

Partnership is not just a word



Annual report as at 31st December 2008

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2008 Bank Management Report

»We are happy to report that the Commerzbank AG, Prague Branch was able to resist external threats during the year under review and achieve one of the best economic results in the 16 years we have been operating in the Czech Republic.«

In 2008, the global economy went through a complicated period. The economic downturn that began in 2007 in a number of countries around the world further deepened, spreading into the Czech Republic. Corporations and institutions faced serious problems mainly due to declining demand and the highly volatile Czech-crown exchange rate. The Czech economy started slowing down considerably already at the end of last year. While growth continued in the third quarter at the rate of 0.3%, the economy contracted by 0.9% in the fourth quarter, resulting in an overall 3.1% GDP growth in 2008.

Even though 2008 posed a great challenge for the Commerzbank AG, Prague Branch, we succeeded in steering safely through the critical period and managed to take advantage of the situation to strengthen our position.

We are happy to report that the Commerzbank AG, Prague Branch was able to resist external threats during the year under review and achieve one of the best economic results in the 16 years we have been operating in the Czech Republic.

Total assets grew by 9% year-on-year, where client loans and deposits increased by a healthy 11% and 14%, respectively. The ratio of classified loans to standard loans continued to decline in 2008, reaching 0.26%, which testifies to the high quality of the loan portfolio. Compared to the previous year, net earnings after taxes increased by as much as 92% to reach CZK 750 mil., mainly thanks to interest earnings that grew by 69% from 2007. The average employee headcount amounted to 305 workers, a 14% increase on the year before.

Despite the effects of the financial crisis, the Commerzbank AG, Prague Branch



did not change its strategy on the Czech market and continued to focus on services targeting corporate clients from the small and medium enterprise sector and the private banking segment. The bank provides reliable and secure banking services to its clients. The last quarter in particular underscored customer confidence in our bank, as the number of private clients grew by 6% on the previous year, resulting in an increase of more than EUR 100 million in private deposits during the fourth quarter only.

Like in previous years, the Commerzbank AG, Prague Branch continued to strengthen its role as the provider of near-shoring services to other Commerzbank AG divisions in 2008. Payment services were expanded to include the bank's branches in Brussels, Paris, and Amsterdam.

Even though it is difficult to forecast the development in 2009, it is expected that economic growth in the Czech Republic will be significantly lower due to the situation elsewhere in the world, which will unavoidably affect all segments of the economy.

The Prague Branch is a part of the Commerzbank AG Group, the second largest bank in Germany following a merger with Dresdner Bank and the biggest German bank operating in Central and Eastern Europe. This position provides a solid foundation for success in the current complicated times.

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. Since its acquisition of Dresdner Bank in January 2009, Commerzbank has grown to become Germany's leading bank for private and corporate customers. Today, the new Commerzbank serves a total of more than 14 million private and corporate customers.

Commerzbank is a competent service provider for private and business customers as well as small and mid-sized companies, while also serving numerous large and multinational corporate customers. In some branches private-banking facilities exist for wealthy private customers.

In the nineties, the bank primarily expanded its presence in Central and Eastern Europe. Nowadays it has the largest network of offices 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. In order to complement its operational outlets in Moscow, Bratislava, Budapest, Prague and Brno,



it maintains representative offices in Almaty, Belgrade, Bucharest, Kiev, Minsk, Moscow, Novosibirsk, Tashkent and Zagreb. In Poland, it is active through the significant BRE Bank, in which it holds a controlling stake of 72%. In Ukraine, Commerzbank holds a stake of 60% of Bank FORUM. In south-East Europe, Commerzbank has strengthened its position through participation in local ProCredit banks. In addition to contributing expertise and experience, Commerzbank, as the commercial partner of these institutions also handles international payments and foreign commercial business.

Our units in Central and Eastern Europe segment can look back on a positive performance last year. Our proximity to customers has paid off particularly well.

We reinforced our capabilities in cross-border business by expanding our trade finance offering. This gives local customers access to the wider range of products of the Commerzbank Group.

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, 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 our focus on international entrepreneurship, our strong know-how across a variety of industry sectors, and our comprehensive range of products, we offer better, more innovative and prompt financing solutions.

For a better comfort of our clients we have spread the number of our offices in the Czech Republic. We have been operating 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.

In November 2007 mBank, subsidiary of BRE Bank and part of Commerzbank Group, launched operations in the Czech Republic. She achieved the Award The most dynamic Bank of the Year 2008. There are another companies operating on Czech market, which are part of Commerzbank Group – Transfinance, Commerz Real, Euro Hypo and Bank Forum.

