

/ annual report 2006 /

COMMERZBANK PRAGUE

COMMERZBANK 





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management report for business year 2006

2006 was one of the most successful years ever for the Czech economy. Given this favourable macroeconomic environment with high GDP growth, maintained price stability and low interest rates, 2006 was also again a year when Commerzbank Prague achieved its objectives.

The development of the total assets is mainly influenced by the volatile bank to bank business leading to a decrease in the balance sheet number.

Of more importance and reflecting the successful performance of the core corporate banking business is the significant increase of receivables due to customers of more than one third. It has been by far the biggest increase for years also showing our commitment to the Czech market. To the growth in corporate banking assets contributed in particular the business with new clients as well as major structured finance transactions.

The business in private banking was dominated by securities advice provided in wealth-related issues. Our clients are able to benefit directly from the investment opportunities in the international financial markets thanks to Commerzbank's worldwide network.

Since Commerzbank is one of the top issuers of equity derivatives products we can offer interesting investment opportunities also to our Czech clients.

The combination of a personnel relationship management approach with a broad international product range has lead also in 2006 to great success in new client acquisition.

2007 has started promisingly; we are very confident to achieve our ambitious business goals also in the new year.

New sales offices will be set up in Hradec Králové and in Plzeň aimed to accommodate the business with corporate clients in the regions.



Dr. Jutta Walter,
General Manager



Günter Steiner,
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 prague

Commerzbank opened its Prague Branch in 1992. The wide range of services that Commerzbank provides in private, as well as corporate banking, has made Commerzbank one of the most important banks in the Czech Republic.

Commerzbank's Prague branch is focused on the corporate banking sector, and provides clients with complex and professional banking services, consultations and a wide range of products tailored to individual needs. Other service offerings include structured and project financing, and advisory services for strategic investors.

Commerzbank is also a bank for demanding clients in the field of private banking. The offer of banking products for private clients is unique on the Czech market.

Thanks to the Bank's strong presence in Germany and its global network, Commerzbank Prague is able to offer local clients a stable environment, international know-how and the possibility of more flexible trading in the world markets.



prague branch

General Managers:

Dr. Jutta Walter

Günter Steiner (till 30.4.2007)

Heads of departments:

Dr. Bodo Thöns

Corporate Banking Department

Dr. Petr Vozka

Corporate Banking Department

Margaret Dvorak

Structured Finance

Klaus H. Schuck

Credit Office

Ines Schober

Private Banking

RNDr. Jaromír Hronek, CSc.

Treasury

Ralph Klose

Trade Finance

Bernd Krönke

Administration

Eva Collardová

Accounting Department

Hana Jáňová

Personnel Department

Dr. Bronislav Hýbl

Corporate Banking Department,
Brno Office

Dr. Roman Zedníček

Corporate Banking Department,
Ostrava Office





REPORT OF INDEPENDENT AUDITORS
TO THE MANAGEMENT OF COMMERZBANK AG, PRAGUE BRANCH

PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

We have audited the accompanying balance sheet of Commerzbank AG, Prague branch ("Branch") as at 31 December 2006, the related income statement, statement of changes in shareholders' equity and notes for the year then ended presented in the annual report of the Branch on pages 10 – 42 ("the financial statements"). The financial statements, which include description of the Branch's activities, and underlying accounting records are the responsibility of the Branch's Directors. 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, International Standards on Auditing and related application guidance of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Branch as at 31 December 2006 and the results of its operations for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

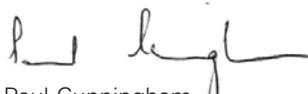
We have examined whether the supplementary financial information included in the annual report of the Branch on pages 5 – 8, which does not form part of the financial statements for the year ended 31 December 2006, is consistent with the audited financial statements of the Branch. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

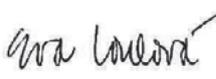
Without qualifying our opinion we draw attention to the fact that the Branch is not a separate legal entity and the financial position of the Branch is fully dependent on that of Commerzbank AG as a whole.

