

**| annual report 2007 |**  
**COMMERZBANK PRAGUE**

**COMMERZBANK** 







## **contents**



### **MANAGEMENT REPORT**

Management report for the business year 2007	5
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### **COMMERZBANK AG**

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

### **REPORT OF INDEPENDENT AUDITORS**

Report of independent auditors	8
--------------------------------	---

### **FINANCIAL STATEMENTS**

Balance sheet as at 31 December 2007	10
Off-balance sheet as at 31 December 2007	11
Income statement for the year ended 31 December 2007	12
Statement of changes in equity for the year ended 31 December 2007	13

### **NOTES TO FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

1 General information	14
2 Accounting policies	14
3 Cash and deposits with central banks	18
4 Due from banks	18
5 Due from customers	19
6 Securities	20
7 Long term intangible and tangible fixed assets	21
8 Other assets	22
9 Allowances, provisions and write offs	23
10 Due to banks	24
11 Due to customers	25
12 Other liabilities	26
13 Equity and profit distribution	26
14 Contingencies and commitments	27
15 Interest receivable and similar income	29
16 Interest payable and similar expense	29
17 Fee and commission income	30
18 Commission and fee 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	33
24 Subsequent events	41



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## **management report for business year 2007**

2007 has again been a highly successful year for the Czech economy. The Bertelsmann Foundation has appreciated the long-standing positive development of Czech economy by awarding it the title of the "Most Successful Transforming Country of the World".

With an increase in its gross domestic product by 6.5% in 2007, the Czech Republic attained the level of 82% of European Union's GDP per inhabitant. As a result, unemployment fell to its lowest level of 4.9 % in the last 10 years.

Commerzbank Branch Office Prague was able to continue its successful business activities in the year 2007. Proof of this positive development is among others the opening of new branches in Hradec Králové and Plzeň. Thus the number of locations in the Czech Republic has risen to five. With this we are pursuing the strategy of providing our products and services to the main target group – medium sized companies – on the spot and directly at the customer.

At the same time the extent of services provided for the Frankfurt am Main headquarters in the area of payment transactions and information technology has also increased. Here we pursue the target to establish the location Prague as "Near-Shoring" unit for Commerzbank AG.

In 2007 too, Commerzbank Prague accomplished its challenging business targets. Compared to previous year, balance sheet total rose by 15%, especially thanks to strong increase of lending to customers (increase by 50%). At the same time, the loan portfolio continues to be of high quality – by the end of 2007 the share of "classified" loans was below 0.5%. Also, our business with upscale private and Private Banking customers increased by 30%. Net income grew by 22% to more than 390 mio. CZK.

In spite of continued difficult market environment due to the crises on financial markets, the perspective for the year 2008 continues to be positive. Insofar we are confident that – also with the aid of new target oriented market campaign – we will be able to make a big step forward in 2008 towards becoming the "Best Small and Medium-Sized Business Bank", and also the best choice for demanding customers in the Czech Republic.

**Dr. Jutta Walter,**  
General Manager

**Arno Walter,**  
General Manager



## ***commerzbank worldwide***

Commerzbank's international activities are geared to institutional clients and companies. 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. 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 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.

In North America, Commerzbank's branches in New York, Atlanta, Chicago and Los Angeles conduct commercial banking and investment banking business.

In Latin America, North Africa and the Near and Middle East, Commerzbank primarily maintains representative offices.

Asian activities are bundled in the form of Commerzbank Asia-Pacific in Singapore.

## ***commerzbank in the czech republic***

Commerzbank AG entered the Czech market in 1992, and soon opened branches in Brno in 1998, Ostrava in 2001, and recently we expanded our regional presence to Hradec Králové and Plzeň. 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.

In November 2007 mBank, subsidiary of BRE Bank and part of Commerzbank Group, launched operations in the Czech Republic.

Commerzbank Prague caters mainly to a corporate clientele, offering professional solutions for every client. Until now, Commerzbank's business activities in the Czech Republic have been primarily targetted towards multinationals as well as the top-tier local corporations. Today, we are pleased to extend our extensive knowledge and expertise to medium-sized companies active in the local market.

In addition, Commerzbank has an exclusive portfolio of private banking products to meet the selective demands of our customers.

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.



## **prague branch**

### **General Managers:**

**Dr. Jutta Walter**  
**Arno Walter (since 1 July 2007)**

### **Heads of departments:**

**L'udovít Bán**  
Corporate Banking Department

**Thomas Baumgart**  
Corporate Banking Department

**Margaret Dvorak**  
Structured Finance

**Klaus H. Schuck**  
Credit Office

**Alena Štefaňáková**  
Private Banking

**RNDr. Jaromír Hronek, CSc.**  
Treasury

**Kai Grosse**  
Trade Finance and Transaction Services

**Bernd Krönke**  
Administration

**Eva Collardová**  
Accounting Department

**Renata Kloubek**  
Personnel Department

**Dr. Bronislav Hýbl**  
Corporate Banking Department,  
Brno Office

**René Mewald**  
Corporate Banking Department,  
Hradec Králové Office

**Ondřej Eliáš**  
Corporate Banking Department,  
Plzeň Office

**Dr. Roman Zedníček**  
Corporate Banking Department,  
Ostrava Office

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## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MANAGEMENT OF COMMERZBANK AG, PRAGUE BRANCH**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Commerzbank AG, Prague branch ("Branch"), which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity 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 2007, its financial performance for the year then ended in accordance with Czech accounting legislation.



