquartered in Frankfurt am Main, Germany. The Branch has its registered office in Praha and a sub-branch in Brno and offices in Ostrava, Plzeň, and Hradec Králové. In 2009, the Branch was managed by Mrs. Jutta Walter and Mr. Rainer Ottenstein (since 1 April 2008) who replaced Mr. Arno Walter (until 31 March 2008).

The Branch’s operations primarily consist of:

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

2 Accounting policies

(a) Basis of preparation

The financial statements comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with

the Act on accounting, applicable accounting rules set by the Ministry of Finance of the Czech Republic and Czech accounting standards for financial institutions.

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale financial instruments recognized in fair values. The Branch uses primarily the structure of accounts of Commerzbank AG, which is subsequently translated for Czech reporting purposes.

The financial statements are rounded to thousands of Czech Crowns (“CZK’000”) unless otherwise stated.

Ongoing global financial crisis

The ongoing global financial crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and, at times, higher interbank lending rates and very high volatility in stock markets. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Branch’s financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Branch’s business in the current circumstances.

The volume of wholesale financing has significantly reduced in recent times. Such circumstances may affect the ability of the Branch to obtain new borrowings and

re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Branch may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Branch establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash-flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions as at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

(b) Accounting basis

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

(c) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the CNB effective as at the balance sheet date. All resulting foreign exchange gains and losses

from monetary items are recognised in gains less losses from financial transactions.

(d) Fair value of securities

The fair value of a security is determined as the market mid-value quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by the net present value of cash flow taking into consideration the credit and liquidity risk for bonds.

(e) Available-for-sale securities

Available-for-sale securities are neither securities at fair value through profit or loss nor securities held-to-maturity. Available-for-sale securities are initially recognised at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value. As at 31 December 2009, the fair value of the available-for-sale securities has been determined by valuation technique using market data, credit risk of the securities' issuer and taking into account the liquidity of the market. Any subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognised directly in equity (net of any tax effect) until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement.

(f) Securities financing arrangements

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. They are recognised off balance sheet as Collaterals received and pledges. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cash flows are recorded as Due to banks or customers and Due from banks or customers, as appropriate, on the settlement date.

(g) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, forward rate agreements ("FRAs"), currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised on balance sheet at acquisition cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are presented in Other assets

or in Other liabilities when their fair value is positive or negative respectively.

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

The Branch designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

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

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

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

(h) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest

expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows until maturity or the nearest change of interest rate to the net carrying amount of the financial asset or financial liability.

The linear method is used as an approximation of the effective interest method for securities with a remaining maturity shorter than 1 year as at the settlement date, for loans, other receivables and liabilities with individual repayment periods shorter than 1 year. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

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

(i) Penalty interest

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

(j) Fee and commission income

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

(k) Receivables

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

(l) Provisions

Provisions are recognised when the Branch has a present obligation as a result of past events, it is probable that an

outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities.

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

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

(m) Allowances

The Branch first assesses whether evidence of impairment exists for individual receivables. Individual receivables are categorised in five categories (standard, watch, substandard, doubtful, loss). Impaired receivables (substandard, doubtful and loss) represent the total outstanding principal and accrued interest receivable with service payments overdue more than 90 days or other defaults in contractual terms or financial performance of debtor. Watch receivables represent the total outstanding principal and accrued interest receivable with service payments overdue less than 90 days.

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

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses connected with the decrease in assets, in the income statement. The release of allowances in case they are no longer necessary is recognised as income.

Allowances for assets denominated in a foreign currency are created in that foreign currency. Foreign exchange differences are recognised in the same way as foreign exchange differences from the related asset.

(n) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets acquired before 31 December 2000 are recorded at acquisition cost.

Fixed assets are depreciated/amortised by applying the reducing balance method over the estimated useful lives. Tangible and intangible fixed assets acquired after 31 December 2000 are amortised by applying the straight-line basis over the estimated useful lives.

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

Assets held under finance lease agreements are not capitalised and are accounted for in the same way as operating leases, with rental charges being reflected in the income statement on a straight-line basis for the period of duration of the lease contract. Nor is the corresponding lease obligation recorded as a liability.

(o) Value added tax

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

(p) Deferred taxation

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

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

A deferred tax related to the revaluation of available-for-sale securities which are charged and credited directly to equity is also charged and credited directly to equity.

(q) Staff costs and pensions

Staff costs are included in Administrative expenses.

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.

(r) Related parties

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

- senior management of the Branch, being persons responsible for management functions based on employment or other contracts and powers and responsibilities of which are defined in the Branch’s statute (“senior management”);
- entity controlling the Branch and its senior management;
- relatives (direct family members) of senior management;
- entities in which the senior management holds at least a 10% shareholding;
- shareholders holding more than 10% of voting rights of Commerzbank AG and entities controlled by them.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 4, 5, 10, 11, 14, 15 and 20.