31 March 2007

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by


Paul Cunningham
Partner


Ing. Eva Loulová
Auditor, Licence No.1981

balance sheet

as at 31 december 2006

Assets	Note	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Cash and deposits with central banks	3	703,188	219,021	1,331,931
Due from banks	4	27,235,168	73,650,130	53,640,712
a) repayable on demand		6,944,246	12,979,381	13,631,185
b) other receivables		20,290,922	60,670,749	40,009,527
Due from customers	5	38,014,895	28,317,932	29,487,398
a) repayable on demand		3,114,321	1,720,284	3,363,525
b) other receivables		34,900,574	26,597,648	26,123,873
Debt securities	6	1,588,799	1,148,009	572,341
a) issued by government institutions		570,284	573,218	572,341
b) issued by other entities		1,018,515	574,791	-
Long-term intangible fixed assets	7	48,857	54,437	72,422
Long-term tangible fixed assets	7	40,956	31,659	35,993
of which:				
buildings for operating activities		17,776	16,578	16,487
Other assets	8	3,308,123	2,133,234	11,083,585
Prepayments and accrued income		11,770	133,307	173,446
Total assets		70,951,756	105,687,729	96,397,828

Liabilities	Note	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Due to banks	10	46,495,740	82,473,040	67,870,557
a) repayable on demand		13,102,619	19,836,982	15,836,747
b) other payables		33,393,121	62,636,058	52,033,810
Due to customers	11	20,081,404	20,280,644	16,511,113
a) repayable on demand		5,439,245	5,141,725	5,316,683
b) other payables		14,642,159	15,138,919	11,194,430
Other liabilities	12	4,009,579	2,421,956	11,133,934
Accruals and deferred income		5,516	198,556	215,544
Provisions	9	197	4,332	187,938
a) for taxes		-	-	165,980
b) other provisions		197	4,332	21,958
Revaluation differences from assets and liabilities		10,721	1,159	-
Retained earnings (losses) from previous periods		29,019	(44,747)	211,036
Profit for the accounting period	13	319,580	352,789	267,706
Total liabilities		70,951,756	105,687,729	96,397,828



off-balance sheet as at 31 december 2006

Off-balance sheet assets	Note	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Commitments and guarantees given	14	8,401,410	13,963,240	12,308,721
Receivables from spot transactions		1,012,755	370,904	726,956
Receivables from term instruments	23(d)	568,030,947	298,892,232	493,431,514
Receivables from option instruments	23(d)	412,425	-	-
Total off-balance sheet assets		577,857,087	313,226,376	506,467,191

Off-balance sheet liabilities	Note	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Commitments and guarantees received		24,846,599	17,175,030	154,599
Collaterals received and pledges	14	7,305,011	15,176,069	13,597,000
Payables from spot transactions		1,012,722	371,064	726,646
Payables from term instruments	23(d)	568,413,977	289,304,313	487,845,503
Payables from option instruments	23(d)	412,238	-	-
Assets under custody and managed by a third party	14	7,016,148	7,019,667	3,903,435
Assets under management	14	336,865	374,556	357,592
Total off-balance sheet liabilities		609,343,560	329,420,699	506,584,775

Income statement for the year ended 31 december 2006

	Note	2006 CZK'000	2005 CZK'000	2004 CZK'000
Interest receivable and similar income	15	1,765,627	1,663,456	1,543,747
of which:				
interest income from debt securities		62,816	30,962	31,014
Interest payable and similar expense	16	(1,218,898)	(1,059,067)	(851,438)
Fee and commission income	17	354,034	350,342	368,784
Fee and commission expense	18	(14,099)	(14,648)	(26,923)
Gains or losses from financial transactions	19	87,909	74,897	(18,405)
Other operating income	20	145,515	101,351	31,106
Other operating expense		(16,275)	(25,635)	(37,257)
Administrative expense	21	(642,650)	(614,477)	(544,085)
of which:				
a) staff costs		(331,815)	(307,990)	(289,240)
of which:				
aa) wages and salaries		(242,593)	(231,489)	(210,821)
ab) social and health insurance		(69,520)	(61,068)	(58,090)
ac) other staff costs		(19,702)	(15,433)	(20,329)
b) other administrative expenses		(310,835)	(306,487)	(254,845)
Depreciation of long-term tangible and intangible fixed assets	7	(40,627)	(39,453)	(34,374)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	9	12,186	31,928	32,953
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	9	(22,108)	(11,283)	(39,765)
Release of other provisions	9	-	-	10,116
Additions to and utilisation of other provisions	9	-	-	-
Profit on ordinary activities before taxation		410,614	457,411	434,459
Income tax	22	(91,034)	(104,622)	(166,753)
Profit for the year after taxation	13	319,580	352,789	267,706



