

Partnership is not just a word



Annual report for the year 2010



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Bank Management Report for Fiscal Year 2010


»The year 2010 saw the world slowly beginning to cope with the consequences of the economic crisis. As a result of the openness of the Czech economy, this global development also began to be felt in the Czech Republic. The country's gross domestic product increased by 2.2 percent as compared to the previous year, predominantly thanks to an increase in foreign demand.«

In the Prague branch of Commerzbank, this positive trend was reflected above all in our services for Czech exporters, where our position in guaranteed transactions clearly strengthened. Although in general 2010 was not an easy year for our branch, we achieved a number of accomplishments. We supported Czech exporters by means of structured export financing completed in cooperation with the EGAP Insurance Company, thereby financing the export of manufacturing equipment and investment units mainly to Russia and former Soviet Union countries. We also provided financing to support the acquisition activities of Czech companies abroad, especially in Germany.

The persisting pressure on cost optimization among our internationally-operating corporate clients meant for us an increased focus on efficient liquidity management, in particular, cross-border Cash Management services, where we successfully secured several significant mandates. We implemented for example, cross-border Cash Management services for one client covering 6 countries and several currencies. The master account receiving the payments was, for the first time, opened in the Prague branch.

Apart from this, clients continued to show great interest in the Bank's ability to provide support in the area of documentary transactions, e.g. international contracts paid by letters of credit, insured by an export credit agency.

In close cooperation with our experts from the Center of Competence for Renewable Energies in Hamburg, Commerzbank strengthened its position in the field of renewable energy, arranging and structuring the project financing for the construction of a large solar park in Chomutov.



In 2010, our Private Banking department saw demand again begin to increase for its successful securities trading services.

The satisfaction poll conducted at the end of 2010 among our corporate clients and also, for the first time ever, among our Private Banking clients clearly showed their high satisfaction with the services of the Commerzbank Prague branch.

In 2011 we expect the financial crisis to fully recede in the Czech Republic. Current market developments signal strong growth and higher demand for capital investments. Based on the above indicators, we expect to further increase our business cooperation with Czech and German medium-sized enterprises and to reinforce our strengths in foreign trade.



Dr. Jutta Walter

Commerzbank AG

Commerzbank worldwide

Commerzbank is a leading bank for private and corporate customers in Germany. With the segments Private Clients, Mittelstandsbank, Corporates & Markets, Central & Eastern Europe as well as Asset Based Finance, the Bank offers its customers an attractive product portfolio, and is a strong partner for the export-oriented SME sector in Germany and worldwide. With a future total of some 1,200 branches, Commerzbank has one of the densest networks of branches among German private banks. It has over 60 sites in more than 50 countries and serves approximately 14 million private clients as well as one million business and corporate clients worldwide.

The segment Central & Eastern Europe comprises the activities of the Polish subsidiary BRE Bank, Bank Forum in the Ukraine, Commerzbank Eurasija in Russia, Commerzbank Zrt. in Hungary, and our branches in the Czech Republic and Slovakia, as well as shareholdings in seven microfinance banks and Russia's Promsvyazbank. The activities are



bundled under the umbrella of a management holding company, which functions as a center of competence, an operational control unit and as the interface between local units and the domestic central departments. The focus of the business activity in Central & Eastern Europe is on private client and corporate client business, as well as on customer-related investment banking.

In 2010, the Central and Eastern Europe Region benefited from a significant improvement in economic conditions. In this market environment, we achieved overall a positive operating result and turnaround in the segment Central & Eastern Europe. In a difficult market environment we were able to satisfy a growing number of customers with our attractive range of products and services. This number increased throughout the year by nearly 460,000, to more than 4 million customers. Commerzbank is thus the leading German bank in Central & Eastern Europe.

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 one of the leading financial institutions in the Czech Republic.

Commerzbank AG, Prague Branch is focused mainly on corporate clients and Private Banking, providing a comprehensive line of products customized to meet the needs of individual customers. Products range 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 international know-how and greater opportunities to operate in 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 a variety of financial products. With its focus on international entrepreneurship, strong know-how across a variety of industry sectors, and a comprehensive range of products, the bank offers better, more innovative and prompt financing solutions.

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

Commerzbank offices are the first contact address German firms use when entering the Czech market and local firms use if their aim is to broaden their activities in Europe.

Organization structure

Prague branch

General Managers:



Dr. Jutta Walter



Rainer Ottenstein (until April 2010)

Heads of departments:

Ludovít Bán

Corporate Banking Department

Margaret Dvorak

Structured Finance

Daniel Steinmetz

Credit Office

Alena Štefaňáková

Private Banking

Jaromír Hronek

Treasury

Luboš Křen (since 1. 7. 2010)

Cash Management
& International Business (CMIB)

Kai Grosse (until 30. 6. 2010)

Cash Management
& International Business (CMIB)

Eva Collardová

Finance

Renata Kloubek

Personnel Department

Iva Gottliebová

Marketing and Communication

Pavel Čurila (since 15. 2. 2010)

Organisation

Joachim Spengler

CEE – Support

Bernd Krönke

GS – BO Prag

Petr Nentvich

Corporate Banking Department,
Brno Office

René Mewald

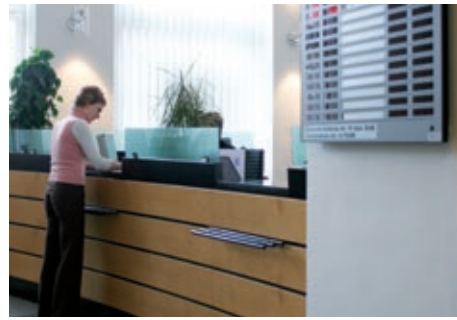
Corporate Banking Department,
Hradec Králové Office

Ondřej Eliáš

Corporate Banking Department,
Plzeň Office

Roman Zedníček

Corporate Banking Department,
Ostrava Office





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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, identification number 47610921, with registered office at Jugoslávská 1, Praha 2, 120 21 ("the Branch") for the year ended 31 December 2010 disclosed in the annual report on pages 15 to 40 and issued the opinion dated 4 March 2011 and disclosed on page 12.