(s) Foreign exchange differences in equity

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

(t) Subsequent events

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

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

3 Cash and deposits with central banks

	31 December 2009 CZK'000	31 December 2008 CZK'000
Cash on hand	44,861	52,094
Minimal obligatory reserves	435,811	661,094
Current accounts with central banks	300,030	433,029
	780,702	1,146,217

Minimal obligatory reserves are mandatory deposits with the CNB. These deposits bear interest at the CZK repo rate, which was 1.00% p.a. at 31 December 2009 (2008: 2.25% p.a.).

4 Due from banks

	31 December 2009 CZK'000	31 December 2008 CZK'000
Current accounts with banks	90,826	241,663
Term deposits up to 24 hours	5,085,454	3,408,302
Other term deposits with banks	6,061,093	3,886,543
Standard loans to banks	232,082	757,692
Other receivables from banks	206,479	26,080
	11,675,934	8,320,280

Loans and receivables to related parties of the Commerzbank AG Group

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

	31 December 2009	31 December 2008
	CZK'000	CZK'000
Commerzbank, Frankfurt	4,515,480	865,917
Commerzbank, Bratislava pobočka	2,842,413	3,926,347
Commerzbank, Hong Kong branch	23,981	1,623
Commerzbank (Budapest) R.t., Budapest	13,478	2,524,808
Commerzbank, Tokyo branch	5,454	21,532
Commerzbank (Euroasija) SAO, Moscow	3,874	304
Commerzbank, Singapore branch	1,937	-
BRE Bank S.A., Warsaw	686	2,643
Commerzbank, New York branch	-	138,591
	7,407,303	7,481,765

5 Due from customers

	31 December 2009	31 December 2008
	CZK'000	CZK'000
Current accounts to governmental entities	2	614
Current accounts to other customers	4,220,220	3,742,628
Standard loans to other customers	45,600,638	59,650,047
Other receivables from customers	-	816
Standard loans total	49,820,860	63,394,105
Impaired loans to companies and individuals	585,176	166,706
	50,406,036	63,560,811
Allowance for impaired loans (Note 9)	(245,354)	(103,279)
	50,160,682	63,457,532

Syndicated loans forming part of Due from customers totalled CZK 2,524 million as at 31 December 2009 (2008: CZK 3,122 million).

(a) Quality of loan portfolio

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

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

	31 December 2009 CZK'000	31 December 2008 CZK'000
Standard	49,820,860	63,394,105
Impaired		
- Substandard	349,624	50,910
- Doubtful	67,641	103,630
- Loss	167,911	12,166
	50,406,036	63,560,811

Restructured loans totalled CZK 278.1 million in 2009 (2008: CZK 100.8 million)

Current value of collaterals received is disclosed in note 14.

(b) Loans to related parties

Standard loans to companies and individuals include these loans to related parties:

	31 December 2009 CZK'000	31 December 2008 CZK'000
BRE Leasing, Sp. z o.o., Warsaw	13,867,643	21,241,935
Transfinance a.s.	557,767	456,908
BREL-COM Sp. z o.o	177,999	203,586
Commerz Real CZ, s.r.o.	32,798	-
	14,636,207	21,902,429

As at 31 December 2009, the Branch has provided loans of CZK 1,829,000 to its senior management members (2008: CZK 1,728,000).

All loans to related parties were made in the ordinary course of business on substantially the same terms and

conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

6 Debt Securities

	31 December 2009 CZK'000	31 December 2008 CZK'000
Available-for-sale	1,148,282	1,278,832

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

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

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

As at 31 December 2009, the revaluation difference arising from the revaluation of the available-for-sale securities net of the deferred tax impact of CZK (127,356,000) (2008: CZK (34,582,000)) is presented in equity.

	31 December 2009 CZK'000	31 December 2008 CZK'000
Traded on recognised Czech stock exchanges	893,218	842,154
Traded on recognised foreign stock exchanges	255,064	436,678
	1,148,282	1,278,832

7 Long term intangible and tangible fixed assets

Long term intangible fixed assets – software

	31 December 2008	Additions / Depreciation	Disposals	31 December 2009
	CZK'000	CZK'000	CZK'000	CZK'000
Acquisition cost	224,130	8,418	(8,160)	224,388
Accumulated amortisation	(190,300)	(16,904)	8,160	(199,044)
Net book amount	33,830			25,344
Advances granted and assets in course of implementation	3,134			1,820
	36,964			27,164

Long term operating tangible fixed assets

	31 December 2008	Additions / Depreciation	Disposals	31 December 2009
	CZK'000	CZK'000	CZK'000	CZK'000
Acquisition cost buildings	28,748	3,044	-	31,792
Equipment	177,345	10,376	(36,741)	150,980
Accumulated amortization				
Buildings	(9,180)	(1,383)	-	(10,563)
Equipment	(167,111)	(9,371)	36,741	(139,741)
Net book amount	29,802			32,468
Advances granted and assets in course of implementation	2,021			2,223
	31,823			34,691