Organizational structure

Prague branch

General Managers:



Dr. Jutta Walter



Rainer Ottenstein (since 1 April 2008)

Heads of departments:

Ludovít Bán

Corporate Banking Department

Iva Gottliebová (since 1 September 2008)

Marketing and communication

Thomas Baumgart

Corporate Banking Department

Joachim Spengler (since 1 November 2008)

Administration

Margaret Dvorak

Structured Finance

Bernd Krönke (since 1 November 2008)

ZTB B RC Prag

Klaus H. Schuck

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



Focus on growth

METAMAX spol. s r.o., BŘEZNICE



Everyone ought to know MIROSLAV KRECEK – at least if the widespread familiarity of the products manufactured by his company METAMAX, located in Březnice, Czech Republic, were the criterion for judgment. These include high-quality components and finished products for DISPLAY CABINETS, information showcases, gatehouses and smoking shelters that we have all come to associate with companies like ALDI, DAIMLER und Lufthansa.

As Managing Director, Miroslav Krecek focuses on the continued growth of his company, a subsidiary of the German SOLIT Group. This is achieved through openness, flexibility and by having us as a reliable partner on the ground in the Czech Republic. In 2008, for instance, we provided our full assistance in helping METAMAX built a new production facility, an investment project of some €2m that was completed quickly, flexibly and completely.





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Independent auditor's report

To the management of Commerzbank AG, pobočka Praha

We have audited the financial statements of Commerzbank AG, pobočka Praha ("the Branch") for the year ended 31 December 2008 disclosed in the annual report on pages 14 to 38 and issued the opinion dated 9 March 2009 and disclosed on page 13.

Report on the Annual Report

We have verified that the other information included in the annual report of the Branch for the year ended 31 December 2008 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 ended 31 December 2008 is consistent, in all material respects, with the financial statements.

The maintenance and integrity of the Branch's website is the responsibility of its Board of Directors; 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.

20 April 2009

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

Petr Kříž
Auditor, Licence No. 1140

Our report has been prepared in Czech 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.

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Independent auditor's report

To the management of Commerzbank AG, pobočka Praha

We have audited the accompanying financial statements of Commerzbank AG, pobočka Praha ("the Branch"), which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity for the year and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Branch are disclosed in note 1 to these financial statements.

Management's Responsibility for the Financial Statements

The Management 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 2008 and its financial performance for the year then ended in accordance with Czech accounting legislation.

9 March 2009

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Petr Kříž

Auditor, Licence No. 1140

Translation note

This version of our report is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Financial statements

Balance sheet as at 31 December 2007

Assets:		31 December 2008	31 December 2007
	Note	CZK'000	CZK'000
Cash and deposits with central banks	3	1,146,217	120,185
Due from banks	4	8,320,280	17,713,147
a) repayable on demand		3,649,965	2,715,071
b) other receivables		4,670,315	14,998,076
Due from customers	5	63,457,532	57,204,645
a) repayable on demand		3,743,242	3,160,305
b) other receivables		59,714,290	54,044,340
Debt securities	6	1,278,832	1,564,613
a) issued by government institutions		563,566	564,765
b) issued by other entities		715,266	999,848
Long-term intangible fixed assets	7	36,964	40,745
Long-term tangible fixed assets	7	31,823	31,197
of which: buildings for operating activities		19,568	17,566
Other assets	8	14,245,828	4,618,280
Prepayments and accrued income		13,683	13,316
Total assets		88,531,159	81,306,128

Liabilities:		31 December 2008	31 December 2007
	Note	CZK'000	CZK'000
Due to banks	10	52,646,694	54,785,029
a) repayable on demand		12,906,089	16,756,094
b) other payables		39,740,605	38,028,935
Due to customers	11	24,076,310	21,186,240
a) repayable on demand		6,031,866	4,812,256
b) other payables		18,044,444	16,373,984
Other liabilities	12	10,953,616	4,869,422
Accruals and deferred income		58,264	47,247
Provisions	9	1,000	1,000
Revaluation differences from assets and liabilities		(34,582)	2,297
Retained earnings (losses) from previous periods		80,170	24,425
Profit for the accounting period	13	749,687	390,468
Total liabilities		88,531,159	81,306,128

Off-balance sheet as at 31 December 2008

Off-balance sheet assets:		31 December 2008	31 December 2007
	Note	CZK'000	CZK'000
Commitments and guarantees given	14	18,127,475	16,049,873
Receivables from spot transactions		217,600	990,663
Receivables from term instruments	23(d)	708,492,795	768,819,523
Receivables from option instruments	23(d)	8,890,718	507,454
Total off-balance sheet assets		735,728,588	786,367,513

Off-balance sheet liabilities:		31 December 2008	31 December 2007
	Note	CZK'000	CZK'000
Commitments and guarantees received		42,057,680	44,079,567
Collaterals received and pledges	14	9,188,657	4,175,419
Payables from spot transactions		218,503	990,838
Payables from term instruments	23(d)	706,764,113	769,231,538
Payables from option instruments	23(d)	8,890,718	507,454
Assets under custody and managed by a third party	14	6,590,759	7,589,638
Assets under management	14	359,949	294,630
Total off-balance sheet liabilities		774,070,379	826,869,084