**statement of changes in equity
for the year ended 31 december 2006**

	Note	Revaluation reserve*	Retained earnings / Accumulated losses	Profit of the current year	Total equity
		CZK'000	CZK'000	CZK'000	CZK'000
At 1 January 2004		-	(110,657)	664,076	553,419
Allocation of 2003 profit to Commerzbank AG		-	-	(333,876)	(333,876)
Additional allocation to Commerzbank AG		-	321,693	(321,693)	-
Foreign exchange differences in equity		-	-	(8,507)	(8,507)
Profit for the year 2004	13	-	-	267,706	267,706
At 31 December 2004		-	211,036	267,706	478,742
Allocation of 2004 profit to Commerzbank AG	13	-	-	(513,697)	(513,697)
Additional allocation to Commerzbank AG	13	-	(255,783)	255,783	-
Valuation differences not reflected in profit, net of tax		1,159	-	-	1,159
Foreign exchange differences in equity	13	-	-	(9,792)	(9,792)
Profit for the year 2005	13	-	-	352,789	352,789
At 31 December 2005		1,159	(44,747)	352,789	309,201
Allocation of 2005 profit to Commerzbank AG	13	-	-	(289,020)	(289,020)
Additional allocation to Commerzbank AG	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
At 31 December 2006		10,721	29,019	319,580	359,320

* Changes in the fair value of securities in available for sale portfolio. In 2004 changes in the fair value were disclosed in the income statement.

notes to financial statements for the year ended 31 december 2006

1 general information

Commerzbank Aktiengesellschaft, Prague branch (herein- after 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 2006 the Branch was managed by Mr. Günter Steiner and Dr. Jutta 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. 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 securities, 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.

For changes in accounting policies related to available-for-sale securities, see Note 2(u).

(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.

For changes in accounting policies related to derivative financial instruments, see Note 2(u).

(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 accordance with the definitions issued by the CNB 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 is the Bank 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 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 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

Since 1 January 2005 the Branch changed the accounting of gains and losses arising from changes in the fair value of available-for-sale securities in line with the changes in respective legislation. Since 1 January 2005 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. In 2004, changes in the fair value of available-for-sale securities were recognized in the income statement. Comparative figures were not restated as required by Czech accounting rules. Interest calculated using the effective interest rate method and foreign exchange differences on debt securities are recognized in the income statement.

Since 1 January 2006, the Branch changed the balance sheet presentation of accrued interest on interest rate swaps. Prior to 1 January 2006 the accrued interest arising from interest rate swaps was presented within prepayments and accrued income, since 1 January 2006 this accrued interest is included within other assets together with the positive fair value of the interest rate swaps. Further the Branch changed the presentation of recognition of Forward Rate Agreements off-balance sheet. Prior to 1 January 2006, the nominal amount of Forward Rate Agreements was recognised only as an off-balance sheet asset or liability depending on whether the Forward Rate Agreement was purchased or sold, whereas since 1 January 2006 the nominal values of Forward Rate Agreement are recognised together as off-balance sheet asset and liability.

3 cash and deposits with central banks

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Cash on hand	62,650	76,464	60,634
Obligatory reserves	640,532	142,544	1,271,281
Current accounts with central banks	6	13	16
	703,188	219,021	1,331,931

Obligatory reserves are mandatory deposits with the CNB. These deposits bear interest at the CZK repo rate, which was 2.50% p.a. at 31 December 2006 (31 December 2005: 2.00%; 31 December 2004: 2.50%).