Long-term fixed assets held under lease contracts

The Branch also uses assets held under finance lease contracts, which are recorded as fixed assets in the financial statements only after termination of the lease contract. The leases can be analysed as follows:

	31 December 2009 CZK'000	31 December 2008 CZK'000
Amounts already paid on existing leases	15,142	11,935
Amounts payable within one year	1,670	3,207
Amounts payable within 1 – 5 years	2,129	3,798
Total amount paid and payable on existing finance leases	18,941	18,940

Assets pledged as collaterals

The Branch did not provide any tangible fixed assets as collateral for its liabilities as at 31 December 2009 and 2008.

8 Other assets

	31 December 2009 CZK'000	31 December 2008 CZK'000
Financial derivatives (Note 23 (d))	1,840,790	11,262,280
Net deferred tax (Note 22)	29,943	10,187
Anticipated receivables	8,314	6,822
Other receivables	522,840	2,966,539
of which: receivables from settlement of payments	202,680	2,632,992
	2,401,887	14,245,828

9 Allowances, provisions and write offs

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

Provisions	31 December 2009 CZK'000	31 December 2008 CZK'000
Provisions for potential payables	89,130	-
Specific provisions for guarantees given (Note 14)	1,000	1,000
	90,130	1,000

Allowances	31 December 2009 CZK'000	31 December 2008 CZK'000
Impaired loans to customers (Note 5)	245,354	103,279
Other receivables	18,932	-
	264,286	103,279

Movements in provisions to potential payables can be analysed as follows:

	2009 CZK'000	2008 CZK'000
At 1 January	-	-
Additions	89,050	-
Foreign exchange translation difference	80	-
As at 31 December	89,130	-

Movements in allowances for classified loans due from clients can be analysed as follows:

	2009 CZK'000	2008 CZK'000
As at 1 January	103,279	126,182
Additions	154,055	6,031
Foreign exchange translation difference	922	(72)
Utilisation	(3,967)	-
Write backs	(8,935)	(28,862)
As at 31 December	245,354	103,279

Movements in allowances for other receivables can be analysed as follows:

	2009 CZK'000	2008 CZK'000
At 1 January	-	-
Additions	18,932	-
As at 31 December	18,932	-

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

	2009 CZK'000	2008 CZK'000
Write backs of allowances for loans	8,935	28,862
Income from amount due from clients written-off	-	1,423
	8,935	30,285

Write-offs, additions and utilisation of allowances for loans

	2009 CZK'000	2008 CZK'000
Amounts due from clients written off	(4,044)	(18)
Additions to allowances for loans	(172,987)	(6,031)
Utilisation	3,967	-
	(173,064)	(6,049)

Bad debts are written-off against established specific allowances or directly expensed in the case that the management of the Branch asserts the recoverability thereof to be remote.

10 Due to banks

	31 December 2009 CZK'000	31 December 2008 CZK'000
Current accounts with banks	519,589	2,295,629
Term deposits due up to 24 hours	5,425,663	10,610,460
Other term deposits with banks	39,747,937	39,714,525
Other liabilities	206,480	26,080
	45,899,669	52,646,694

Deposits from related parties

	31 December 2009 CZK'000	31 December 2008 CZK'000
Commerzbank Frankfurt	13,389,554	16,685,558
Commerzbank, Hong Kong branch	10,569,854	15,629,274
BRE Bank S.A., Warsaw	2,010,888	8,376,351
Commerzbank, Bratislava branch	1,165,024	831,151
Commerzbank, Shanghai branch	-	889,916
BRE Bank S.A., organizační složka podniku, Praha	45,256	23,632
Commerzbank, Singapore branch	42,415	616,103
Commerzbank (Budapest) R.t., Budapest	35,732	115
Commerzbank, Paris branch	26,578	8,086
Commerzbank, Madrid branch	2,342	809
Commerzbank, New York branch	177	-
Commerzbank (Nederland) N.V., Amsterdam	161	240
Commerzbank, Bruxelles branch	53	-
Eurohypo AG, Frankfurt	43	3
Commerzbank (Schweiz) AG, Zürich	-	2,435
Commerzbank, London branch	-	603
Intermarket Bank AG	-	417
	27,288,077	43,064,693

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

11 Due to customers

	31 December 2009 CZK'000	31 December 2008 CZK'000
Amounts due to governmental entities	156,154	1,031,783
Amounts due to municipalities	203,523	6,151,562
Amounts due to private customers	16,373,285	16,892,965
	16,732,962	24,076,310

	31 December 2009 CZK'000	31 December 2008 CZK'000
Liabilities repayable on demand	6,531,146	6,031,866
Term accounts for fixed terms	9,974,301	17,731,976
Term accounts with fixed notice periods	227,515	311,653
Other liabilities	-	815
	16,732,962	24,076,310

Deposits from related parties

	31 December 2009 CZK'000	31 December 2008 CZK'000
Immobilien-gesellschaft Ost Hagle, s.r.o.	60,973	44,387
Commerz Real CZ, s.r.o.	4,223	4,569
Transfinance, a.s.	3,896	78
Commerz Real Mobilienleasing, GmbH	1,503	267
BRE Leasing Sp. z o.o., Warsaw	292	1,697
	70,887	50,998

The Branch accepted deposits from the senior management of the Branch of CZK 14,377,000 as at 31 December 2009 (2008: CZK 18,910,000).