Income statement for the year ended 31 December 2008

	Poznámka	31 December 2008	31 December 2007
		CZK'000	CZK'000
Interest receivable and similar income	15	4,087,503	2,834,897
of which: interest income from debt securities		86,728	85,557
Interest payable and similar expense	16	(2,960,934)	(2,169,001)
Fee and commission income	17	356,485	348,413
Fee and commission expense	18	(59,476)	(60,272)
Gains from financial transactions	19	110,553	241,900
Other operating income	20	190,350	146,627
Other operating expense		(11,673)	(15,208)
Administrative expense	21	(752,770)	(713,820)
of which: a) staff costs		(380,848)	(355,803)
of which: aa) wages and salaries		(286,126)	(260,408)
ab) social and health insurance		(78,426)	(82,189)
ac) other staff costs		(16,296)	(13,206)
b) other administrative expenses		(371,922)	(358,017)
Depreciation of long-term tangible and intangible fixed assets	7	(32,628)	(33,882)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	9	30,285	41,707
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	9	(6,049)	(105,268)
Release and utilisation of other provisions	9	-	(1,216)
Profit on ordinary activities before taxation		951,646	514,877
Income tax	22	(201,959)	(124,409)
Profit for the year after taxation	13	749,687	390,468

Statement of changes in equity for the year ended 31 December 2008

	Note	Revaluation reserve*	Retained earnings	Profit of the current year	Total equity
		CZK'000	CZK'000	CZK'000	CZK'000
At 1 January 2007		10,721	29,019	319,580	359,320
Allocation of 2006 profit to Commerzbank AG		-	-	(324,032)	(324,032)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2006		-	(4,594)	4,594	-
Revaluation differences not reflected in profit, net of tax		(8,424)	-	-	(8,424)
Foreign exchange differences in equity		-	-	(142)	(142)
Profit for the year 2007	13	-	-	390,468	390,468
At 31 December 2007		2,297	24,425	390,468	417,190
Allocation of 2007 profit to Commerzbank AG	13	-	-	(336,413)	(336,413)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2007	13	-	55,745	(55,745)	-
Revaluation differences not reflected in profit, net of tax		(36,879)	-	-	(36,879)
Foreign exchange differences in equity	13	-	-	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

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

Notes to financial statement for the year ended 31 December 2008

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 Prague and a sub branch in Brno and the offices in Ostrava, Plzeň, and Hradec Králové. In 2008 the Branch was managed by Mrs. Jutta Walter and since 1 April 2008 also by Mr. Rainer Ottenstein who replaced Mr. Arno Walter (until 31 March 2008). Before 1 July 2007 the Branch was managed by Mrs. Jutta Walter and Mr. Günter Steiner.

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

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values. The 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. 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 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.

As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for debt securities held by the Branch. Hence fair value as at 31 December 2008 of available-for-sale portfolio has been determined using a valuation technique which establishes what the transaction price would have been achievable on the reporting date in an arm's length exchange motivated by normal business considerations. Hence determining fair value requires consideration of current market conditions, including the relative liquidity of the market and current 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 or sale of foreign exchange, or securities, the day a payment is made, or the day of cash collection from client account, the day of order to foreign bank to make a payment, the day of settlement of bank's orders with CNB

clearing center, the value date of money received according to the message from foreign partner bank, the deal date and settlement day of the trade with securities, foreign exchange, options, or other derivatives, the day of granting or acceptance of a guarantee, 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 Czech National Bank ("CNB") effective at the balance sheet date. All resulting foreign exchange gains and losses from monetary items are recognized 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 credit and liquidity risk adjusted net present value for debt securities.

(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 recognized at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value. As at 31 December 2008, the fair value of the available-for-sale securities has been determined using a valuation technique using market data, credit risk of the securities' issuer and taking into account the liquidity of the market. Any subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (net of any tax effect) until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement.

(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 cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative respectively.

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

The 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; and
- v) the hedged item is not a security classified as at fair value through the profit or loss.

Changes in the fair value of derivatives that qualify as effective fair value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk. As the 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 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 remaining maturity shorter than 1 year at the settlement date, for loans, other receivables and liabilities with individual repayment periods shorter than 1 year. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

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

(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 a time-apportionate basis.

(k) Receivables

Receivables originated by the Branch are stated at nominal value less allowances. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor. 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 cost to sell, regardless whether the forced sale is probable or not.