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 2010 is consistent with the financial statements referred to above. The Statutory Representative 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.

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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To the management of Commerzbank Aktiengesellschaft, pobočka Praha

Opinion

In our opinion, the other information included in the annual report of the Branch for the year ended 31 December 2010 is consistent, in all material respects, with the financial statements.

The maintenance and integrity of the Branch's website is the responsibility of its Management; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

31 March 2011

A handwritten signature in blue ink that reads "PricewaterhouseCoopers Audit s.r.o." in a cursive script.

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

A handwritten signature in blue ink that reads "Petr Kříž" in a cursive script.

Ing. Petr Kříž
Statutory auditor, Licence No. 1140

Note

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



Independent auditor's report

to the management of COMMERZBANK Aktiengesellschaft, pobočka Praha

We have audited the accompanying financial statements of COMMERZBANK Aktiengesellschaft, pobočka Praha, identification number 47610921, with registered office at Jugoslávská 1, Praha 2 ("the Branch"), which comprise the balance sheet as at 31 December 2010, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Management's responsibility for the Financial Statements

Management of the Branch is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 of the financial statements that give a true and fair view 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.

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Management of COMMERZBANK Aktiengesellschaft, pobočka Praha
Independent auditor's report

Auditor's Responsibility (continued)

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 2010 and its financial performance for the year then ended in accordance with Czech accounting legislation.

4 March 2011

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers Audit, s.r.o.', written in a cursive style.

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

A handwritten signature in blue ink, appearing to read 'Petr Kříž', written in a cursive style.

Petr Kříž
Statutory Auditor, Licence No. 1140

Note

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



European banking solution for Tristone Flowtech Group

In May 2010 Trelleborg Group announced the divestment of its Fluid Solution operation within the Trelleborg Automotive business area. At the end of June 2010 the acquisition of the fluid solutions business operations by an investor was completed, newly operating under the brand name Tristone Flowtech.

The company designs, produces and delivers polymer-based products to car manufacturers. The products include rubber and plastic parts used for air and liquid flows within engine and front areas of a range of different cars. It is currently active on the European market for passenger as well as light and heavy commercial vehicles. Plants and technical centers of Tristone Flowtech are located in nine countries across Europe.

After spinning off from group Trelleborg one of the main tasks of Tristone Flowtech's management was to stand on their own, also in terms of corporate finance and treasury functions. The Shared Service Center with group treasury and business support are both located in the Czech Republic.

Commerzbank AG in Czech Republic with its strong organisation in Germany and an international operating network designed a comprehensive banking solution meeting the high demands of the ambitious Tristone group. Commerzbank provided for the client European Cash Management inclusive Cash Pooling with BRE Bank. Tristone Flowtech benefited from European wide cash concentration, information and transaction management via web-based solution Global Payment Plus. All account of Tristone in Czech Republic, Slovak Republic, Germany, Poland, Spain, Italy and France were open centrally from Prague.

Financial statements

Balance sheet as at 31 December 2010

Assets:		31 December 2010	31 December 2009
	Note	CZK mil.	CZK mil.
Cash and deposits with central banks	3	78	781
Due from banks	4	20,271	11,676
a) repayable on demand		13,422	5,176
b) other receivables		6,849	6,500
Due from customers	5	40,162	50,160
a) repayable on demand		4,073	4,220
b) other receivables		36,089	45,940
Debt securities	6	930	1,148
a) issued by government institutions		558	555
b) issued by other entities		372	593
Long-term intangible fixed assets	7	23	27
Long-term tangible fixed assets	7	42	35
of which: buildings for operating activities		27	21
Other assets	8	742	2,402
Prepayments and accrued income		17	20
Total assets		62,265	66,249

Liabilities:		31 December 2010	31 December 2009
	Note	CZK mil.	CZK mil.
Due to banks	10	39,655	45,900
a) repayable on demand		18,931	5,946
b) other payables		20,724	39,954
Due to customers	11	19,950	16,733
a) repayable on demand		6,949	6,531
b) other payables		13,001	10,202
Other liabilities	12	1,867	2,673
Accruals and deferred income		46	62
Provisions	9	70	90
Revaluation differences from assets and liabilities		(10)	(127)
Retained earnings (losses) from previous periods		406	392
Profit for the accounting period	13	281	526
Total liabilities		62,265	66,249

Off-balance sheet as at 31 December 2010

Off-balance sheet assets:	Note	31 December 2010	31 December 2009
		CZK mil.	CZK mil.
Commitments and guarantees given	14	11,696	10,548
Receivables from spot transactions		1,830	1,862
Receivables from term instruments	23(d)	45,484	150,294
Receivables from option instruments	23(d)	4,168	6,762
Receivables written-off		4	4
Total off-balance sheet assets		63,182	169,470