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

12 Other liabilities

	31 December 2009 CZK'000	31 December 2008 CZK'000
Financial derivatives (Note 23 (d))	2,112,120	9,571,116
Estimated payables	52,707	74,736
Other liabilities	508,539	1,307,764
	2,673,366	10,953,616

13 Equity and profit distribution

Profit distribution

The net profit of CZK 749,687,000 for 2008 was distributed and the net profit of CZK 525,993,000 for 2009 has been proposed to be allocated, as follows:

	2009 CZK'000	2008 CZK'000
Allocation to Commerzbank AG (profit according to German accounting standards)	492,879	439,947
Difference from foreign exchange translation	-	19,522
Transfer to retained earnings	33,114	290,218
Net profit as at 31 December	525,993	749,687

The transfer to retained earnings represents the difference between the net accounting profit in accordance with the Czech accounting standards and the net accounting profit in accordance with the German accounting standards.

The difference predominantly arises from the diverse accounting treatment in the area of provisions and revaluation of financial derivatives.

14 Contingencies and commitments

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

Commitments and guarantees granted

	31 December 2009	31 December 2008
	CZK'000	CZK'000
Commitments	4,310,533	11,540,913
Guarantees granted	6,237,512	6,586,562
Total commitments and guarantees granted	10,548,045	18,127,475

Guarantees granted can be analysed as follows:

Guarantees granted including guarantees from letters of credit	31 December 2009	31 December 2008
	CZK'000	CZK'000
On behalf of banks	692,999	407,126
On behalf of customers	5,544,513	6,179,436
Total guarantees granted	6,237,512	6,586,562
Specific provision for guarantees granted (Note 9)	(1,000)	(1,000)
Net guarantees granted and letters of credit	6,236,512	6,585,562

On behalf of its senior management, the Branch has granted guarantees of CZK 70,000 as at 31 December 2009 (2008: CZK 225,000).

Contingent liabilities can be analysed as follows:

	31 December 2009	31 December 2008
	CZK'000	CZK'000
Assets placed in custody		
Shares	3,099,107	2,746,776
Bonds	1,802,708	-
Other	1,314,448	-
	6,216,263	2,746,776
Assets managed by a third party		
Shares	12,966,911	13,485,283
Bonds	474,935	2,074,985
Derivatives	-	3,026
Other	-	1,370,397
	13,441,846	16,933,691
Assets under custody		
Shares	3,636	3,518
Assets placed in custody, managed by third party and under custody	19,661,745	19,683,985
Assets under management		
Bonds	439,424	347,840
Other	-	12,109
	439,424	359,949

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

In the opinion of management, there are no liabilities arising from fiduciary activities as at 31 December 2009 and 2008.

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

Collaterals received and pledges

	31 December 2009	31 December 2008
	CZK'000	CZK'000
Real estate pledges	2,896,065	1,950,220
Securities	536,278	758,139
Other collateral received	8,491,355	6,480,298
	11,923,698	9,188,657

Besides above-mentioned collateral, the Branch also accepts other collateral and guarantees for pledge purposes (bank guarantees, insurance, guarantor's proclamation, bills of exchange, etc.). In the year 2009, the collateral amounted to CZK 30,908,441,000 (2008: 42,057,680,000).

	31 December 2009	31 December 2008
	CZK'000	CZK'000
Commerzbank, Essen branch	430,338	717,804
Commerzbank, Düsseldorf branch	28,000	28,000
Commerzbank, Amsterdam branch	10,000	10,700
Commerzbank, Mainz branch	3,000	3,000
Commerzbank, Köln branch	800	800
Commerzbank, Frankfurt	663	24,436
Commerzbank, Hamburg branch	516	525
Commerzbank, Koblenz branch	250	250
Commerzbank, Kiel branch	-	1,000
	473,567	786,515

15 Interest receivable and similar income

	2009	2008
	CZK'000	CZK'000
Interest on inter-bank transactions	187,189	495,572
Interest on loans to customers and state	2,286,530	3,505,203
Interest and discount on debt securities	71,862	86,728
	2,545,581	4,087,503

Interest income in the amount of CZK 23 million was recognised on impaired loans in 2009 (2008: CZK 4 million). There was no registered unpaid penalty interest income outstanding in 2009 (2008: CZK 0 million).