(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 include substandard, doubtful and loss receivables and represent total outstanding principal and accrued interest receivable with service payments overdue more than 90 days or other defaults in contractual terms or financial performance. Watch receivables represent total outstanding principal and accrued interest receivable with service payments overdue less than 90 days.

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

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

Allowances for assets denominated in a foreign currency are created in that foreign currency. Foreign exchange

differences are recognised in the same way as foreign exchange differences from the related asset.

(n) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the reducing balance method over the estimated useful lives. 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. Neither 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 for the measurement of deferred tax.

A deferred tax related to 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");
- entities controlling the Branch, their shareholders holding more than 10% of capital and their senior management;
- relatives (direct family members) of senior management;
- entities in which the senior management or entities controlling the Branch hold at least 10% shareholding;
- shareholders holding more than 10% of the share capital or voting rights of the 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 and 21.

(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, but are not themselves reflected in the financial statements.

3 Cash and deposits with central banks

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Cash on hand	52,094	65,714
Obligatory reserves	661,094	54,447
Current accounts with central banks	433,029	24
	1,146,217	120,185

Obligatory reserves are mandatory deposits with the CNB. These deposits bear interest at the CZK repo rate, which was 2.25% p.a. at 31 December 2008 (31 December 2007: 3.50%).

4 Due from banks

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Current accounts with banks	241,663	440,314
Term deposits up to 24 hours	3,408,302	2,274,757
Other term deposits with banks	3,886,543	13,946,608
Standard loans to banks	757,692	764,420
Other receivables from banks	26,080	287,048
	8,320,280	17,713,147

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 2008	31 December 2007
	CZK'000	CZK'000
Commerzbank, Bratislava branch	3,926,347	5,553,615
Commerzbank (Budapest) R.t., Budapest	2,524,808	6,741
Commerzbank, Frankfurt	865,917	5,873,673
Commerzbank, New York branch	138,591	28,524
Commerzbank, Tokyo branch	21,532	1,097
BRE Bank S.A., Warsaw	2,643	69,889
Commerzbank, Hong Kong branch	1,623	5,398
Commerzbank (Euroasija) SAO, Moscow	304	71
Commerzbank, Paris branch	-	94,698
	7,481,765	11,633,706

5 Due from customers

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Current accounts to governmental entities	614	2,438
Current accounts to other clients	3,742,628	3,157,867
Standard loans to other clients	59,650,047	53,935,509
Other receivables from customers	816	34,983
Standard loans total	63,394,105	57,130,797
Impaired loans to companies and individuals	166,706	200,030
	63,560,811	57,330,827
Allowance for impaired loans (Note 9)	(103,279)	(126,182)
	63,457,532	57,204,645

In 2008 loans in the total amount of CZK 100.8 million were restructured (2007: CZK 17.2 million).

Syndicated loans forming part of Due from banks and the exposure of the Branch totalled CZK 3,122 million at 31 December 2008 (2007: CZK 3,109 million).

(a) Quality of loan portfolio

When contracting a new loan the Branch assesses the quality of the client.

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

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Standard	63,394,105	57,130,797
Impaired - Substandard	50,910	50,615
- Doubtful	103,630	128,083
- Loss	12,166	21,332
	63,560,811	57,330,827

(b) Loans to related parties

Standard loans to companies and individuals are as follows:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
BRE Leasing, Sp. z o.o., Warsaw	21,241,935	15,446,505
Transfinance a.s.	456,908	704,569
BREL-COM Sp. z o.o	203,586	204,369
Immobilien-gesellschaft Ost Hägle, s.r.o.	-	46,542
CommerzReal CZ, s.r.o. *	-	23,411
	21,902,429	16,425,396

* CommerzLeasing Česká republika s.r.o. until September 2008

As at 31 December 2008, the Branch has provided loans of CZK 1,728,000 to its senior management members (2007: CZK 224,000).

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 Securities**Debt securities**

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Available-for-sale	1,278,832	1,564,613

None of the above mentioned securities was 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 2008, the revaluation difference arising from the revaluation of the available-for-sale securities net of the deferred tax impact of CZK (34,582,000) (2007: CZK 2,297,000) are presented in equity.

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Traded on recognised Czech stock exchanges	842,154	898,793
Traded on recognised foreign stock exchanges	436,678	665,820
	1,278,832	1,564,613

7 Long term intangible and tangible fixed assets

Long term intangible fixed assets – software

	31 December 2007	Additions / Depreciation	Disposals	31 December 2008
	CZK'000	CZK'000	CZK'000	CZK'000
Cost	202,919	24,561	(3,350)	224,130
Accumulated amortization	(175,018)	(18,579)	3,297	(190,300)
Net book amount	27,901			33,830
Advances granted and assets in course of implementation	12,844			3,134
	40 745			36 964