Off-balance sheet liabilities:	Note	31 December 2010	31 December 2009
		CZK mil.	CZK mil.
Commitments and guarantees received		35,231	30,908
Collaterals received and pledges	14	3,212	11,924
Payables from spot transactions		1,837	1,862
Payables from term instruments	23(d)	46,576	150,556
Payables from option instruments	23(d)	4,168	6,762
Assets under custody and managed by a third party	14	32,489	19,662
Assets under management	14	365	439
Total off-balance sheet liabilities		123,878	222,113

Income statement for the year ended 31 December 2010

	Note	31 December 2010 CZK'000	31 December 2009 CZK'000
Interest receivable and similar income	15	1,827	2,546
of which: interest income from debt securities		63	72
Interest payable and similar expense	16	(533)	(1,032)
Fee and commission income	17	342	304
Fee and commission expense	18	(25)	(23)
Gains from financial transactions	19	(404)	(332)
Other operating income	20	331	239
Other operating expense		(35)	(18)
Administrative expense	21	(750)	(688)
of which: a) staff costs		(421)	(387)
of which: aa) wages and salaries		(315)	(292)
ab) social and health insurance		(93)	(78)
ac) other staff costs		(13)	(17)
b) other administrative expenses		(329)	(302)
Depreciation of long-term tangible and intangible fixed assets	7	(27)	(28)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	9	21	9
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	9	(414)	(173)
Release and utilisation of other provisions	9	10	(89)
Profit on ordinary activities before taxation		343	715
Income tax	22	(62)	(189)
Profit for the year after taxation	13	281	526

Statement of changes in equity for the year ended 31 December 2010

	Note	Revaluation reserve*	Retained earnings	Profit of the current year	Total equity
		CZK mil.	CZK mil.	CZK mil.	CZK mil.
At 1 January 2009		(34)	80	750	796
Allocation of 2008 profit to Commerzbank AG		-	-	(457)	(457)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2008		-	292	(292)	-
Correction of expenses of the year 2008		-	17	-	17
Foreign exchange differences in equity for the year 2009		-	2	-	2
Revaluation differences not reflected in profit, net of tax		(93)	-	-	(93)
Profit for the year 2009	13	-	-	526	526
At 31 December 2009		(127)	391	526	790
Allocation of 2009 profit to Commerzbank AG	13	-	-	(493)	(493)
Difference between allocation of profit to Commerzbank AG, foreign exchange differences and profit for the year 2009	13	-	33	(33)	-
Change in accounting policy (discount of provisions)	2(u)	-	14	-	14
Additional allocation of profit 2009 to Commerzbank AG due to change in accounting policy		-	-14	-	-14
Revaluation differences not reflected in profit, net of tax		118	-	-	118
Foreign exchange differences in equity for the year 2010	13	-	(19)	-	(19)
Profit for the year 2010	13	-	-	281	281
At 31 December 2010		(9)	405	281	677

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

Notes to the financial statements

1 General information

COMMERZBANK Aktiengesellschaft, Prague branch (hereinafter referred to as “the Bank”) was incorporated on 1 December 1992 as a branch of Commerzbank AG, which is headquartered in Frankfurt am Main, Germany. The Bank has its registered office in Praha and a sub-branch in Brno and offices in Ostrava, Plzeň, and Hradec Králové. In 2010, the Bank was managed by Mrs. Jutta Walter and Mr. Rainer Ottenstein (until April 2010).

The Bank’s operations primarily consist of:

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

2 Accounting policies

(a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting, applicable accounting rules set

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

The financial statements are rounded to millions of Czech Crowns (CZK mil.) unless otherwise stated.

(b) Accounting basis

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

(c) Foreign currencies

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

(d) Fair value of securities

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

(e) Available-for-sale securities

Available-for-sale securities are neither securities at fair value through profit or loss nor securities held-to-maturity.

Available-for-sale securities are initially recognised at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value.

As at 31 December 2010, the fair value of the available-for-sale securities has been determined by valuation technique using market data, credit risk of the securities' issuer and taking into account the liquidity of the market. Any subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognised directly in equity (net of any tax effect) until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement.

(f) Securities financing arrangements

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

(g) Derivative financial instruments and hedging

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

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

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

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

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

(h) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows until maturity or the nearest change of interest

rate to the net carrying amount of the financial asset or financial liability.

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

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

(i) Penalty interest

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

(j) Fee and commission income

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

(k) Receivables

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

(l) Provisions

Provisions are recognised when the Bank 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. Provisions are

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

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

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

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

(n) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets acquired before 31 December 2000 are recorded at acquisition cost. Fixed assets are depreciated/amortised by applying

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

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

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

(o) Value added tax

The Bank 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 Bank does not claim input VAT as the ratio of the taxable income to the total income of the Bank is such that it is not economical for the Bank 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 Bank expects to utilise the asset or settle the liability is used to measure deferred tax.

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

(q) Staff costs and pensions

Staff costs are included in Administrative expenses.

The Bank makes contributions on behalf of its employees to a defined contribution pension plan. Contributions paid by the Bank 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 Bank, being persons responsible for management functions based on employment or other contracts and powers and responsibilities of which are defined in the Bank's statute ("senior management");
- entity controlling the Bank and its senior management;
- relatives (direct family members) of senior management;
- entities in which the senior management holds at least a 10% shareholding;
- shareholders holding more than 10% of voting rights of Commerzbank AG and entities controlled by them.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 4, 5, 10, 11, 14, 15, 16, 20 and 21.