Collaterals received and pledges

	2009	2008
	CZK'000	CZK'000
BRE Leasing Sp. z o.o., Warsaw	660,247	1,058,900
Transfinance, a.s.	15,060	27,963
BREL-COM Sp. z o.o.	11,892	13,454
Commerz Real CZ, s.r.o.	1,530	834
Immobilien-gesellschaft Ost Hägle, s.r.o.	-	1,109
Commerzbank, Bratislava branch	75,981	219,816
Commerzbank, Frankfurt	18,441	138,063
BRE Bank S.A., Warsaw	14,385	5,625
Commerzbank (Budapest) R.t., Budapest	5,176	9,728
Commerzbank, London branch	56	-
Commerzbank, Paris branch	47	1,388
Commerzbank, Singapore branch	23	19
Commerzbank, Hong Kong branch	12	377
Commerzbank, New York branch	8	241
Commerzbank, Madrid branch	3	-
Commerzbank, Tokyo branch	-	7
Commerzbank, Johannesburg branch	-	1
Commerzbank (Schweiz) AG, Zürich	-	20
Commerzbank (Euroasija) SAO, Moscow	-	6
	802,861	1,477,551
Interest from senior management	91	103

16 Interest payable and similar expense

	2009	2008
	CZK'000	CZK'000
Interest on inter-bank transactions	750,552	2,344,871
Interest on loans to other customers	23,182	-
Interest on deposits from customers and state	258,172	616,063
	1,031,906	2,960,934

17 Fee and commission income

	2009	2008
	CZK'000	CZK'000
Brokerage income from the purchase and sale of securities and derivatives	24,901	32,837
Custody fee income	724	899
Asset management fee and related fee income	10,678	7,914
Foreign and domestic payments	132,009	171,632
Letters of credit	23,201	23,549
Guarantees	55,270	32,994
Commissions from loans	44,238	69,735
Other	12,985	16,925
	304,006	356,485

18 Fee and commission expense

	2009	2008
	CZK'000	CZK'000
Trading commissions	7,669	7,644
Brokerage expense from the purchase and sale of securities	3,712	4,987
Foreign exchange operation	1,742	3,512
Financial guarantees paid to the head office in Frankfurt am Main	-	43,002
Other financial activities	10,235	331
	23,358	59,476

19 Gains less losses from financial transactions

	2009	2008
	CZK'000	CZK'000
Gains / (losses) from foreign currency transactions	2,355,623	(1,161,811)
(Losses) / Gains from transactions with FX financial derivatives	(2,702,715)	1,321,012
Gains / (losses) from interest rate financial derivatives	15,354	(48,648)
	(331,738)	110,553

20 Other operating income

	2009	2008
	CZK'000	CZK'000
Income from intercompany re-invoicing	205,875	181,868
Other operating income	33,514	8,482
	239,389	190,350

Income from intercompany re-invoicing represents re-invoicing of costs related to activities carried out for the head office in Frankfurt am Main and income from invoicing of services provided for human capital, accounting, IT, management, payments, credit administration and risk management services. These services are provided to branches in Bratislava, Brussels, Paris, Amsterdam, Milano and the head office in Frankfurt am Main.

Other operating income from related parties of Commerzbank AG Group

	2009 CZK'000	2008 CZK'000
Commerzbank, Frankfurt	188,324	164,166
Commerzbank, Bratislava branch	10,440	13,810
Commerzbank, Paris branch	3,945	3,293
Commerzbank, Bruxelles branch	1,313	210
Commerzbank (Nederland) N.V., Amsterdam	1,454	389
Commerzbank, Milan branch	398	-
	205,874	181,868

21 Administrative expenses

	2009 CZK'000	2008 CZK'000
Rent and lease charges	51,182	47,946
Staff costs	386,580	380,848
Tax and legal advisory services	1,321	908
Remuneration to audit company		
Statutory audit of financial statements	2,221	2,491
Tax advisory	499	691
Other administration expenses	246,321	319,886
	688,124	752,770

Staff costs can be analysed as follows:

	2009 CZK'000	2008 CZK'000
Wages and salaries	292,339	286,126
Social and health insurance	78,119	78,426
Other social costs	16,122	16,296
	386,580	380,848

In 2009, the management of the Branch was paid wages and salaries of CZK 60,218,000 (2008: CZK 52,161,000), social and health insurance paid by the Branch amounted to CZK 7,015,000 (2008: CZK 5,510,000). The management of the Branch includes its directors and further the managers on

the first level of the organisational structure (as at 31 December 2009 and 2008, a total of 15 employees).

Staff statistics	2009	2008
Average number of employees	347	305

In 2009, the Branch provided contributions of CZK 909,000 (2008: CZK 826,000) to its employees for state pension insurance.