Long term operating tangible fixed assets

	31 December 2007	Additions / Depreciation	Disposals	31 December 2008
	CZK'000	CZK'000	CZK'000	CZK'000
Cost				
Buildings	28,555	5,419	(5,226)	28,748
Equipment	190,440	12,776	(25,871)	177,345
Accumulated amortization				
Buildings	(10,989)	(1,306)	3,115	(9,180)
Equipment	(182,351)	(10,534)	25,774	(167,111)
Net book amount	25,655			29,802
Advances granted and assets in course of implementation	5,542			2,021
	31,197			31,823

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 2008	31 December 2007
	CZK'000	CZK'000
Amounts already paid on existing leases	11,935	10,402
Amounts payable within one year	3,207	3,113
Amounts payable within 1 - 5 years	3,798	2,688
Total amount paid and payable on existing finance leases	18,940	16,203

Assets pledged as collaterals

The Branch did not provide any tangible fixed assets as collateral for its liabilities as at 31 December 2008 and 2007

8 Other assets

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Financial derivatives (Note 23 (d))	11,262,280	3,810,753
Net deferred tax (Note 22)	10,187	220
Anticipated receivables	6,822	5,861
Other receivables	2,966,539	801,446
of which: receivables from settlement of payments	2,632,992	93,176
	14,245,828	4,618,280

9 Allowances, provisions and write offs

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

Provisions	31 December 2008	31 December 2007
	CZK'000	CZK'000
Specific provisions for guarantees given (Note 14)	1,000	1,000
Allowances		
Impaired loans to customers (Note 5)	103,279	126,182

The movements in provision to guarantees given can be analyzed as follows:

	2008	2007
	CZK'000	CZK'000
At 1 January	1,000	197
Additions	-	1,216
Foreign exchange translation difference	-	(413)
At 31 December	1,000	1,000

The movements in allowances for classified loans due from clients can be analyzed as follows:

	2008	2007
	CZK'000	CZK'000
At 1 January	126,182	84,735
Additions	6,031	105,258
Foreign exchange translation difference	(72)	(1,229)
Write backs	(28,862)	(62,582)
At 31 December	103,279	126,182

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

	2008	2007
	CZK'000	CZK'000
Write backs of allowances for loans	28,862	62,582
Income from amount due from clients written off	1,423	205
	30,285	62,787
Loss from the sale of receivables	-	(21,080)
	30,285	41,707

Write-offs, additions and utilisation of allowances for loans

	2008	2007
	CZK'000	CZK'000
Amounts due from clients written off	(18)	(10)
Additions to allowances for loans	(6,031)	(105,258)
	(6,049)	(105,268)

Bad debts are written off against established specific allowances or directly expensed in the case that management of the Branch asserts their recoverability as being remote.

10 Due to banks

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Current accounts with banks	2,295,629	248,664
Term deposits due up to 24 hours	10,610,460	16,507,430
Other term deposits with banks	39,714,525	37,741,887
Other liabilities	26,080	287,048
	52,646,694	54,785,029

Deposits from related parties

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Commerzbank Frankfurt	16,685,558	13,555,434
Commerzbank, Hong Kong branch	15,629,274	-
BRE Bank S.A., Warsaw	8,376,351	557,073
Commerzbank, Shanghai branch	889,916	-
Commerzbank, Bratislava branch	831,151	816,874
Commerzbank, Singapore branch	616,103	-
BRE Bank S.A., Prague Branch	23,632	-
Commerzbank, Paris branch	8,086	-
Commerzbank (Schweiz) AG, Zürich	2,435	221
Commerzbank, Madrid branch	809	2,800
Commerzbank, London branch	603	2,643
Intermarket Bank AG	417	964
Commerzbank (Nederland) N.V., Amsterdam	240	5,378
Commerzbank (Budapest) R.t., Budapest	115	32,204
Eurohypo AG, Frankfurt	3	5
Commerzbank, New York branch	-	28,134
Commerzbank, Bruxelles branch	-	328
	43,064,693	15,002,058

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

11 Due to customers

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Amounts due to governmental entities	1,031,783	7,220
Amounts due to municipalities	6,151,562	4,105,107
Amounts due to private customers	16,892,965	17,073,913
	24,076,310	21,186,240

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Liabilities repayable on demand	6,031,866	4,812,256
Term accounts for fixed term	17,731,976	15,739,177
Term accounts with fixed notice period	311,653	599,824
Other liabilities	815	34,983
	24,076,310	21,186,240

Deposits from related parties

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Immobilien-gesellschaft Ost Hägle, s.r.o.	44,387	38,921
Commerz Real CZ, s.r.o. *	4,569	1,048
BRE Leasing Sp. z o.o., Warsaw	1,697	2,645
Commerz Real Mobilienleasing, GmbH	267	-
Transfinance, a.s.	78	13,123
	50,998	55,737

* CommerzLeasing Česká republika s.r.o. until September 2008

The Branch accepted deposits from senior management of the Branch of CZK 18,910,000 as of 31 December 2008 (2007: CZK 8,908,000).