Without qualifying our opinion we draw attention to the fact that the Branch is not a separate legal entity and the financial position of the Branch is fully dependent on that of Commerzbank AG as a whole.

### Report on the Annual Report

In addition we have also audited the annual report of the Branch for consistency with the financial statements for the year ended 31 December 2007 which are included in this annual report on pages 10 - 40. The Management is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit 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 the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Branch for the year ended 31 December 2007 is consistent, in all material respects, with the financial statements referred to above.

The maintenance and integrity of the Bank's website is wholly the responsibility of the management of the Bank. The work undertaken by us does not include consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the annual report since they were initially presented on the Bank's website.

30 April 2008

PricewaterhouseCoopers Audit, s.r.o.  
represented by

*PricewaterhouseCoopers Audit, s.r.o.*

Paul Cunningham  
Partner

Ing. Eva Loulová  
Auditor, Licence No.1981

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.

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## **balance sheet**

**as at 31 december 2007**

<b>Assets</b>	<b>Note</b>	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
<b>Cash and deposits with central banks</b>	3	<b>120,185</b>	<b>703,188</b>
<b>Due from banks</b>	4	<b>17,713,147</b>	<b>27,235,168</b>
a) repayable on demand		2,715,071	6,944,246
b) other receivables		14,998,076	20,290,922
<b>Due from customers</b>	5	<b>57,204,645</b>	<b>38,014,895</b>
a) repayable on demand		3,160,305	3,114,321
b) other receivables		54,044,340	34,900,574
<b>Debt securities</b>	6	<b>1,564,613</b>	<b>1,588,799</b>
a) issued by government institutions		564,765	570,284
b) issued by other entities		999,848	1,018,515
<b>Long-term intangible fixed assets</b>	7	<b>40,745</b>	<b>48,857</b>
<b>Long-term tangible fixed assets</b>	7	<b>31,197</b>	<b>40,956</b>
of which:			
buildings for operating activities		17,566	17,776
<b>Other assets</b>	8	<b>4,618,280</b>	<b>3,308,123</b>
<b>Prepayments and accrued income</b>		<b>13,316</b>	<b>11,770</b>
<b>Total assets</b>		<b>81,306,128</b>	<b>70,951,756</b>

<b>Liabilities</b>	<b>Note</b>	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
<b>Due to banks</b>	10	<b>54,785,029</b>	<b>46,495,740</b>
a) repayable on demand		16,756,094	13,102,619
b) other payables		38,028,935	33,393,121
<b>Due to customers</b>	11	<b>21,186,240</b>	<b>20,081,404</b>
a) repayable on demand		4,812,256	5,439,245
b) other payables		16,373,984	14,642,159
<b>Other liabilities</b>	12	<b>4,869,422</b>	<b>4,009,579</b>
<b>Accruals and deferred income</b>		<b>47,247</b>	<b>5,516</b>
<b>Provisions</b>	9	<b>1,000</b>	<b>197</b>
<b>Revaluation differences from assets and liabilities</b>		<b>2,297</b>	<b>10,721</b>
<b>Retained earnings (losses) from previous periods</b>		<b>24,425</b>	<b>29,019</b>
<b>Profit for the accounting period</b>	13	<b>390,468</b>	<b>319,580</b>
<b>Total liabilities</b>		<b>81,306,128</b>	<b>70,951,756</b>



### **off-balance sheet as at 31 december 2007**

<b>Off-balance sheet assets</b>	<b>Note</b>	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
Commitments and guarantees given	14	16,049,873	8,401,410
Receivables from spot transactions		990,663	1,012,755
Receivables from term instruments	23(d)	768,819,523	568,030,947
Receivables from option instruments	23(d)	507,454	412,425
<b>Total off-balance sheet assets</b>		<b>786,367,513</b>	<b>577,857,087</b>

<b>Off-balance sheet liabilities</b>	<b>Note</b>	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
Commitments and guarantees received		44,079,567	24,846,599
Collaterals received and pledges	14	4,175,419	7,305,011
Payables from spot transactions		990,838	1,012,722
Payables from term instruments	23(d)	769,231,538	568,413,977
Payables from option instruments	23(d)	507,454	412,238
Assets under custody and managed by a third party	14	7,589,638	7,016,148
Assets under management	14	294,630	336,865
<b>Total off-balance sheet liabilities</b>		<b>826,869,084</b>	<b>609,343,560</b>