22 Taxation

The income tax charge is comprised of:

	2009 CZK'000	2008 CZK'000
Deferred tax (income) / expense	2,006	(1,277)
Current income tax expense	175,341	196,387
Adjustment of prior year income tax expense	11,360	6,849
Income tax expense	188,707	201,959

The tax on the Branch's profit before tax can be analysed as follows:

	2009 CZK'000	2008 CZK'000
Profit before taxation	714,700	951,646
Non-taxable income	(65,972)	(46,381)
Non-deductible expenses	229,054	31,531
Other expenses reducing net taxable profit	(625)	(1,185)
Net taxable profit	877,157	935,611
Current tax charge at 20% (2008: 21%) before discount	175,431	196,478
Discount on tax	(90)	(91)
Current tax charge after discount	175,341	196,387

Deferred income tax asset / (liability) is calculated as 19% (income tax rate for 2010) dependant on the period, in which it is expected the temporary difference to be compensated and it can be analysed as follows:

	2009 CZK'000	2008 CZK'000
Net deferred income tax asset as at 1 January	10,187	220
Change of the deferred tax asset on available-for-sale securities	21,762	8,690
Change of the deferred tax asset in temporary differences	(2,006)	1,277
Net deferred income tax asset on 31 December	29,943	10,187
Deferred income tax assets		
Non-tax deductible social insurance in 2008	-	2,050
Difference between fair value and cost of available-for-sale securities	29,873	8,112
Difference between accounting and tax depreciation	70	25
Net deferred tax asset (Note 8)	29,943	10,187

23 Financial risks

(a) Strategy in using financial instruments

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

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

The Branch also trades in financial instruments where it takes positions in traded and over-the-counter instruments including derivatives to take advantage of short-term market movements in the bond markets and in currency and interest rates. Management of the Branch places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Currency and interest exposure resulting from these financial instruments. With Foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions.

(b) Credit risk

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 business segments. Such expected risks are subject to periodical annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by Commerzbank AG, Frankfurt am Main. Besides that, unexpected losses, risk of accumulation and concentration of credit risks are actively controlled by internal VAR model. All above mentioned models are based on internal credit rules and competences.

The Branch considers its current credit portfolio to be high quality since the value of allowances is less than 0.5 % of the nominal value of the credit portfolio. The Branch uses pledges to real estate, cession of receivables, guarantees and guarantors' proclamation and similar instruments as collateral. The Branch monitors the concentration of risks based on geographical and industry sectors.

Geographical segmentation

At 31 December 2009	Domestic CZK'000	European union CZK'000	Other CZK'000	Total CZK'000
Assets				
Cash and deposits with central banks	780,702	-	-	780,702
Due from banks	2,300,040	9,066,877	309,017	11,675,934
Due from customers	31,829,613	15,143,973	3,187,096	50,160,682
Securities available-for-sale	1,148,282	-	-	1,148,282
Other assets	1,670,158	642,459	171,012	2,483,629
	37,728,795	24,853,309	3,667,125	66,249,229

31 December 2008				
Assets				
Cash and deposits with central banks	1,146,217	-	-	1,146,217
Due from banks	402	7,484,464	835,414	8,320,280
Due from customers	37,595,823	23,468,675	2,393,034	63,457,532
Securities available-for-sale	1,278,832	-	-	1,278,832
Other assets	4,744,241	8,617,363	966,694	14,328,298
	44,765,515	39,570,502	4,195,142	88,531,159

Business segmentation

31 December 2009	Local banks CZK'000	Foreign banks CZK'000	Corporate sector CZK'000	State institutions CZK'000	Individuals CZK'000	Other CZK'000	Total CZK'000
Assets							
Cash and balances with central banks	780,702	-	-	-	-	-	780,702
Due from banks	2,300,040	9,375,894	-	-	-	-	11,675,934
Due from customers	-	-	49,681,041	2	479,635	4	50,160,682
Securities available for-sale	-	-	592,807	555,475	-	-	1,148,282
Other assets	1,328,932	662,294	291,494	199,147	1,762	-	2,483,629
	4,409,674	10,038,188	50,565,342	754,624	481,397	4	66,249,229

At 31 December 2007	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Other	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Assets							
Cash and balances with central banks	1,146,217	-	-	-	-	-	1,146,217
Due from banks	-	8,320,280	-	-	-	-	8,320,280
Due from customers	-	-	62,983,639	614	472,773	506	63,457,532
Securities available for-sale	-	-	715,266	563,566	-	-	1,278,832
Other assets	4,463,218	9,085,503	653,448	124,471	1,658	-	14,328,298
	5,609,435	17,405,783	64,352,353	688,651	474,431	506	88,531,159

(c) Market risk

The Branch takes on exposure to market risks which arise from open positions in interest rate and currency products, which are subject to general and specific fluctuations in the market and to changes in market rates or prices, which are for example: interest rates, credit spreads and FX rates.