(s) Foreign exchange differences in equity

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

(t) Subsequent events

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

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

(u) Change of accounting policy – discount of provisions

Until 2009, provisions were created in the estimated amount of the probable future fulfilment. Since 1 January 2010, the Bank creates the provisions in the estimated amount discounted to present value. The reason for the

accounting policy changes was to specify the estimate more accurately. The initial impact of the change of CZK 13.8 mil was recorded in the retained earnings and transferred to Commerzbank AG in 2010.

3 Cash and deposits with central banks

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Cash on hand	36	45
Minimal obligatory reserves	42	436
Current accounts with central banks	-	300
	78	781

Minimal obligatory reserves are mandatory deposits with the CNB. These deposits bear interest at the CZK repo rate, which was 0.75% p.a. at 31 December 2010 (2009: 1.00% p.a.).

4 Due from banks

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Current accounts with banks	648	91
Term deposits up to 24 hours	12,774	5,085
Other term deposits with banks	6,494	6,061
Standard loans to banks	211	232
Other receivables from banks	144	207
	20,271	11,676

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 2010 CZK mil.	31 December 2009 CZK mil.
Commerzbank, Frankfurt (Head office)	9,896	4,515
Commerzbank (Budapest) R.t., Budapest	3,610	13
Commerzbank, Bratislava branch	2,169	2,842
Commerzbank (Euroasija) SAO, Moscow	97	4
BRE Bank S.A., Warsaw	26	1
Commerzbank, Tokyo branch	5	5
Commerzbank, Hong Kong branch	4	24
Commerzbank, New York branch	1	-
Commerzbank, Singapore branch	1	2
	15,809	7,406

5 Due from customers

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Current accounts to governmental entities	2	-
Current accounts to other customers	4,071	4,220
Standard loans to other customers	35,683	45,600
Standard loans total	39,756	49,820
Impaired loans to companies and individuals	987	585
	40,743	50,405
Allowance for impaired loans (Note 9)	(581)	(245)
	40,162	50,160

Syndicated loans forming part of Due from customers totalled CZK 1,100 million as at 31 December 2010 (2009: CZK 2,524 million).

(a) Quality of loan portfolio

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

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

Due from customers can be per definitions presented by Czech National Bank analysed as follows:

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Standard	39,756	49,820
Impaired - Watched	62	-
- Substandard	526	349
- Doubtful	119	68
- Loss	280	168
	40,743	50,405

Restructured loans totalled CZK 254.1 million in 2010 (2009: CZK 278.1 million).

Current value of collaterals received is disclosed in note 14.

(b) Loans to related parties

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

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
BRE Leasing, Sp. z o.o., Warsaw	13,063	13,868
Transfinance a.s.	704	558
BREL-COM Sp. z o.o	165	178
FOSSUM VERMIETUNGSGES. PRAHA S.R.O.	112	136
FOSSUM VERMIETUNGSGES. ML. BOLESLAV	77	92
Commerz Real CZ, s.r.o.	-	33
	14,121	14,865

As at 31 December 2010, the Bank has provided loans of CZK 1 million to its senior management members (2009: CZK 2 million).

All loans to related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

6 Debt Securities

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Available-for-sale	930	1,148

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

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

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

As at 31 December 2010, the revaluation difference from the revaluation of the available-for-sale securities, net of

the deferred tax impact, was negative, CZK 10 million (2009: negative, CZK 127 million) and is recorded in the equity. The revaluation difference from the impairment of the available-for-sale securities is presented in the Losses from financial transactions (Note 19).

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Traded on recognised Czech stock exchanges	791	893
Traded on recognised foreign stock exchanges	139	255
	930	1,148

7 Long term intangible and tangible fixed assets

Long term intangible fixed assets – software

	31 December 2009	Additions / Depreciation	Disposals	31 December 2010
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Acquisition cost	224	9	(5)	228
Accumulated amortisation	(199)	(13)	5	(207)
Net book amount	25			21
Advances granted and assets in course of implementation	2			2
	27			23

Long term operating tangible fixed assets

	31 December 2009	Additions / Depreciation	Disposals	31 December 2010
	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Acquisition cost buildings	32	8	-	40
Equipment	151	14	(10)	155
Accumulated amortization				
Buildings	(10)	(2)	-	(12)
Equipment	(140)	(12)	10	(142)
Net book amount	33			41
Advances granted and assets in course of implementation	2			1
	35			42

Long-term fixed assets held under lease contracts

The Bank 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 2010	31 December 2009
	CZK mil.	CZK mil.
Amounts already paid on existing leases	17	15
Amounts payable within one year	1	2
Amounts payable within 1 – 5 years	1	2
Total amount paid and payable on existing finance leases	19	19

Assets pledged as collaterals

The Bank did not provide any tangible fixed assets as collateral for its liabilities as at 31 December 2010 and 2009.