4 due from banks

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Current accounts with banks	502,017	290,349	221,716
Term deposits up to 24 hours	6,442,229	12,689,032	13,409,469
Other term deposits with banks	17,055,282	49,056,212	24,280,170
Standard loans to banks	1,405,871	1,600,904	1,550,975
Other receivables from banks	308,720	445,372	453,949
Receivables from REPO transactions	1,521,049	9,568,261	13,724,433
	27,235,168	73,650,130	53,640,712

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 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Commerzbank, Frankfurt	13,931,700	29,674,362	23,987,838
BRE Bank S.A., Warsaw	-	506	-
Commerzbank, Tokyo branch	6,675	10,988	-
Commerzbank, Bratislava branch	2,332,690	4,390,269	4,912,189
Commerzbank, Bruxelles branch	59	286	-
Commerzbank, Hong Kong branch	1,539	722	-
Commerzbank (Euroasija) SAO, Moscow	695	765	-
Commerzbank (Budapest) R.t., Budapest	26,468	113,657	142,641
Commerzbank, Paris branch	10,119	1,293	290
	16,309,945	34,192,848	29,042,958



5 due from customers

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Current accounts to governmental entities	615	2,588	2,398
Current accounts to other clients	3,113,706	1,717,696	3,361,127
Loans to governmental entities	-	-	229,712
Standard loans to other clients	34,387,880	26,505,732	25,617,266
Impaired loans to companies and individuals	493,011	79,203	85,819
Debt instruments purchased in primary issues not held for trading	-	-	241,538
Other receivables from customers	104,418	89,868	33,572
	38,099,630	28,395,087	29,571,432
Allowance for impaired loans (Note 9)	(84,735)	(77,155)	(84,034)
	38,014,895	28,317,932	29,487,398

In 2006 no loans were restructured (2005: CZK 13.9 million; 2004 no loans were restructured).

Syndicated loans forming part of Due from banks and the exposure of the Branch totalled CZK 1,802 million at 31 December 2006 (2005: CZK 1,513 million; 2004: CZK 1,424 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 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Standard	37,606,619	28,315,884	29,485,613
Watched	3,678	-	-
Impaired - Substandard	80,219	-	-
- Doubtful	343,838	-	-
- Loss	65,276	79,203	85,819
	38,099,630	28,395,087	29,571,432

The forced sale value ascribed to assets received as collateral for impaired loans to customers can be analysed as follows:

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Securities	-	-	283

(b) Loans to related parties

Standard loans to companies and individuals are as follows:

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Immobilien-gesellschaft Ost Hägle, s.r.o.	66,288	88,184	110,839
BRE Leasing, Sp. z o.o., Warsaw	5,944,375	3,173,812	4,430,144
Commerzleasing, s.r.o., Praha	16,690	11,397	6,881
Transfinance, a.s.	495,465	364,054	476,964
	6,522,818	3,637,447	5,024,828

As at 31 December 2006, the Branch has provided loans of CZK 322,000 to its senior management members (2005: CZK 945,000, 2004: CZK 3,748,000).

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 as 31 December

	2006 CZK'000	2005 CZK'000	2004 CZK'000
Available-for-sale	1,588,799	1,148,009	572,341

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

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



Available-for-sale securities

Debt securities

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Main or auxiliary market of recognised stock exchanges	1,588,799	1,148,009	572,341

7 long term intangible and tangible fixed assets

Long term intangible fixed assets

	31 December 2004 CZK'000	31 December 2005 CZK'000	Additions / Depreciation CZK'000	Disposals CZK'000	31 December 2006 CZK'000
Cost					
Software	158,849	184,450	7,789	(1,692)	190,547
Accumulated amortisation					
Software	(122,677)	(136,580)	(21,831)	1,692	(156,719)
Net book amount	36,172	47,870			33,828
Advances granted and assets in course of implementation	36,250	6,567			15,029
	72,422	54,437			48,857

Long term operating tangible fixed assets

	31 December 2004 CZK'000	31 December 2005 CZK'000	Additions/ Depreciation CZK'000	Disposals CZK'000	31 December 2006 CZK'000
Cost					
Buildings	23,331	24,744	2,606	(68)	27,282
Equipment	197,526	193,184	19,711	(9,274)	203,621
Accumulated depreciation					
Buildings	(6,844)	(8,166)	(1,353)	13	(9,506)
Equipment	(181,417)	(178,778)	(17,370)	9,253	(186,895)
Net book amount	32,596	30,984			34,502
Advances granted and assets in course of construction	3,397	675			6,454
	35,993	31,659			40,956

Long term fixed assets held under lease contracts

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

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Amounts already paid on existing leases	13,563	9,461	8,452
Amounts payable within one year	2,482	1,631	2,275
Amounts payable within 1 - 5 years	2,684	961	1,949
Total amount paid and payable on existing finance leases	18,729	12,053	12,676

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 2006, 2005 and 2004.