The Branch applies a "value at risk" ("VAR") methodology to estimate the market risk of positions held and the maximum losses expected based on a parametric model describing relations between risk factors within historical simulations of changes in market conditions. Commerzbank AG, Frankfurt am Main sets limits on the level of risk that may be accepted, which is monitored on a daily basis.

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

Since VAR constitutes an integral part of the Branch's market risk control regime, VAR limits are established by

the Board for all trading and portfolio operations; actual exposure against limits, together with a consolidated VAR of Commerzbank AG, is reviewed daily by management. Consolidated VAR of Commerzbank AG as at 31 December 2009 is CZK 17.60 million (31 December 2008: CZK 10.26 million) and average daily consolidated VAR was CZK 11.26 million in 2009 (2008: CZK 7.51 million).

Because of the extreme volatility of financial markets in 2009, the VAR model noticed overrun of limits in an extraordinary extent due to the fact that the model uses historical simulations. Therefore, the Branch uses stress-testing as a tool for complex monitoring of bank risks, which would not be possible using only the VAR model. This method has an important role in monitoring bank risks in times of high instability, when maximum loss scenarios that the Branch could suffer during negative market development are compiled.

Stress-testing values are presented with VAR values to the management and Commerzbank AG, Frankfurt am Main on a daily basis, analogically. Limits of stress-testing were never exceeded in 2009 (average annual value equals 28.5 %, in 2008: 45 %).

(d) Derivative financial instruments

The Branch concludes derivative financial instruments only on the over-the-counter market.

The Branch has outstanding derivative contracts, which can be analysed as follows:

Total financial derivatives

31 December 2009	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
Interest rate derivatives	100,714,376	100,714,376	565,081	(602,528)
Currency derivatives	56,341,109	56,603,243	1,275,709	(1,509,592)
Total	157,055,485	157,317,619	1,840,790	(2,112,120)

31 December 2008	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
Interest rate derivatives	536,024,518	536,024,518	1,278,210	(1,329,408)
Currency derivatives	181,358,995	179,630,313	9,984,070	(8,241,708)
Total	717,383,513	715,654,831	11,262,280	(9,571,116)

Trading agreements

31 December 2009	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
Interest rate derivatives				
FRAs	77,755,200	77,755,200	292,657	(320,733)
Swaps	21,658,560	21,658,560	266,777	(276,149)
Options	1,300,616	1,300,616	5,647	(5,646)
	100,714,376	100,714,376	565,081	(602,528)
Currency derivatives				
Forwards	2,366,716	2,341,846	48,272	(37,273)
Swaps	48,513,373	48,800,377	1,220,276	(1,459,381)
Options	5,461,020	5,461,020	7,161	(12,938)
	56,341,109	56,603,243	1,275,709	(1,509,592)
Total	157,055,485	157,317,619	1,840,790	(2,112,120)

31 December 2008	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
Interest rate derivatives				
FRA's	497,222,500	497,222,500	938,951	(958,415)
Swaps	37,850,420	37,850,420	335,066	(348,331)
Options	506,598	506,598	4,193	(4,193)
	535,579,518	535,579,518	1,278,210	(1,310,939)
Currency derivatives				
Forwards	1,946,534	1,942,812	62,978	(62,459)
Swaps	171,028,341	169,303,381	9,856,200	(8,112,392)
Options	8,384,120	8,384,120	64,892	(66,857)
	181,358,995	179,630,313	9,984,070	(8,241,708)
Total	716,938,513	715,209,831	11,262,280	(9,552,647)

Change in fair value of derivatives is recognised in the income statement.

Fair value hedging agreements

Interest rate hedging derivatives	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
31 December 2009	-	-	-	-
31 December 2008	445,000	445,000	-	(18,469)

(e) Currency risk

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

Table below summarises the Branch's exposure to currency risk. The table contains assets and liabilities in net book value arranged by currencies.

31 December 2009	CZK CZK'000	EUR CZK'000	USD CZK'000	PLN CZK'000	Other CZK'000	Total CZK'000
Assets						
Cash and balances with central banks	759,462	14,112	5,496	-	1,632	780,702
Due from banks	3,815,533	7,316,389	352,037	697	191,278	11,675,934
Due from customers	25,092,383	12,351,176	873,535	9,303,047	2,540,542	50,160,683
Securities available-for-sale	893,218	255,064	-	-	-	1,148,282
Other assets	2,035,064	374,148	1,966	72,446	4	2,483,628
	32,595,660	20,310,889	1,233,034	9,376,190	2,733,456	66,249,229
Liabilities						
Due to banks	5,772,868	26,196,265	13,770,237	7,094	153,205	45,899,669
Due to customers	11,185,060	4,653,553	719,539	1,752	173,058	16,732,962
Provisions	80,500	9,630	-	-	-	90,130
Other liabilities and equity accounts	3,467,649	(61,520)*	57,171	62,749	419	3,526,468
	20,506,077	30,797,928	14,546,947	71,595	326,682	66,249,229
Net assets / (liabilities)	12,089,583	(10,487,039)	(13,313,913)	9,304,595	2,406,774	-
Net off-balance sheet currency position	(13,176,717)	11,264,387	13,453,901	(9,409,147)	(2,394,052)	(261,628)
Net open currency position	(1,087,134)	777,348	139,988	(104,552)	12,722	(261,628)

* Including negative revaluation difference from available-for-sale securities recognized in equity.