8 Other assets

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Financial derivatives (Note 23 (d))	395	1,841
Net deferred tax (Note 22)	3	30
Anticipated receivables	8	8
Other receivables	406	542
of which: receivables from settlement of payments	29	203
	812	2,421
Allowance to Other receivables (bod 9)	70	19
	742	2,402

9 Allowances, provisions and write offs

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

Provisions	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Provisions for potential payables	70	89
Specific provisions for guarantees given (Note 14)	-	1
	70	90

Allowances	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Impaired loans to customers (Note 5)	581	245
Other receivables	70	19
	651	264

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

	2010	2009
	CZK mil.	CZK mil.
At 1 January	89	-
Change in accounting policy as at 1 January	(14)	-
Additions	4	89
Release	(9)	-
As at 31 December	70	89

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

	2010 CZK mil.	2009 CZK mil.
As at 1 January	245	103
Additions	354	154
Foreign exchange translation difference	3	1
Utilisation	-	(4)
Write backs	(21)	(9)
As at 31 December	581	245

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

	2010 CZK mil.	2009 CZK mil.
As at 1 January	19	-
Additions	59	19
Foreign exchange translation difference	(8)	-
As at 31 December	70	19

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

	2010 CZK mil.	2009 CZK mil.
Write backs of allowances for loans	1	-
Income from amount due from clients written-off	21	9
	22	9

Write-offs, additions and utilisation of allowances for loans

	2010 CZK mil.	2009 CZK mil.
Amounts due from clients written off	-	(4)
Additions to allowances for loans	(414)	(173)
Utilisation	-	4
	(414)	(173)

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

10 Due to banks

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Current accounts with banks	221	520
Term deposits due up to 24 hours	18,710	5,426
Other term deposits with banks	20,580	39,748
Other liabilities	144	206
	39,655	45,900

Deposits from related parties

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Commerzbank Frankfurt	16,465	13,390
Commerzbank, Hong Kong branch	14,084	10,570
Commerzbank, Bratislava branch	641	1,165
KFW, FRANKFURT AM MAIN	184	331
BRE Bank S.A., organizační složka podniku, Praha	42	45
Commerzbank, Paris branch	9	27
Commerzbank (Budapest) R.t., Budapest	3	36
Intermarket Bank AG	2	1
Commerzbank, London branch	2	-
Commerzbank, Madrid branch	-	2
BRE Bank S.A., Warsaw	-	2,011
Commerzbank, Singapore branch	-	42
	31,432	27,620

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

11 Due to customers

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Amounts due to governmental entities	54	156
Amounts due to municipalities	760	204
Amounts due to private customers	19,136	16,373
	19,950	16,733

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Liabilities repayable on demand	6,949	6,531
Term accounts for fixed terms	12,317	9,974
Term accounts with fixed notice periods	684	228
	19,950	16,733

Deposits from related parties

	31 December 2010 CZK mil.	31 December 2009 CZK mil.
Immobilien-gesellschaft Ost Hägle, s.r.o.	77	61
Commerz Real CZ, s.r.o.	4	4
FOSSUM VERMIETUNGSGES. PRAHA S.R.O.	1	2
Commerz Real Mobilienleasing, GmbH	1	2
FOSSUM VERMIETUNGSGES. ML. BOLESLAV	1	1
Transfinance, a.s.	-	4
	84	74

The Bank accepted deposits from the senior management of the Bank of CZK 11 million as at 31 December 2010 (2009: CZK 14 million).

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

12 Other liabilities

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Financial derivatives (Note 23 (d))	1,536	2,112
Estimated payables	89	53
Other liabilities	242	508
	1,867	2,673

13 Equity and profit distribution

Profit distribution

The net profit of CZK 526 million for 2009 was distributed and the net profit of CZK 281 million for 2010 has been proposed to be allocated, as follows:

	2010	2009
	CZK mil.	CZK mil.
Allocation to Commerzbank AG (profit according to German accounting standards)	457	493
Transfer to retained earnings	(176)	33
Net profit as at 31 December	281	526

The transfer to retained earnings represents the difference between the net accounting profit in accordance with the Czech accounting standards and the net accounting profit in accordance with the German accounting standards. The difference predominantly arises from the diverse accounting treatment in the area of provisions, revaluation of financial derivatives and available-for-sale securities.

14 Contingencies and commitments

Commitments to provide a loan, loan guarantees to third parties, guarantees from the acceptance of bills of exchange and letters of credit expose the Bank 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 2010	31 December 2009
	CZK mil.	CZK mil.
Commitments	4,700	4,310
Guarantees granted	6,996	6,238
Total commitments and guarantees granted	11,696	10,548

Guarantees granted can be analysed as follows:

Guarantees granted including guarantees from letters of credit	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
On behalf of banks	1,035	693
On behalf of customers	5,961	5,545
Total guarantees granted	6,996	6,238
Specific provision for guarantees granted (Note 9)	-	(1)
Net guarantees granted and letters of credit	6,996	6,237

On behalf of its senior management, the Bank has granted guarantees of CZK 70,000 as at 31 December 2010 (2009: CZK 70,000).

Contingent liabilities can be analysed as follows:

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Assets placed in custody		
Shares	3,146	3,099
Bonds	1,835	1,803
Other	1,097	1,314
	6,078	6,216
Assets managed by a third party		
Shares	26,045	12,967
Bonds	362	475
	26,407	13,442
Assets under custody		
Shares	4	4
Assets placed in custody, managed by third party and under custody	32,489	19,662
Assets under management		
Bonds	365	439

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

In the opinion of management, there are no liabilities arising from fiduciary activities as at 31 December 2010 and 2009.