### **Income statement for the year ended 31 december 2007**

	Note	2007 CZK'000	2006 CZK'000
<b>Interest receivable and similar income</b>	15	<b>2,834,897</b>	<b>1,765,627</b>
of which:			
interest income from debt securities		85,557	62,816
<b>Interest payable and similar expense</b>	16	<b>(2,169,001)</b>	<b>(1,218,898)</b>
<b>Fee and commission income</b>	17	<b>348,413</b>	<b>354,034</b>
<b>Fee and commission expense</b>	18	<b>(60,272)</b>	<b>(14,099)</b>
<b>Gains from financial transactions</b>	19	<b>241,900</b>	<b>87,909</b>
<b>Other operating income</b>	20	<b>146,627</b>	<b>145,515</b>
<b>Other operating expense</b>		<b>(15,208)</b>	<b>(16,275)</b>
<b>Administrative expense</b>	21	<b>(713,820)</b>	<b>(642,650)</b>
of which:			
a) staff costs		(364,208)	(331,815)
of which:			
aa) wages and salaries		(260,408)	(242,593)
ab) social and health insurance		(82,189)	(69,520)
ac) other staff costs		(21,611)	(19,702)
b) other administrative expenses		(349,612)	(310,835)
<b>Depreciation of long-term tangible and intangible fixed assets</b>	7	<b>(33,882)</b>	<b>(40,627)</b>
<b>Release of allowances and provisions for loans and guarantees, income from receivables already written-off</b>	9	<b>41,707</b>	<b>12,186</b>
<b>Write-offs, additions and utilisation of allowances and provisions for loans and guarantees</b>	9	<b>(105,268)</b>	<b>(22,108)</b>
<b>Release and utilisation of other provisions</b>	9	<b>(1,216)</b>	-
<b>Profit on ordinary activities before taxation</b>		<b>514,877</b>	<b>410,614</b>
<b>Income tax</b>	22	<b>(124,409)</b>	<b>(91,034)</b>
<b>Profit for the year after taxation</b>	13	<b>390,468</b>	<b>319,580</b>



**statement of changes in equity  
for the year ended 31 december 2007**

	Note	Revaluation reserve*	Retained earnings / Accumulated losses	Profit of the current year	Total equity
		CZK'000	CZK'000	CZK'000	CZK'000
<b>At 1 January 2006</b>		<b>1,159</b>	<b>(44,747)</b>	<b>352,789</b>	<b>309,201</b>
Allocation of 2005 profit to Commerzbank AG	13	-	-	(289,020)	(289,020)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2005	13	-	73,766	(73,766)	-
Valuation differences not reflected in profit, net of tax		9,562	-	-	9,562
Foreign exchange differences in equity	13	-	-	9,997	9,997
Profit for the year 2006	13	-	-	319,580	319,580
<b>At 31 December 2006</b>		<b>10,721</b>	<b>29,019</b>	<b>319,580</b>	<b>359,320</b>
Allocation of 2006 profit to Commerzbank AG	13	-	-	(324,032)	(324,032)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2006	13	-	(4,594)	4,594	-
Valuation differences not reflected in profit, net of tax		(8,424)	-	-	(8,424)
Foreign exchange differences in equity	13	-	-	(142)	(142)
Profit for the year 2007	13	-	-	390,468	390,468
<b>At 31 December 2007</b>		<b>2,297</b>	<b>24,425</b>	<b>390,468</b>	<b>417,190</b>

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

## **notes to financial statements for the year ended 31 december 2007**

### **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 an office in Ostrava. In 2007 the Branch was managed by Mr. Günter Steiner and Mrs. Jutta Walter (since 1 July 2007 by Mrs. Jutta Walter and Mr. Arno Walter).

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 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.

#### **(b) Accounting basis**

All cash transactions, purchases and sales of trading secu-

rities, term derivatives, options and foreign currencies, transactions made through the Czech National Bank's (the "CNB") clearing centre, grants or acceptances of a guarantee or credit commitments are recognised at the settlement date.

#### **(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 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 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. They comprise mainly debt securities held for liquidity management. 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. 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 (resale or 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 apportioned 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.

### **(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. Non tangible 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**

Since 1 August 2004 the Branch has been registered for value added tax (hereinafter "VAT") with quarterly settlement period. 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 hedging instruments and 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:

- board members;
- 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 board members and of senior management of the Branch;
- entities in which board members of the Branch, 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 Bank 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.

#### **(u) Changes in accounting policy**

In 2007 the Branch started to defer fees received under the terms of syndicated and bilateral credits. Following this change, within the year 2007 the Branch deferred fees in total amount of CZK 31,823,000, which will be continuously released into the revenues.

In case previous accounting policy would have been applied these fees had been recognised in the Income statement (2006: 34,869,000).

### 3 cash and deposits with central banks

	31 December 2007 CZK'000	31 December 2006 CZK'000
Cash on hand	65,714	62,650
Obligatory reserves	54,447	640,532
Current accounts with central banks	24	6
	<b>120,185</b>	<b>703,188</b>

Obligatory reserves are mandatory deposits with the CNB. These deposits bear interest at the CZK repo rate, which was 3.50% p.a. at 31 December 2007 (31 December 2006: 2.50%).