8 other assets

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Financial derivatives (Note 23 (d))	3,253,936	1,934,903	10,209,510
Net deferred tax (Note 22)	-	1,601	4,264
Other receivables	54,187	196,730	869,811
	3,308,123	2,133,234	11,083,585



9 allowances, provisions and write offs

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

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Provisions			
Specific provisions for guarantees given (Note 14)	197	4,332	21,958
Provision for taxes	-	-	165,980
	197	4,332	187,938
Allowances			
Impaired loans to customers (Note 5)	84,735	77,155	84,034
	84,735	77,155	84,034

The movements in provisions can be analyzed as follows:

	General provisions for loans CZK'000	Provisions for off-balance sheet items CZK'000	Provision for taxes CZK'000	Other provisions CZK'000	Total provisions CZK'000
At 1 January 2004	24,387	1,000	-	9,116	34,503
Additions	-	21,958	165,980	-	187,938
Write backs	(24,387)	(1,000)	-	(9,116)	(34,503)
At 31 December 2004	-	21,958	165,980	-	187,938
Usage	-	-	(165,980)	-	(165,980)
Foreign exchange translation difference	-	(419)	-	-	(419)
Write backs	-	(17,207)	-	-	(17,207)
At 31 December 2005	-	4,332	-	-	4,332
Foreign exchange translation difference	-	(150)	-	-	(150)
Write backs	-	(3,985)	-	-	(3,985)
At 31 December 2006	-	197	-	-	197

The movements in allowances can be analyzed as follows:

	Impaired loans to customers
	CZK'000
At 1 January 2004	115,533
Addition	16,745
Usage	(35,463)
Foreign exchange translation difference	(4,252)
Write backs	(8,529)
At 31 December 2004	84,034
Addition	11,272
Usage	(234)
Foreign exchange translation difference	(3,789)
Write backs	(14,128)
At 31 December 2005	77,155
Addition	21,266
Usage	(1,649)
Foreign exchange translation difference	(4,155)
Write backs	(7,882)
At 31 December 2006	84,735

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

	2006	2005	2004
	CZK'000	CZK'000	CZK'000
Write backs of provisions for loans and guarantees	3,985	17,207	24,387
Write backs of allowances for loans and guarantees	7,882	14,128	8,529
Income from amount due from clients written off	319	593	37
	12,186	31,928	32,953

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

	2006	2005	2004
	CZK'000	CZK'000	CZK'000
Amounts due from clients written off	(2,491)	(245)	(36,525)
Additions to provisions and allowances for loans and guarantees	(21,266)	(11,272)	(38,703)
Usage of provisions and allowances for loans and guarantees	1,649	234	35,463
	(22,108)	(11,283)	(39,765)

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 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Current accounts with banks	151,627	376,576	1,543,619
Term deposits due up to 24 hours	12,950,992	19,460,406	14,293,128
Other term deposits with banks	33,381,098	62,509,974	52,009,800
Other liabilities	12,023	126,084	24,010
	46,495,740	82,473,040	67,870,557

Deposits from related parties

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Commerzbank, Frankfurt	27,890,058	44,913,489	29,406,269
BRE Bank S.A., Warsaw	440,461	584,738	3,196,946
Commerzbank, London branch	2,292	3,368	2,631
Commerzbank, New York branch	8,719	346	7,273
Commerzbank, Tokyo branch	-	-	8,434
Commerzbank, Madrid branch	2,915	-	-
Commerzbank (Schweiz) AG, Zürich	218	127	285
Commerzbank (Budapest) R.t., Budapest	8,043	-	12,204
Commerzbank (Nederland) N.V., Amsterdam	15,805	484	332
Commerzbank, Bruxelles branch	-	-	54
Commerzbank, Bratislava branch	461,589	81,760	297,401
Caisse Centrale de Réescompte, Paris	230	230	230
Eurohypo AG, Frankfurt	1,603	9	80
	28,831,933	45,584,551	32,932,139