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 normal interest rate and liquidity risk or present other unfavourable features.

12 Other liabilities

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Financial derivatives (Note 23 (d))	9,571,116	4,279,394
Estimated payables	74,736	77,888
Other liabilities	1,307,764	512,140
	10,953,616	4,869,422

13 Equity and profit distribution

Profit distribution

The net profit of CZK 390,468,000 for 2007 was distributed and the net profit of CZK 749,687,000 for 2008 has been proposed to be allocated as follows:

	2008	2007
	CZK'000	CZK'000
Allocation to Commerzbank AG (profit according to German accounting standards)	439,947	336,413
Difference from foreign exchange translation	-	16,618
Transfer to / (from) retained earnings	309,740	37,437
Net profit as at 31 December	749,687	390,468

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 provisioning (2008: CZK 245,213,000).

14 Contingencies and commitments

Commitments to provide a loan, loan guarantees to third parties, guarantees from 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 2008 CZK'000	31 December 2007 CZK'000
Commitments	11,540,913	10,382,659
Guarantees granted	6,586,562	5,667,214
Total commitments and guarantees granted	18,127,475	16,049,873

Guarantees granted can be analysed as follows:

Guarantees granted including guarantees from letters of credit	31 December 2008 CZK'000	31 December 2007 CZK'000
On behalf of banks	407,126	1,396,190
On behalf of customers	6,179,436	4,271,024
Total guarantees granted	6,586,562	5,667,214
Specific provision for guarantees granted (Note 9)	(1,000)	(1,000)
Net guarantees granted and letters of credit	6,585,562	5,666,214

Contingent liabilities can be analysed as follows:

	31 December 2008 CZK'000	31 December 2007 CZK'000
Assets placed in custody		
Shares	2,746,776	2,669,031
Assets managed by a third party		
Shares	702,748	885,300
Bonds	1,764,294	2,114,282
Derivatives	3,026	28,560
Other	1,370,397	1,888,947
	3,840,465	4,917,089
Assets under custody		
Shares	3,518	3,518
Assets placed in custody, managed by third party and under custody	6,590,759	7,589,638

Assets under management	31 December 2008 CZK'000	31 December 2007 CZK'000
Bonds	347,840	270,499
Other	12,109	24,131
	359,949	294,630

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

The Branch has granted on behalf of its senior management guarantees of CZK 225,000 as at 31 December 2008 and 2007.

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 2008	31 December 2007
	CZK'000	CZK'000
Real estate pledges	1,950,220	3,211,180
Securities	758,139	2,114
Other collaterals received	6,480,298	962,125
	9,188,657	4,175,419

Besides above mentioned collaterals the Branch accepts also other collaterals and guarantees for the pledge purposes (bank guarantees, insurance, guarantor's proclamation, bills of exchange, etc.). In the year 2008 these collaterals amounted to CZK 42,057,680,000 (2007: 44,079,567,000).

Receivables from Reverse repo transactions are included in Due from banks (Note 4).

Two individuals have filed a lawsuit against the Branch which was assessed by the first instance Court as unreasonable and the plaintiffs' case was dismissed. Its decision was subsequently confirmed by the Appellation Court. Based on a second appeal by the plaintiffs, the Highest Court cancelled both decisions and returned the case to the proceedings of the first instance Court. Although the dispute was finalised at the end of 2008, the Branch is of the opinion that demands included in this case are unreasonable and therefore does not anticipate any financial damage to be paid to the plaintiffs. This Branch's opinion was also confirmed by its external advisors.

15 Interest receivable and similar income

	2008	2007
	CZK'000	CZK'000
Interest on inter-bank transactions	495,572	645,289
Interest on loans to customers and state	3,505,203	2,104,051
Interest and discount on debt securities	86,728	85,557
	4,087,503	2,834,897

Interest income in the amount of CZK 4 million was recognized on impaired loans in 2008 (2007: CZK 15.2 million). There was no registered unpaid penalty interest income outstanding in 2008 (2007: CZK 0.2 million).