### 4 due from banks

	31 December 2007 CZK'000	31 December 2006 CZK'000
Current accounts with banks	440,314	502,017
Term deposits up to 24 hours	2,274,757	6,442,229
Other term deposits with banks	13,946,608	17,055,282
Standard loans to banks	764,420	1,405,871
Receivables from REPO transactions	-	1,521,049
Other receivables from banks	287,048	308,720
	<b>17,713,147</b>	<b>27,235,168</b>

### 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 2007 CZK'000	31 December 2006 CZK'000
Commerzbank, Frankfurt	5,873,673	13,931,700
Commerzbank, Bratislava branch	5,553,615	2,332,690
Commerzbank, Paris branch	94,698	10,119
BRE Bank S.A., Warsaw	69,889	-
Commerzbank, New York branch	28,524	-
Commerzbank (Budapest) R.t., Budapest	6,741	26,468
Commerzbank, Hong Kong branch	5,398	1,539
Commerzbank, Tokyo branch	1,097	6,675
Commerzbank (Euroasija) SAO, Moscow	71	695
Commerzbank, Bruxelles branch	-	59
	<b>11,633,706</b>	<b>16,309,945</b>

## 5 due from customers

	31 December 2007 CZK'000	31 December 2006 CZK'000
Current accounts to governmental entities	2,438	615
Current accounts to other clients	3,157,867	3,113,706
Standard loans to other clients	53,935,509	34,387,880
Other receivables from customers	34,983	104,418
Standard loans total	57,130,797	37,606,619
Impaired loans to companies and individuals	200,030	493,011
	57,330,827	38,099,630
Allowance for impaired loans (Note 9)	(126,182)	(84,735)
	<b>57,204,645</b>	<b>38,014,895</b>

In 2007 loans in the total amount of CZK 17.2 million were restructured (in 2006, no loans were restructured).

Syndicated loans forming part of Due from banks and the exposure of the Branch totalled CZK 3,109 million at 31 December 2007 (2006: CZK 1,802 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 2007 CZK'000	31 December 2006 CZK'000
Standard	57,130,797	37,606,619
Watched	-	3,678
Impaired - Substandard	50,615	80,219
- Doubtful	128,083	343,838
- Loss	21,332	65,276
	<b>57,330,827</b>	<b>38,099,630</b>



## (b) Loans to related parties

Standard loans to companies and individuals are as follows:

	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
BRE Leasing, Sp. z o.o., Warsaw	15,446,505	5,944,375
Transfinance, a.s.	704,569	495,465
BREL-COM Sp. z o.o	204,369	251,306
Immobilien-gesellschaft Ost Hägle, s.r.o.	46,542	66,288
Commerzleasing, s.r.o., Praha	23,411	16,690
	<b>16,425,396</b>	<b>6,774,124</b>

As at 31 December 2007, the Branch has provided loans of CZK 224,000 to its senior management members (2006: CZK 322,000).

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

	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
Available-for-sale	<b>1,564,613</b>	<b>1,588,799</b>

The securities were valued only with the use of market prices or on the basis of valuation techniques, which use only market data.

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

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

As at 31 December 2007 the positive revaluation of securities available-for-sale including impact of deferred tax in amount of CZK 2,297,000 is reported within equity (2006: CZK 10,721,000).

	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
Main or auxiliary market of recognised stock exchanges	<b>1,564,613</b>	<b>1,588,799</b>

## 7 long term intangible and tangible fixed assets

### Long term intangible fixed assets

	31 December 2006	Additions / Depreciation	Disposals	31 December 2007
	CZK'000	CZK'000	CZK'000	CZK'000
<b>Cost</b>				
Software	190,547	14,170	(1,798)	202,919
<b>Accumulated amortisation</b>				
Software	(156,719)	(20,097)	1,798	(175,018)
<b>Net book amount</b>	<b>33,828</b>			<b>27,901</b>
Advances granted and assets in course of implementation	15,029			12,844
	<b>48,857</b>			<b>40,745</b>

### Long term operating tangible fixed assets

	31 December 2006	Additions / Depreciation	Disposals	31 December 2007
	CZK'000	CZK'000	CZK'000	CZK'000
<b>Cost</b>				
Buildings	27,282	1,273	-	28,555
Equipment	203,621	3,678	(16,859)	190,440
<b>Accumulated depreciation</b>				
Buildings	(9,506)	(1,483)	-	(10,989)
Equipment	(186,895)	(12,302)	16,846	(182,351)
<b>Net book amount</b>	<b>34,502</b>			<b>25,655</b>
Advances granted and assets in course of construction	6,454			5,542
	<b>40,956</b>			<b>31,197</b>



### 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:

	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
Amounts already paid on existing leases	10,402	13,563
Amounts payable within one year	3,113	2,482
Amounts payable within 1 - 5 years	2,688	2,684
Total amount paid and payable on existing finance leases	<b>16,203</b>	<b>18,729</b>

### Assets pledged as collaterals

The Branch did not provide any tangible fixed assets as collateral for its liabilities to third parties as at 31 December 2007 and 2006.

### 8 other assets

	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
Financial derivatives (Note 23 (d))	3,810,753	3,253,936
Net deferred tax (Note 22)	220	-
Anticipated receivables	5,861	3,651
Other receivables	801,446	50,536
	<b>4,618,280</b>	<b>3,308,123</b>

The significant increase of other receivables in year 2007 was mainly represented by purchasing of trade receivables.