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 2010	31 December 2009
	CZK mil.	CZK mil.
Real estate pledges	569	2,896
Securities	263	536
Other collateral received	2,380	8,492
	3,212	11,924

Besides above-mentioned collateral, the Bank also accepts other collateral and guarantees for pledge purposes (bank guarantees, insurance, guarantor's proclamation, bills of exchange, etc.). In the year 2010, the collateral amounted to CZK 35,231 million (2009: 30,908 million).

Guarantees from related parties of Commerzbank AG Group:

	31 December 2010	31 December 2009
	CZK mil.	CZK mil.
Commerzbank, Essen branch	180	430
Commerzbank, Düsseldorf branch	28	28
Commerzbank, Leipzig branch	5	-
Commerzbank, Mainz branch	3	3
Commerzbank, Frankfurt	2	1
Commerzbank, Hamburg branch	-	1
Commerzbank, Amsterdam branch	-	10
Commerzbank, Köln branch	-	1
	218	474

15 Interest receivable and similar income

	2010	2009
	CZK mil.	CZK mil.
Interest on inter-bank transactions	77	187
Interest on loans to customers and state	1,687	2,287
Interest and discount on debt securities	63	72
	1,827	2,546

Interest income in the amount of CZK 50 million was recognised on impaired loans in 2010 (2009: CZK 23 million). There was no registered unpaid penalty interest income outstanding in 2010 and 2009.

Interest income from related parties of Commerzbank AG Group

	2010 CZK mil.	2009 CZK mil.
BRE Leasing Sp. z o.o., Warsaw	377	660
Transfinance, a.s.	21	15
BREL-COM Sp. z o.o.	11	12
FOSSUM VERMIETUNGSGES. PRAHA S.R.O.	7	9
FOSSUM VERMIETUNGSGES. ML. BOLESLAV	5	6
Commez Real CZ, s.r.o.	1	2
Commerzbank Frankfurt	25	18
Commerzbank Bratislava Branch	29	76
Commerzbank (Budapest) R.t., Budapest	1	5
BRE Bank S.A., Warsaw	0	14
	477	817

16 Interest payable and similar expense

	2010 CZK mil.	2009 CZK mil.
Interest on inter-bank transactions	446	751
Interest on loans to other customers	-	23
Interest on deposits from customers and state	87	258
	533	1,032

Interest expense from related parties of Commerzbank AG Group

	2010 CZK mil.	2009 CZK mil.
Immobilien-gesellschaft Ost Hägle, s.r.o.	1	1
BRE Leasing Sp. z o.o., Warsaw	-	24
Commerzbank Frankfurt	282	287
Commerzbank, Hong Kong branch	79	203
BRE Bank S.A., Warsaw	24	81
KFW, Frankfurt am Main	3	13
Commerzbank, Bratislava branch	2	8
Commerzbank (Euroasija) SAO, Moscow	1	-
Commerzbank, Singapore branch	-	3
Commerzbank, Shanghai branch	-	2
	392	622

17 Fee and commission income

	2010 CZK mil.	2009 CZK mil.
Brokerage income from the purchase and sale of securities and derivatives	28	25
Custody fee income	1	1
Asset management fee and related fee income	9	11
Foreign and domestic payments	138	132
Letters of credit	24	23
Guarantees	56	55
Commissions from loans	71	44
Other	15	13
	342	304

18 Fee and commission expense

	2010	2009
	CZK mil.	CZK mil.
Trading commissions	7	8
Brokerage expense from the purchase and sale of securities	2	4
Foreign exchange operation	1	2
Other financial activities	15	9
	25	23

19 Losses from financial transactions

	2010	2009
	CZK mil.	CZK mil.
Gains from foreign currency transactions	331	2,356
Revaluation difference arising from the impairment of the available-for-sale securities	(229)	-
(Losses) from transactions with FX financial derivatives	(527)	(2,703)
Gains from interest rate financial derivatives	21	15
	(404)	(332)

20 Other operating income

	2010	2009
	CZK mil.	CZK mil.
Income from intercompany re-invoicing	246	206
Other operating income	8	22
Income from insurance reimbursement	77	11
	331	239

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

Other operating income from related parties of Commerzbank AG Group

	2010	2009
	CZK mil.	CZK mil.
Commerzbank, Frankfurt	217	188
Commerzbank, Bratislava branch	18	11
Commerzbank, Paris branch	5	4
Commerzbank, Bruxelles branch	2	1
Commerzbank (Nederland) N.V., Amsterdam	2	2
Commerzbank, Milan branch	2	-
	246	206

21 Administrative expenses

	2010	2009
	CZK mil.	CZK mil.
Rent and lease charges	50	51
Staff costs	421	387
Tax and legal advisory services	1	1
Remuneration to audit company		
Statutory audit of financial statements	2	2
Other administration expenses	276	247
	750	688

The total amount consists of related party expenses in amount of CZK 122 million.

Staff costs can be analysed as follows:

	2010	2009
	CZK mil.	CZK mil.
Wages and salaries	315	292
Social and health insurance	93	78
Other social costs	13	17
	421	387

In 2010, the management of the Bank was paid wages and salaries of CZK 41 million (2009: CZK 60 million), social and health insurance paid by the Bank amounted to CZK

7 million (2009: CZK 7 million). The management of the Bank includes its directors and further the managers on the first level of the organisational structure (as at 31 December 2010 a total of 14 employees, as at 31 December 2009, a total of 15 employees).

Staff statistics	2010	2009
Average number of employees	371	347

In 2010, the Bank provided contributions of CZK 1 million (2009: CZK 1 million) to its employees for state pension insurance.