31 December 2008	CZK CZK'000	EUR CZK'000	USD CZK'000	PLN CZK'000	Other CZK'000	Total CZK'000
Assets						
Cash and balances with central banks	1,131,200	6,625	5,119	-	3,273	1,146,217
Due from banks	276,538	4,926,459	1,341,555	3,303	1,772,425	8,320,280
Due from customers	30,080,203	13,695,750	1,506,282	15,060,382	3,114,915	63,457,532
Securities available-for-sale	842,155	436,677	-	-	-	1,278,832
Other assets	13,620,942	604,824	96,344	12	6,176	14,328,298
	45,951,038	19,670,335	2,949,300	15,063,697	4,896,789	88,531,159
Liabilities						
Due to banks	8,711,925	16,539,642	16,413,273	7,373,817	3,608,037	52,646,694
Due to customers	18,825,728	3,966,363	1,112,800	2,437	168,982	24,076,310
Provisions	1,000	-	-	-	-	1,000
Other liabilities and equity accounts	11,306,859	268,520	203,477	15,118	13,181	11,807,155
	38,845,512	20,774,525	17,729,550	7,391,372	3,790,200	88,531,159
Net assets / (liabilities)	7,105,526	(1,104,190)	(14,780,250)	7,672,325	1,103,589	-
Net off-balance sheet currency position	(6,845,695)	1,237,531	15,223,778	(7,627,328)	(260,504)	1,727,782
Net open currency position	259,831	133,341	443,528	44,997	846,085	1,727,782

(f) Interest rate risk

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

(g) Liquidity risk

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

these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Commerzbank AG, Frankfurt am Main sets limits according to time zones and individual currencies. These limits are monitored on a daily basis.

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

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


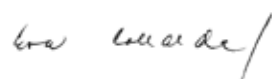

31 December 2009	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central banks	344,891	-	-	-	435,811	780,702
Due from banks	10,978,070	221,247	393,970	82,647	-	11,675,934
Due from customers	19,555,322	10,209,833	17,833,218	2,222,487	339,822	50,160,682
Securities available-for-sale	-	102,614	555,475	490,193	-	1,148,282
Other assets	514,019	793,991	463,869	349	711,401	2,483,629
	31,392,302	11,327,685	19,246,532	2,795,676	1,487,034	66,249,229
Liabilities						
Due to banks	26,167,651	13,582,160	5,542,750	607,108	-	45,899,669
Due to customers	15,935,264	796,268	600	830	-	16,732,962
Provisions	-	-	-	-	90,130	90,130
Other liabilities	554,964	800,557	507,617	763	1 662,567	3,526,468
	42,657,880	15,178,985	6,050,967	608,701	1,752,697	66,249,229
Net assets / (liabilities)	(11,265,579)	(3,851,300)	13,195,565	2,186,975	(265,663)	-

31 December 2008	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central banks	485,123	-	-	-	661,094	1,146,217
Due from banks	6,054,102	1,611,616	609,080	45,482	-	8,320,280
Due from customers	22,008,651	17,011,060	22,236,395	2,137,999	63,427	63,457,532
Securities available-for-sale	-	-	636,183	642,649	-	1,278,832
Other assets	6,912,372	5,520,151	786,211	753	1,108,811	14,328,298
	35,460,248	24,142,827	24,267,869	2,826,883	1,833,332	88,531,159
Liabilities						
Due to banks	43,116,733	5,209,852	2,985,667	1,334,442	-	52,646,694
Due to customers	23,315,607	758,446	1,428	829	-	24,076,310
Provisions	-	-	-	-	1,000	1,000
Other liabilities and equity accounts	4,260,763	3,896,429	517,410	673	3,131,880	11,807,155
	70,693,103	9,864,727	3,504,505	1,335,944	3,132,880	88,531,159
Net assets / (liabilities)	(35,232,855)	14,278,100	20,763,364	1,490,939	(1,299,548)	-

24 Subsequent events

No events have occurred subsequent to the year end that would have a material impact on the financial statements of the Branch as at 31 December 2009.

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

Date	Signature of the statutory representative	Person responsible for accounting	Person responsible for preparation of the financial statements
22 March 2010	 Rainer Ottenstein	 Ing. Eva Collardová, MBA	 Ing. Radek Hudáček



COMMERZBANK Aktiengesellschaft

pobočka Praha
Jugoslávská 1
120 21 Praha 2

Tel.: +420 221 193 111
Fax: +420 221 193 699

Info@commerzbank.cz
www.commerzbank.cz