## 9 allowances, provisions and write offs

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

	31 December 2007 CZK'000	31 December 2006 CZK'000
<b>Provisions</b>		
Specific provisions for guarantees given (Note 14)	1,000	197
<b>Allowances</b>		
Impaired loans to customers (Note 5)	126,182	84,735

The movements in provisions can be analyzed as follows:

	Provisions for off-balance sheet items CZK'000
<b>At 1 January 2006</b>	<b>4,332</b>
Foreign exchange translation difference	(150)
Write backs	(3,985)
<b>At 31 December 2006</b>	<b>197</b>
Addition	1,216
Foreign exchange translation difference	(413)
<b>At 31 December 2007</b>	<b>1,000</b>

The movements in allowances can be analyzed as follows:

	Impaired loans to customers CZK'000
<b>At 1 January 2006</b>	<b>77,155</b>
Addition	21,266
Usage	(1,649)
Foreign exchange translation difference	(4,155)
Write backs	(7,882)
<b>At 31 December 2006</b>	<b>84,735</b>
Addition	105,258
Foreign exchange translation difference	(1,229)
White backs	(62,582)
<b>At 31 December 2007</b>	<b>126,182</b>



### Release of allowances and provisions for loans and guarantees, income from receivables already written-off

	2007 CZK'000	2006 CZK'000
Write backs of provisions for loans and guarantees	-	3,985
Write backs of allowances for loans and guarantees	62,582	7,882
Income from amount due from clients written off	205	319
	<b>62,787</b>	<b>12,186</b>
Loss from the sale of receivables	(21,080)	-
	<b>41,707</b>	<b>12,186</b>

### Write-offs, additions and utilisation of allowances and provisions for loans and guarantees

	2007 CZK'000	2006 CZK'000
Amounts due from clients written off	(10)	(2,491)
Additions to provisions and allowances for loans and guarantees	(105,258)	(21,266)
Usage of provisions and allowances for loans and guarantees	-	1,649
	<b>(105,268)</b>	<b>(22,108)</b>

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 2007 CZK'000	31 December 2006 CZK'000
Current accounts with banks	248,664	151,627
Term deposits due up to 24 hours	16,507,430	12,950,992
Other term deposits with banks	37,741,887	33,381,098
Other liabilities	287,048	12,023
	<b>54,785,029</b>	<b>46,495,740</b>



### Deposits from related parties

	31 December 2007	31 December 2006
	CZK'000	CZK'000
Commerzbank, Frankfurt	13,555,434	27,890,058
Commerzbank, Bratislava branch	816,874	461,589
BRE Bank S.A., Warsaw	557,073	440,461
Commerzbank (Budapest) R.t., Budapest	32,204	8,043
Commerzbank, New York branch	28,134	8,719
Commerzbank (Nederland) N.V., Amsterdam	5,378	15,805
Commerzbank, Madrid branch	2,800	2,915
Commerzbank, London branch	2,643	2,292
Intermarket Bank AG	964	470
Commerzbank, Bruxelles branch	328	-
Commerzbank (Schweiz) AG, Zürich	221	218
Eurohypo AG, Frankfurt	5	1,603
Caisse Centrale de Réescompte, Paris	-	230
	<b>15,002,058</b>	<b>28,832,403</b>

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 2007	31 December 2006
	CZK'000	CZK'000
Amounts due to governmental entities	7,220	9,828
Amounts due to municipalities	4,105,107	3,083,225
Amounts due to private customers	17,073,913	16,988,351
	<b>21,186,240</b>	<b>20,081,404</b>

	31 December 2007	31 December 2006
	CZK'000	CZK'000
Liabilities repayable on demand	4,812,256	5,439,245
Term accounts for fixed term	15,739,177	13,999,644
Term accounts with fixed notice period	599,824	538,097
Other liabilities	34,983	104,418
	<b>21,186,240</b>	<b>20,081,404</b>



### Deposits from related parties

	31 December 2007 CZK'000	31 December 2006 CZK'000
Immobilien-gesellschaft Ost Hägle, s.r.o.	38,921	39,858
Transfinance, a.s.	13,123	26,339
BRE Leasing Sp. z o.o., Warsaw	2,645	215
Commerzleasing, s.r.o., Praha	1,048	3,661
	<b>55,737</b>	<b>70,073</b>

The Branch accepted deposits from senior management of the Branch of CZK 8,908,000 as of 31 December 2007 (2006: CZK 12,352,000).

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 2007 CZK'000	31 December 2006 CZK'000
Financial derivatives (Note 23 (d))	4,279,394	3,819,196
Estimated payables	77,888	82,633
Other liabilities	512,140	106,904
Deferred tax liability (Note 22)	-	846
	<b>4,689,422</b>	<b>4,009,579</b>

### 13 equity and profit distribution

#### Profit distribution

The net profit of CZK 319,580,000 for 2006 was distributed and the net profit of CZK 390,468,000 for 2007 has been proposed to be allocated as follows:

	2007 CZK'000	2006 CZK'000
Allocation to Commerzbank AG	336,413	324,032
Difference from foreign exchange translation	-	(2,877)
Transfer to / (from) retained earnings	54,055	(1,575)
<b>Net profit as at 31 December</b>	<b>390,468</b>	<b>319,580</b>

## **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**

	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
Commitments	10,382,659	3,558,742
Guarantees granted	5,667,214	4,842,668
<b>Total commitments and guarantees granted</b>	<b>16,049,873</b>	<b>8,401,410</b>

Significant difference between the commitments in 2006 and 2007 was caused by different extent of commitments used. In the year 2006, significant credit drawings occurred, whereas in the year 2007 the Branch realized increased interest for new commitments to be granted.