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 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Amounts due to governmental entities	9,828	11,849	39,287
Amounts due to municipalities	3,083,225	2,555,501	1,947,121
Amounts due to private customers	16,988,351	17,713,294	14,524,705
	20,081,404	20,280,644	16,511,113

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Liabilities repayable on demand	5,439,245	5,141,725	5,316,683
Term accounts for fixed term	13,999,644	14,511,075	10,656,893
Term accounts with fixed notice period	538,097	537,976	503,964
Other liabilities	104,418	89,868	33,573
	20,081,404	20,280,644	16,511,113

Deposits from related parties

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Commerzbank Capital Markets (Eastern Europe), a.s.	-	-	992
Commerzleasing, s.r.o., Praha	3,661	4,678	756
Immobilien-gesellschaft Ost Hagle, s.r.o.	39,858	39,483	31,932
BRE Leasing Sp. Z o.o., Warsaw	215	91	99
Transfinance, a.s.	26,339	1,611	13,917
	70,073	45,863	47,696

The Branch accepted deposits from senior management of the Branch of CZK 12,352,000 as of 31 December 2006 (2005: CZK 10,157,000; 2004: CZK 8,753,000).

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 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Financial derivatives (Note 23 (d))	3,819,196	1,799,808	10,635,314
Estimated payables	82,633	90,209	78,870
Other liabilities	106,904	531,939	419,750
Deferred tax liability	846	-	-
	4,009,579	2,421,956	11,133,934

13 equity and profit distribution

Profit distribution

The net profit of CZK 267,706,000 for 2004 and the net profit of CZK 352,789,000 for 2005 were distributed and the net profit of CZK 319,580,000 for 2006 has been proposed to be allocated as follows:

	2006 CZK'000	2005 CZK'000	2004 CZK'000
Allocation to Commerzbank AG	324,032	289,020	513,697
Foreign exchange transaction difference	-	(9,997)	9,792
Transfer to / (from) retained earnings	(4,452)	73,766	(255,783)
Net profit as at 31 December	319,580	352,789	267,706

14 contingencies and commitments

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

Commitments and guarantees granted

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Commitments	3,558,742	8,658,048	7,135,429
Guarantees granted	4,842,668	5,305,192	5,173,292
Total commitments and guarantees granted	8,401,410	13,963,240	12,308,721

Guarantees granted can be analysed as follows:

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Guarantees granted included guarantees from letters of credit			
On behalf of banks	584,258	1,019,311	466,818
On behalf of customers	4,258,410	4,285,881	4,706,474
Total guarantees granted	4,842,668	5,305,192	5,173,292
Specific provision for guarantees granted (Note 9)	(197)	(4,332)	(21,958)
Net guarantees granted and letters of credit	4,842,471	5,300,860	5,151,334

Contingent liabilities can be analysed as follows:

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
Assets placed in custody			
Shares	2,619,683	2,600,380	25,380
Assets managed by a third party			
Shares	539,764	797,356	305,678
Bonds	1,575,108	1,740,663	1,135,054
Other	2,017,461	1,091,589	1,651,162
	4,132,333	3,629,608	3,091,894
Assets under custody			
Shares	264,132	789,679	786,161
Assets under custody and managed by third party	7,016,148	7,019,667	3,903,435
Assets under management			
Shares	537	33,890	39,173
Bonds	332,315	331,020	314,134
Other	4,013	9,646	4,285
	336,865	374,556	357,592

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 2006 (2005: CZK 225,000; 2004: CZK 225,000).

Management considers that no present obligations were associated with these fiduciary duties at 31 December 2006.