22 Taxation

The income tax charge is comprised of:

	2010	2009
	CZK mil.	CZK mil.
Deferred tax (income) / expense	(1)	2
Current income tax expense	77	176
Adjustment of prior year income tax expense	(14)	11
Income tax expense	62	189

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

	2010	2009
	CZK mil.	CZK mil.
Profit before taxation	343	715
Non-taxable income	(76)	(66)
Non-deductible expenses	142	229
Other expenses reducing net taxable profit	(1)	(1)
Net taxable profit	408	877
Current tax charge	77	176

Deferred income tax asset / (liability) is calculated as 19% (income tax rate for 2011) dependant on the period, in which it is expected the temporary difference to be compensated and it can be analysed as follows:

	2010	2009
	CZK mil.	CZK mil.
Net deferred income tax asset as at 1 January	30	10
Change of the deferred tax asset on available-for-sale securities	(28)	22
Change of the deferred tax asset in temporary differences	1	(2)
Net deferred income tax asset on 31 December	3	30

Deferred income tax assets		
Non-tax deductible social insurance in 2010	2	-
Difference between fair value and cost of available-for-sale securities	2	30
	4	30
Deferred income tax liability		
Difference between accounting and tax depreciation	1	-
Net deferred tax asset (Note 8)	3	30

23 Financial risks

(a) Strategy in using financial instruments

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

(a) Strategy in using financial instruments

The Bank 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 Bank places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Currency and interest exposure resulting from these financial instruments. With Foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions.

(b) Credit risk

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and business segments. Such expected risks are subject to periodical annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by Commerzbank AG, Frankfurt am Main. Besides that, unexpected losses, risk of accumulation and concentration of credit risks are actively controlled by internal VAR model. All above mentioned models are based on internal credit rules and competences.

The Bank considers its current credit portfolio to be high quality since the value of allowances is less than 1.5 % of the nominal value of the credit portfolio. The Bank uses pledges to real estate, cession of receivables, guarantees and guarantors' proclamation and similar instruments as collateral. The Bank monitors the concentration of risks based on geographical and industry sectors.

Geographical segmentation

At 31 December 2010	Domestic CZK mil.	European union CZK mil.	Other CZK mil.	Total CZK mil.
Assets				
Cash and deposits with central banks	78	-	-	78
Due from banks	4,000	15,889	382	20,271
Due from customers	20,359	14,467	5,336	40,162
Securities available-for-sale	930	-	-	930
Other assets	453	275	96	824
	25,820	30,631	5,814	62,265

31 December 2009	Domestic CZK mil.	European union CZK mil.	Other CZK mil.	Total CZK mil.
Assets				
Cash and deposits with central banks	781	-	-	781
Due from banks	2,300	9,067	309	11,676
Due from customers	31,830	15,144	3,187	50,161
Securities available-for-sale	1,148	-	-	1,148
Other assets	1,670	642	171	2,483
	37,729	24,853	3,667	66,249

Business segmentation

31 December 2010	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Assets						
Cash and balances with central banks	78	-	-	-	-	78
Due from banks	4,000	16,271	-	-	-	20,271
Due from customers	-	-	39,692	2	468	40,162
Securities available for-sale	-	-	372	558	-	930
Other assets	174	286	175	187	2	824
	4,252	16,557	40,239	747	470	62,265

At 31 December 2009	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Assets						
Cash and balances with central banks	781	-	-	-	-	781
Due from banks	2,300	9,376	-	-	-	11,676
Due from customers	-	-	49,681	-	480	50,161
Securities available for-sale	-	-	593	555	-	1,148
Other assets	1,329	662	291	199	2	2,483
	4,410	10,038	50,565	754	482	66,249

(c) Market risk

The Bank 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 Bank 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 moni-

red 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 Bank'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 2010 is CZK 12.50 million (31 December 2009: CZK 17.60 million) and average daily consolidated VAR was CZK 14.50 million in 2010 (2009: CZK 11.26 million).

Stress-testing values are presented with VAR values to the management and Commerzbank AG, Frankfurt am Main on a daily basis, analogically. Limits of stress-testing and limits of VAR were never exceeded in 2010 (average annual value equals 37.2 %, in 2009: 28.5 %).

(d) Derivative financial instruments

The Bank concludes derivative financial instruments only

on the over-the-counter market. The Bank has outstanding derivative contracts, which can be analysed as follows:

Total financial derivatives

31 December 2010	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
Interest rate derivatives	10,587	10,587	39	(94)
Currency derivatives	39,065	40,157	356	(1,442)
	49,652	50,744	395	(1,536)

31 December 20089	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
Interest rate derivatives	100,714	100,714	565	(602)
Currency derivatives	56,341	56,603	1,276	(1,510)
	157,055	157,317	1,841	(2,112)

Trading agreements

31 December 2010	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
Interest rate derivatives				
FRAs	6,000	6,000	-	(26)
Swaps	3,955	3,955	38	(67)
Options	632	632	1	(1)
	10,587	10,587	39	(94)

Currency derivatives				
Forwards	3,178	3,210	20	(51)
Swaps	32,351	33,411	325	(1,375)
Options	3,536	3,536	11	(16)
	39,065	40,157	356	(1,442)
Total	49,652	50,744	395	(1,536)