### **Guarantees granted can be analysed as follows:**

	<b>31 December 2007</b> CZK'000	<b>31 December 2006</b> CZK'000
<b>Guarantees granted including guarantees from letters of credit</b>		
On behalf of banks	1,396,190	584,258
On behalf of customers	4,271,024	4,258,410
Total guarantees granted	5,667,214	4,842,668
Specific provision for guarantees granted (Note 9)	(1,000)	(197)
<b>Net guarantees granted and letters of credit</b>	<b>5,666,214</b>	<b>4,842,471</b>



### Contingent liabilities can be analysed as follows:

	31 December 2007 CZK'000	31 December 2006 CZK'000
<b>Assets placed in custody</b>		
Shares	2,669,031	2,619,683
<b>Assets managed by a third party</b>		
Shares	885,300	539,764
Bonds	2,114,282	1,575,108
Derivatives	28,560	-
Other	1,888,947	2,017,461
	<b>4,917,089</b>	<b>4,132,333</b>
<b>Assets under custody</b>		
Shares	3,518	264,132
Assets placed in custody, managed by third party and under custody	7,589,638	7,016,148
<b>Assets under management</b>		
Shares	270,499	537
Bonds	-	332,315
Other	24,131	4,013
	<b>294,630</b>	<b>336,865</b>

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 2007 (2006: CZK 225,000).

Management considers that no present obligations were associated with these fiduciary duties at 31 December 2007.

### Collaterals received and pledges

	31 December 2007 CZK'000	31 December 2006 CZK'000
CNB treasury-bills	-	1,497,000
Real estate pledges	3,211,180	3,599,952
Securities	2,114	852,840
Other collaterals received	962,125	1,355,219
	<b>4,175,419</b>	<b>7,305,011</b>

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 2007 these collaterals amounted to CZK 44,079,567,000 (2006: 24,846,599,000).

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

Two individuals have filed a lawsuit against the Bank 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 2007, the Bank 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 Bank's opinion was also confirmed by its external advisors.).

### **15 interest receivable and similar income**

	<b>2007</b>	<b>2006</b>
	CZK'000	CZK'000
Interest on inter-bank transactions	645,289	484,106
Interest on loans to customers and state	2,104,051	1,218,705
Interest and discount on debt securities	85,557	62,816
	<b>2,834,897</b>	<b>1,765,627</b>

Management estimates that approximately CZK 15.2 million of interest income was recognized on impaired loans in the year ended 31 December 2007 (2006: CZK 28.2 million). Registered unrecognized penalty interest income outstanding as at 31 December 2007 of CZK 0.2 million (31 December 2006: CZK nil) was accrued.

In 2007 and 2006, the Branch did not forgive any penalty interest and no period for claiming penalty interest expired.

### **16 interest payable and similar expense**

	<b>2007</b>	<b>2006</b>
	CZK'000	CZK'000
Interest on inter-bank transactions	1,674,966	889,097
Interest on deposits from customers and state	494,035	329,801
	<b>2,169,001</b>	<b>1,218,898</b>



### **17 fee and commission income**

	<b>2007</b>	<b>2006</b>
	CZK'000	CZK'000
Brokerage income from purchase and sale of securities and derivatives	44,452	35,772
Custody fee income	927	210
Asset management fee and related fee income	9,703	9,469
Foreign and domestic payments	174,924	169,332
Letters of credit	27,217	31,643
Guarantees	27,544	23,968
Commissions from loans	44,240	67,000
Other	19,406	16,640
	<b>348,413</b>	<b>354,034</b>

### **18 commission and fee expense**

	<b>2007</b>	<b>2006</b>
	CZK'000	CZK'000
Domestic and foreign transfers	(7,982)	(7,466)
Brokerage expense from purchase and sale of securities	(3,990)	(2,289)
Foreign exchange operation	(2,835)	(2,647)
Financial guarantees	(40,475)	-
Other financial activities	(4,990)	(1,697)
	<b>(60,272)</b>	<b>(14,099)</b>

### **19 gains less losses from financial transactions**

	<b>2007</b>	<b>2006</b>
	CZK'000	CZK'000
Gains from foreign currency transactions	781,345	798,144
Losses from transactions with FX financial derivatives	(581,908)	(708,510)
Gains / (losses) from interest rate financial derivatives	42,463	(1,725)
	<b>241,900</b>	<b>87,909</b>

## 20 other operating income

	2007	2006
	CZK'000	CZK'000
Income from intercompany re invoicing	131,405	127,544
Other operating income	15,222	17,971
	<b>146,627</b>	<b>145,515</b>

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 Bratislava branch and head office in Frankfurt am Main.

## 21 administrative expenses

	2007	2006
	CZK'000	CZK'000
Staff costs	364,208	331,815
Rent and lease charges	51,127	48,707
Audit, tax and legal advisory services	3,993	4,127
Other administration expenses	294,492	258,001
	<b>713,820</b>	<b>642,650</b>

### Staff costs can be analyzed as follows:

	2007	2006
	CZK'000	CZK'000
Wages and salaries	260,408	242,593
Social security and other social costs	82,189	69,520
Other staff costs	21,611	19,702
	<b>364,208</b>	<b>331,815</b>

In 2007 the management of the Branch was paid wages and salaries of CZK 60,644,000 (2006: CZK 59,656,000), social and health insurance paid by the Branch amounted to CZK 10,549,000 (2006: CZK 8,569,000). The management of the Branch includes its directors and further the managers on the first level of organisation structure (as at 31 December 2007 total of 12 employees, 31 December 2006: 12).