Collaterals received and pledges

	31 December 2006 CZK'000	31 December 2005 CZK'000	31 December 2004 CZK'000
CNB treasury-bills	1,497,000	9,438,000	13,597,000
Real estate pledges	3,599,952	3,526,943	-
Securities	852,840	1,427,834	-
Other collaterals received	1,355,219	783,292	-
	7,305,011	15,176,069	13,597,000

Receivables from Reverse repo transactions are included in Due from banks (Note 4).
In 2004 the Branch did not receive collateral and pledges except CNB treasury-bills.

15 interest receivable and similar income

	2006 CZK'000	2005 CZK'000	2004 CZK'000
Interest on inter-bank transactions	484,106	500,588	370,215
Interest on loans to customers and state	1,218,705	1,131,906	1,142,518
Interest and discount on debt securities	62,816	30,962	31,014
	1,765,627	1,663,456	1,543,747

Management estimates that approximately CZK 28.2 million of interest income was recognized on impaired loans in the year ended 31 December 2006 (2005: CZK 5.5 million, 2004: CZK 28.1 million). Registered unrecognized penalty interest income outstanding as at 31 December 2006 of CZK 0 (31 December 2005: CZK 0.1 million, 31 December 2004: CZK 0.1 million) was accrued.

In 2006, 2005 and 2004 the Branch did not forgive any penalty interest and no period for claiming penalty interest expired.

16 interest payable and similar expense

	2006 CZK'000	2005 CZK'000	2004 CZK'000
Interest on inter-bank transactions	889,097	811,401	621,663
Interest on deposits from customers and state	329,801	247,666	229,775
	1,218,898	1,059,067	851,438

17 fee and commission income

	2006 CZK'000	2005 CZK'000	2004 CZK'000
Brokerage income from purchase and sale of securities and derivatives	35,772	28,985	43,108
Custody fee income	210	203	81
Asset management fee and related fee income	9,469	10,266	9,429
Foreign and domestic payments	169,332	179,000	182,375
Letters of credit	31,643	52,976	52,843
Guarantees	23,968	26,762	25,358
Commissions from loans	67,000	35,366	37,533
Other	16,640	16,784	18,057
	354,034	350,342	368,784

18 commission and fee expense

	2006 CZK'000	2005 CZK'000	2004 CZK'000
Domestic and foreign transfers	(7,466)	(7,550)	(7,057)
Brokerage expense from purchase and sale of securities	(2,289)	(1,906)	(3,222)
Foreign exchange operation	(2,647)	(2,674)	(2,976)
Other financial activities	(1,697)	(2,518)	(13,668)
	(14,099)	(14,648)	(26,923)

19 gains less losses from financial transactions

	2006 CZK'000	2005 CZK'000	2004 CZK'000
Unrealised gains / (losses) from the sale of securities	-	-	5,574
Realised gains from the sale of securities	-	-	16
Gains / (losses) from foreign currency transactions including FX financial derivatives	89,634	48,843	(943)
Gains / (losses) from interest rate financial derivatives	(1,725)	26,054	(23,052)
	87,909	74,897	(18,405)



20 other operating income

	2006	2005	2004
	CZK'000	CZK'000	CZK'000
Income from intercompany re invoicing	127,544	80,475	6,862
Other operating income	17,971	20,876	24,244
	145,515	101,351	31,106

21 administrative expenses

	2006	2005	2004
	CZK'000	CZK'000	CZK'000
Staff costs	331,815	307,990	289,240
Rent and lease charges	48,707	49,453	46,894
Audit, tax and legal advisory services	4,127	4,266	7,585
Other administration expenses	258,001	252,768	200,366
	642,650	614,477	544,085

Staff costs can be analyzed as follows:

	2006	2005	2004
	CZK'000	CZK'000	CZK'000
Wages and salaries	242,593	231,489	210,821
Social security and other social costs	69,520	61,068	58,090
Other staff costs	19,702	15,433	20,329
	331,815	307,990	289,240

Staff statistics

	2006	2005	2004
Average number of employees	235	205	176

In 2006 the Branch provided contribution for pension insurance to its employees of CZK 726,000 (2005: CZK 0).