31 December 2009	Nominal amount assets CZK mil.	Nominal amount liabilities CZK mil.	Fair value positive CZK mil.	Fair value negative CZK mil.
Interest rate derivatives				
FRAs	77,755	77,755	292	(321)
Swaps	21,658	21,658	267	(275)
Options	1,301	1,301	6	(6)
	100,714	100,714	565	(602)
Currency derivatives				
Forwards	2,367	2,342	48	(37)
Swaps	48,513	48,800	1,221	(1,460)
Options	5,461	5,461	7	(13)
	56,341	56,603	1,276	(1,510)
Total	157,055	157,317	1,841	(2,113)

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

(e) Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Commerzbank AG,

Frankfurt am Main sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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

31 December 2010	CZK CZK mil.	EUR CZK mil.	USD CZK mil.	PLN CZK mil.	Other CZK mil.	Total CZK mil.
Assets						
Cash and balances with central banks	63	5	5	-	5	78
Due from banks	6,428	12,779	728	27	309	20,271
Due from customers	15,182	10,778	951	9,099	4,152	40,162
Securities available-for-sale	791	139	-	-	-	930
Other assets	685	136	3	-	-	824
	23,149	23,837	1,687	9,126	4,466	62,265

31 December 2010	CZK CZK mil.	EUR CZK mil.	USD CZK mil.	PLN CZK mil.	Other CZK mil.	Total CZK mil.
Liabilities						
Due to banks	6,200	21,682	11,604	-	169	39,655
Due to customers	13,379	5,693	674	5	199	19,950
Provisions	70	-	-	-	-	70
Other liabilities and equity accounts	2,500	51	1	24	14	2,590
	22,149	27,426	12,279	29	382	62,265
Net assets / (liabilities)	1,000	(3,589)	(10,592)	9,097	4,084	-
Net off-balance sheet currency position	(2,612)	3,839	10,641	(9,026)	(3,941)	(1,100)
Net open currency position	(1,612)	250	49	71	143	(1,100)

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

31 December 2009	CZK CZK mil.	EUR CZK mil.	USD CZK mil.	PLN CZK mil.	Other CZK mil.	Total CZK mil.
Assets						
Cash and balances with central banks	760	14	5	-	2	781
Due from banks	3,816	7,316	352	1	191	11,676
Due from customers	25,092	12,351	874	9,303	2,540	50,160
Securities available-for-sale	893	255	-	-	-	1,148
Other assets	2,035	375	2	72	-	2,484
	32,596	20,311	1,233	9,376	2,733	66,249
Liabilities						
Due to banks	5,773	26,196	13,770	7	154	45,900
Due to customers	11,185	4 653	720	2	173	16,733
Provisions	80	10	-	-	-	90
Other liabilities and equity accounts	3,468	(62)	57	63	-	3,526
	20,506	30,797	14,547	72	327	66,249
Net assets / (liabilities)	12,090	(10,486)	(13,314)	9,304	2,406	-
Net off-balance sheet currency position	(13,177)	11,264	13 454	(9,409)	(2,394)	(262)
Net open currency position	(1,087)	778	140	(105)	12	(262)

(f) Interest rate risk

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

(g) Liquidity risk

The Bank 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 Bank does not maintain cash resources to meet all of these

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

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

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

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

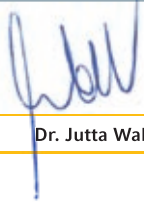


31 December 2010	Within 3 months CZK mil.	3 – 12 months CZK mil.	1 – 5 years CZK mil.	Over 5 years CZK mil.	Unspecified CZK mil.	Total CZK mil.
Assets						
Cash and balances with central banks	36	-	-	-	42	78
Due from banks	19,713	105	409	43	1	20,271
Due from customers	11,873	6,837	16,768	4,278	406	40,162
Securities available-for-sale	19	574	305	32	-	930
Other assets	189	178	79	-	378	824
	31,830	7,694	17,561	4,353	827	62,265
Liabilities						
Due to banks	25,147	7,991	5,976	540	1	39,655
Due to customers	18,936	1,011	3	-	-	19,950
Provisions	-	-	-	-	70	70
Other liabilities and equity accounts	264	198	1,058	-	1,070	2,590
	44,347	9,200	7,037	540	1,141	62,265
Net assets / (liabilities)	(12,517)	(1,506)	10,524	3,813	(314)	-

31 December 2009	Within 3 months CZK mil.	3 – 12 months CZK mil.	1 – 5 years CZK mil.	Over 5 years CZK mil.	Unspecified CZK mil.	Total CZK mil.
Assets						
Cash and balances with central banks	345	-	-	-	436	781
Due from banks	10,978	221	394	83	-	11,676
Due from customers	19,555	10,210	17,833	2,222	340	50,160
Securities available-for-sale	-	103	555	490	-	1,148
Other assets	514	794	464	-	712	2,484
	31,392	11,328	19,246	2,795	1,488	66,249
Liabilities						
Due to banks	26,168	13,582	5,543	607	-	45,900
Due to customers	15,935	796	1	1	-	16,733
Provisions	-	-	-	-	90	90
Other liabilities and equity accounts	555	801	507	1	1,662	3,526
	42,658	15,179	6,051	609	1,752	66,249
Net assets / (liabilities)	(11,266)	(3,851)	13,195	2,186	(264)	-

24 Subsequent events

No events have occurred subsequent to the year end that would have a material impact on the financial statements of the Bank as at 31 December 2010.

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
4 March 2011	 Dr. Jutta Walter	 Ing. Eva Collardová, MBA	 Ing. Vladimír Kugler



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