### Staff statistics

	2007	2006
	CZK'000	CZK'000
Average number of employees	267	235

In 2007 the Branch provided contribution for pension insurance to its employees of CZK 770,000 (2006: CZK 726,000).



## 22 taxation

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

	2007 CZK'000	2006 CZK'000
Profit before taxation	514,877	410,614
Differences between profit and tax base:		
Non-taxable income	(24,360)	(29,468)
Non-deductible expenses	27,126	31,686
Other expenses reducing net taxable profit	(1,060)	(950)
Net taxable profit	516,583	411,882
Current tax charge at 24% (2006: 24 %) before discount	123,980	98,852
Discount on tax	(148)	(148)
<b>Current tax charge after discount</b>	<b>123,832</b>	<b>98,704</b>

The income tax charge is comprised of:

	2007 CZK'000	2006 CZK'000
Deferred tax expense / (income) recognised on temporary differences	1,375	(572)
Current income tax expense	123,832	98,704
Adjustment of prior year income tax expense	(798)	(7,098)
<b>Income tax expense</b>	<b>124,409</b>	<b>91,034</b>

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 it is expected the temporary difference to be compensated and it can be analyzed as follows:

	2007 CZK'000	2006 CZK'000
Net deferred income tax asset at the beginning of the period	(846)	1,601
Deferred tax income/expense from the change in temporary differences	(1,375)	572
Change of the deferred tax asset/liability on available-for-sale securities	2,441	(3,019)
Net deferred income tax asset / (liability) on 31 December	220	(846)
<b>Deferred income tax assets</b>		
Allowances to loans	-	2
Non-tax deductible social insurance	802	2,094
Difference between accounting and tax depreciation	-	77
	<b>802</b>	<b>2,173</b>
<b>Deferred income tax liability</b>		
Available-for-sale securities	(578)	(3,019)
Accelerated tax depreciation	(4)	-
	<b>(582)</b>	<b>(3,019)</b>
<b>Net deferred tax asset (24%) (Note 8)</b>	<b>220</b>	<b>-</b>
<b>Net deferred tax liability (24%) (Note 12)</b>	<b>-</b>	<b>(846)</b>

## **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 intra-day 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 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 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 2007

Assets	Domestic CZK'000	European union CZK'000	Other CZK'000	Total CZK'000
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
	<b>43,399,360</b>	<b>36,109,517</b>	<b>1,797,251</b>	<b>81,306,128</b>

### At 31 December 2006

Assets	Domestic CZK'000	European union CZK'000	Other CZK'000	Total CZK'000
Cash and deposits with central banks	703,188	-	-	703,188
Due from banks	8,075,529	18,806,356	353,283	27,235,168
Due from customers	30,682,122	6,841,247	491,526	38,014,895
Securities available-for-sale	1,588,799	-	-	1,588,799
Other assets	813,179	2,327,506	269,021	3,409,706
	<b>41,862,817</b>	<b>27,975,109</b>	<b>1,113,830</b>	<b>70,951,756</b>

## Business segmentation

### At 31 December 2007

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

### At 31 December 2006

Assets	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
Cash and balances with central banks	703,188	-	-	-	-	-	703,188
Due from banks	8,075,529	19,159,639	-	-	-	-	27,235,168
Due from customers	-	-	37,581,896	615	431,868	516	38,014,895
Securities available-for-sale	-	-	1,018,515	570,284	-	-	1,588,799
Other assets	739,682	2,595,415	42,748	29,875	1,986	-	3,409,706
	<b>9,518,399</b>	<b>21,755,054</b>	<b>38,643,159</b>	<b>600,774</b>	<b>433,854</b>	<b>516</b>	<b>70,951,756</b>

### (c) Market risk

The Branch takes on exposure to market risks which arise from open positions in interest rate, currency and equity 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, FX rates and stock prices.

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 bank-wide VAR, is reviewed daily by management. Consolidated VAR for the Branch as at 31 December 2007 is CZK 5.68 million (31 December 2006: CZK 6.90 million) and average daily consolidated VAR for the Branch was CZK 3.58 million in 2007 (2006: CZK 4.78 million).

The Branch performs the stress testing on a daily basis, which gives the information on risk exposure and potential losses of the Branch, the results are presented to the management within daily reporting. The reason for stress testing is to gain an estimate of loss, which the Branch could suffer, if the worst case scenario of market development would occur. The probability that these expectations would be fulfilled is very unlikely.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.