16 Interest payable and similar expense

	2008	2007
	CZK'000	CZK'000
Interest on inter-bank transactions	2,344,871	1,674,966
Interest on deposits from customers and state	616,063	494,035
	2,960,934	2,169,001

17 Fee and commission income

	2008	2007
	CZK'000	CZK'000
Brokerage income from purchase and sale of securities and derivatives	32,837	44,452
Custody fee income	899	927
Asset management fee and related fee income	7,914	9,703
Foreign and domestic payments	171,632	174,924
Letters of credit	23,549	27,217
Guarantees	32,994	27,544
Commissions from loans	69,735	44,240
Other	16,925	19,406
	356,485	348,413

18 Fee and commission expense

	2008 CZK'000	2007 CZK'000
Domestic and foreign transfers	7,644	7,982
Brokerage expense from purchase and sale of securities	4,987	3,990
Foreign exchange operation	3,512	2,835
Financial guarantees paid to head office in Frankfurt am Main	43,002	40,475
Other financial activities	331	4,990
	59,476	60,272

19 Gains less losses from financial transactions

	2008 CZK'000	2007 CZK'000
(Losses)/ gains from foreign currency transactions	(1,161,811)	781,345
Gains/ (losses) from transactions with FX financial derivatives	1,321,012	(581,908)
(Losses)/ gains from interest rate financial derivatives	(48,648)	42,463
	110,553	241,900

20 Other operating income

	2008 CZK'000	2007 CZK'000
Income from intercompany re invoicing	182,938	131,405
Other operating income	7,412	15,222
	190,350	146,627

Income from intercompany re invoicing represents re invoicing of costs related to activities carried out for the head office in Frankfurt am Main and also 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 and head office in Frankfurt am Main.

21 Administrative expenses

	2008 CZK'000	2007 CZK'000
Rent and lease charges	47,946	51,127
Staff costs	380,848	355,803
Tax and legal advisory services	908	1,052
Remuneration to audit company		
Statutory audit of financial statements	2,491	2,304
Tax advisory	691	637
Other administration expenses	319,886	302,897
	752,770	713,820

Staff costs can be analyzed as follows:

	2008 CZK'000	2007 CZK'000
Wages and salaries	286,126	260,408
Social costs and health insurance	78,426	82,189
Other social costs	16,296	13,206
	380,848	355,803

In 2008 the management of the Branch was paid wages and salaries of CZK 52,161,000 (2007: CZK 60,644,000), social and health insurance paid by the Branch amounted to CZK 5,510,000 (2007: CZK 10,549,000). The management of the Branch includes its directors and further the managers on the first level of organisation structure (as at 31 December 2008 total of 15 employees, 31 December 2007: 12 employees).

Staff statistics	2008 CZK'000	2007 CZK'000
Average number of employees	305	267

In 2008 the Branch provided contribution for state pension insurance to its employees of CZK 826,000 (2006: CZK 770,000).

22 Taxation

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

	2008	2007
	CZK'000	CZK'000
Profit before taxation	951,646	514,877
Non-taxable income	(46,381)	(24,360)
Non-deductible expenses	31,531	27,126
Other expenses reducing net taxable profit	(1,185)	(1,060)
Net taxable profit	935,611	516,583
Current tax charge at 21% (2007: 24%) before discount	196,478	123,980
Discount on tax	(91)	(148)
Current tax charge after discount	196,387	123,832
The income tax charge is comprised of:		
	2008	2007
	CZK'000	CZK'000
Deferred tax expense / (income)	(1,277)	1,375
Current income tax expense	196,387	123,832
Adjustment of prior year income tax expense	6,849	(798)
Income tax expense	201,959	124,409

Deferred income tax asset (+) / liability (-) is calculated as 21% (income tax rate for 2008) 20% (income tax rate for 2009) and 19% (income tax rate for 2010) dependant on the period, in which in is expected the temporary difference to be compensated and it can be analyzed as follows:

	2008	2007
	CZK'000	CZK'000
Net deferred income tax asset / (liability) at the beginning of the period	220	(846)
Change of the deferred tax asset / (liability) in temporary differences	1,277	(1,375)
Change of the deferred tax asset on available-for-sale securities	8,690	2,441
Net deferred income tax asset / (liability) on 31 December	10,187	220
Deferred income tax assets		
Non-tax deductible social insurance in 2008	2,050	802
Difference between fair value and cost of available-for-sale securities	8,112	-
Difference between accounting and tax depreciation	25	-
	10,187	802
Deferred income tax liability		
Difference between fair value and cost of available-for-sale securities	-	(578)
Difference between accounting and tax depreciation	-	(4)
	-	(582)
Net deferred tax asset (Note 8)	10,187	220

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 standing. 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 intraday market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net

cash amounts required to liquidate market 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 risks are monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by Commerzbank AG, Frankfurt am Main.

The Branch considers its current credit portfolio to be high quality since the value of allowances is less than 0.2% of the nominal value of the credit portfolio. The Branch uses pledge to real estate, cession of receivables, guarantees and guarantors' proclamation and similar instruments as collaterals. The Branch monitors the concentration of risks based on geographical and industry sectors.