## Derivate financial instruments

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

### Total financial derivatives

#### At 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)
<b>Total</b>	<b>769,326,977</b>	<b>769,738,992</b>	<b>3,810,753</b>	<b>(4,279,394)</b>

#### At 31 December 2006

	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Interest rate derivatives	443,359,700	443,359,700	488,963	(614,947)
Currency derivatives	125,083,222	125,466,515	2,764,973	(3,204,249)
<b>Total</b>	<b>568,442,922</b>	<b>568,826,215</b>	<b>3,253,936</b>	<b>(3,819,196)</b>

### Trading agreements

#### At 31 December 2007

	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
<b>Interest rate derivatives</b>				
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)
	<b>569,229,883</b>	<b>569,229,883</b>	<b>479,531</b>	<b>(475,136)</b>
<b>Currency derivatives</b>				
Forwards	1,814,115	1,770,585	46,438	(9,508)
Swaps	197,654,648	198,110,193	3,284,784	(3,739,649)
	<b>199,468,763</b>	<b>199,880,778</b>	<b>3,331,222</b>	<b>(3,749,157)</b>
<b>Total</b>	<b>768,698,646</b>	<b>769,110,661</b>	<b>3,810,753</b>	<b>(4,224,293)</b>

**At 31 December 2006**

	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
<b>Interest rate derivatives</b>				
FRAs	416,119,700	416,119,700	340,600	(344,689)
Swaps	26,561,959	26,561,959	148,363	(171,218)
	<b>442,681,659</b>	<b>442,681,659</b>	<b>488,963</b>	<b>(515,907)</b>
<b>Currency derivatives</b>				
Forwards	463,843	452,884	13,608	(194)
Swaps	124,206,954	124,601,393	2,749,781	(3,201,001)
Options	412,425	412,238	1,584	(3,054)
	<b>125,083,222</b>	<b>125,466,515</b>	<b>2,764,973</b>	<b>(3,204,249)</b>
<b>Total</b>	<b>567,764,881</b>	<b>568,148,174</b>	<b>3,253,936</b>	<b>(3,720,156)</b>

**Fair value hedging agreements**
**At 31 December 2007**

Interest rate derivatives	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Swaps	<b>628,331</b>	<b>628,331</b>	-	<b>(55,101)</b>

**At 31 December 2006**

Interest rate derivatives	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Swaps	<b>678,041</b>	<b>678,041</b>	-	<b>(99,040)</b>

**(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. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

**(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.

**(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.

The Board of Directors 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 2007

	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
<b>Assets</b>						
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
	<b>41,946,084</b>	<b>6,296,948</b>	<b>28,155,467</b>	<b>4,012,798</b>	<b>894,831</b>	<b>81,306,128</b>
<b>Liabilities</b>						
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
	<b>68,100,207</b>	<b>6,260,240</b>	<b>4,085,627</b>	<b>1,830,765</b>	<b>1,029,289</b>	<b>81,306,128</b>
<b>Net assets/(liabilities)</b>	<b>(26,154,123)</b>	<b>36,078</b>	<b>24,069,840</b>	<b>2,182,033</b>	<b>(134,458)</b>	<b>-</b>

### 31 December 2006

	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
<b>Assets</b>						
Cash and balances with central banks	62,656	-	-	-	640,532	703,188
Due from banks	25,535,636	973,605	367,856	69,374	288,697	27,235,168
Due from customers	14,286,125	7,313,842	12,724,079	3,282,573	408,276	38,014,895
Securities available-for-sale	-	-	915,185	673,614	-	1,588,799
Other assets	1,710,396	1,200,862	92,272	427	405,749	3,409,706
	<b>41,594,813</b>	<b>9,488,309</b>	<b>14,099,392</b>	<b>4,025,988</b>	<b>1,743,254</b>	<b>70,951,756</b>
<b>Liabilities</b>						
Due to banks	37,859,784	3,452,752	3,455,345	1,727,859	-	46,495,740
Due to customers	19,948,244	129,368	2,363	1,429	-	20,081,404
Provisions	-	-	-	-	197	197
Other liabilities	1,991,350	1,339,077	134,105	625	909,258	4,374,415
	<b>59,799,378</b>	<b>4,921,197</b>	<b>3,591,813</b>	<b>1,729,913</b>	<b>909,455</b>	<b>70,951,756</b>
<b>Net assets/(liabilities)</b>	<b>(18,204,565)</b>	<b>4,567,112</b>	<b>10,507,579</b>	<b>2,296,075</b>	<b>833,799</b>	<b>-</b>

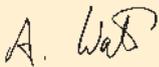
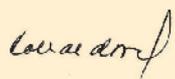
## 24 subsequent events

### Current volatility of financial markets

In the recent months the global financial markets were negatively affected by a significant increase in default of less creditworthy debtors (so-called subprimes) on the mortgage market in the United States. As a result of this the global investors were forced to reassess the risk level, they are exposed to, which led to increased volatility and lower liquidity on fixed income, securities and derivatives markets. Related conditions on the credit markets could influence the Branch's ability to refinance its borrowings, liabilities due to clients or other liabilities and valuations of its credit portfolio. The decrease of the fair value of financial assets below their notional amount, caused by the increase of the basic interest rates, is not evidence for impairment of financial assets as such. The management is not able to assess the impacts of further possible deterioration of liquidity and increased volatility on the financial markets on the Branch.

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements of the Branch as at 31 December 2007.

These financial statements have been approved by Commerzbank AG and have been signed on their behalf by:

Date	Signature of the statutory representative	Person responsible for accounting	Person responsible for the financial statements preparation
			
14 March 2008	Arno Walter	Ing. Eva Collardová MBA	Ing. Radek Hudáček