Geographical segmentation

At 31 December 2008	Domestic CZK'000	European union CZK'000	Other CZK'000	Total CZK'000
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

At 31 December 2007	Domestic CZK'000	European union CZK'000	Other CZK'000	Total CZK'000
Assets				
Cash and deposits with central banks	120,185	-	-	120,185
Due from banks	1,700,184	15,793,635	219,328	17,713,147
Due from customers	38,307,820	17,904,301	992,524	57,204,645
Securities available-for-sale	1,564,613	-	-	1,564,613
Other assets	1,706,558	2,411,581	585,399	4,703,538
	43,399,360	36,109,517	1,797,251	81,306,128

Business segmentation

At 31 December 2008	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

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							
Due from banks	120,185	-	-	-	-	-	120,185
Due from customers	1,700,184	16,012,963	-	-	-	-	17,713,147
Securities available for-sale	-	-	56,823,749	2,438	378,457	1	57,204,645
Other assets	-	-	999,848	564,765	-	-	1,564,613
	972,344	2,869,432	763,693	96,362	1,707	-	4,703,538
	2,792,713	18,882,395	58,587,290	663,565	380,164	1	81,306,128

(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 2008 is CZK 10.26 million (31 December 2007: CZK 5.68 million) and average daily consolidated VAR was CZK 7.51 million in 2008 (2007: CZK 3.58 million).

Because of extreme volatility of financial markets in 2008 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 VAR model. This method has an important role in monitoring of bank risks in time of high instability, when maximum loss scenarios which the Branch could suffer during negative market development are compiled.

Stress-testing values are presented on a daily basis analogically with VAR values to the management and

Commerzbank AG, Frankfurt am Main. Limits of stress-testing were never exceeded in 2008 (average annual value equals to 45%).

(d) Derivative financial instruments

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

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

Total financial derivatives

31 December 2008	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative 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)

31 December 2007	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Interest rate derivatives	569,858,214	569,858,214	479,531	(530,237)
Currency derivatives	199,468,763	199,880,778	3,331,222	(3,749,157)
Total	769,326,977	769,738,992	3,810,753	(4,279,394)

Trading agreements

31 December 2008	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Interest rate derivatives				
FRAs	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)

31 December 2008	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
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)

31 December 2007	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
Interest rate derivatives				
FRAs	520,410,000	520,410,000	327,055	(349,719)
Swaps	48,312,429	48,312,429	150,161	(123,102)
Options	507,454	507,454	2,315	(2,315)
	569,229,883	569,229,883	479,531	(475,136)
Currency derivatives				
Forwards	1,814,115	1,770,585	46,438	(9,508)
Swaps	197,654,648	198,110,193	3,284,784	(3,739,649)
	199,468,763	199,880,778	3,331,222	(3,749,157)
Total	768,698,646	769,110,661	3,810,753	(4,224,293)

Fair value hedging agreements

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				
Swaps	445,000	445,000	-	(18,469)

31 December 2007	Nominal amount assets	Nominal amount liabilities	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000
Interest rate derivatives				
Swaps	628,331	628,331	-	(55,101)

(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.

(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. The Commerzbank AG, Frankfurt am Main sets limits on the level of mismatch of 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 liquidity limits according to time bands and individual currencies. These limits are monitored daily.

The fair values of derivatives are recognized 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 five years.

The table below analyses 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.


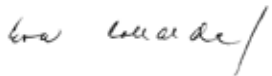

31 December 2008	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central banks	485,123	-	-	-	661,094	1,146,217
Due from banks	6,054,102	1,611,616	609,080	45,482	-	8,320,280
Due from customers	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	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)	-

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	65,738	-	-	-	54,447	120,185
Due from banks	16,597,477	255,905	805,912	53,853	-	17,713,147
Due from customers	23,415,086	4,001,622	26,378,898	3,305,298	103,741	57,204,645
Securities available-for-sale	-	243,445	668,106	653,062	-	1,564,613
Other assets	1,867,783	1,795,976	302,551	585	736,643	4,703,538
	41,946,084	6,296,948	28,155,467	4,012,798	894,831	81,306,128
Liabilities						
Due to banks	45,525,939	4,082,638	3,840,006	1,336,446	-	54,785,029
Due to customers	20,717,545	466,437	828	1,430	-	21,186,240
Provisions	-	-	-	-	1,000	1,000
Other liabilities	1,856,723	1,711,165	244,793	492,889	1,028,289	5,333,859
	68,100,207	6,260,240	4,085,627	1,830,765	1,029,289	81,306,128
Net assets / (liabilities)	(26,154,123)	36,708	24,069,840	2,182,033	(134,458)	-

24 Subsequent events

No events have occurred subsequent to year-end that would have a material impact on the financial statements of the Branch as at 31 December 2008.

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

Date	Signature of the statutory representative	Person responsible for accounting	Person responsible for preparation of the financial statements
9 March 2009	 Rainer Ottenstein	 Ing. Eva Collardová, MBA	 Ing. Radek Hudáček



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