22 taxation

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

	2006	2005	2004
	CZK'000	CZK'000	CZK'000
Profit before taxation	410,614	457,411	434,459
Differences between profit and tax base:			
Non-taxable income	(29,468)	(115,887)	(11,159)
Non-deductible expenses	31,686	50,012	169,957
Other expenses reducing net taxable profit	(950)	(880)	(257)
Net taxable profit	411,882	390,656	593,000
Current tax charge at 24% (2005: 26%, 2004: 28%) before discount	98,852	101,571	166,040
Discount on tax	(148)	(120)	(60)
Current tax charge after discount	98,704	101,451	165,980
The income tax charge is comprised of:			
Deferred tax expense / (income) recognised on temporary differences	(572)	2,663	(1,501)
Current income tax expense	98,704	101,451	165,980
Adjustment of prior year income tax expense	(7,098)	508	2,274
Income tax expense	91,034	104,622	166,753
	2006	2005	2004
	CZK'000	CZK'000	CZK'000
Net deferred income tax asset at the beginning of the period	1,601	4,264	2,763
Deferred tax income/expense from the change in temporary differences	572	(2,335)	1,698
Change in deferred tax due to the change of tax rate	-	(50)	(197)
Change of the deferred tax asset/liability on available-for-sale securities	(3,019)	(278)	-
Net deferred income tax asset / (liability) on 31 December	(846)	1,601	4,264
Deferred income tax assets			
Allowances to loans	2	176	1,210
Non-tax deductible social insurance	2,094	1,791	3,116
Difference between accounting and tax depreciation	77	116	131
	2,173	2,083	4,457
Deferred income tax liability			
Available-for-sale securities	(3,019)	(278)	-
Branch receivable from penalty interest	-	(204)	(193)
	(3,019)	(482)	(193)
Net deferred tax asset (24%) (Note 8)	-	1,601	4,264
Net deferred tax liability (24%) (Note 12)	(846)	-	-



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.

Geographical segmentation

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
	41,862,817	27,975,109	1,113,830	70,951,756

At 31 December 2005

Assets	Domestic CZK'000	European union CZK'000	Other CZK'000	Total CZK'000
Cash and deposits with central banks	219,021	-	-	219,021
Due from banks	14,554,378	58,516,662	579,090	73,650,130
Due from customers	23,577,759	3,343,537	1,396,636	28,317,932
Securities available-for-sale	1,148,009	-	-	1,148,009
Other assets	891,168	1,318,139	143,330	2,352,637
	40,390,335	63,178,338	2,119,056	105,687,729

At 31 December 2004

Assets	Domestic CZK'000	European union CZK'000	Other CZK'000	Total CZK'000
Cash and deposits with central banks	1,331,931	-	-	1,331,931
Due from banks	19,239,777	34,053,642	347,293	53,640,712
Due from customers	24,201,305	5,163,514	122,579	29,487,398
Securities available-for-sale	572,341	-	-	572,341
Other assets	3,769,653	7,314,313	281,480	11,365,446
	49,115,007	46,531,469	751,352	96,397,828

Business segmentation

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
	9,518,399	21,755,054	38,643,159	600,774	433,854	516	70,951,756



At 31 December 2005

Assets	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Other	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Cash and balances with central banks	219,021	-	-	-	-	-	219,021
Due from banks	14,554,378	59,095,752	-	-	-	-	73,650,130
Due from customers	-	-	27,968,011	2,588	347,330	3	28,317,932
Securities available for-sale	-	-	574,791	573,218	-	-	1,148,009
Other assets	413,072	1,151,753	747,570	37,379	2,863	-	2,352,637
	15,186,471	60,247,505	29,290,372	613,185	350,193	3	105,687,729

At 31 December 2004

Assets	Local banks	Foreign banks	Corporate sector	State institutions	Individuals	Other	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Cash and balances with central banks	1,331,931	-	-	-	-	-	1,331,931
Due from banks	19,239,777	34,400,935	-	-	-	-	53,640,712
Due from customers	-	-	29,046,194	232,110	209,092	2	29,487,398
Securities available for-sale	-	-	-	572,341	-	-	572,341
Other assets	3,080,174	7,391,051	541,270	351,955	996	-	11,365,446
	23,651,882	41,791,986	29,587,464	1,156,406	210,088	2	96,397,828

(c) Market risk

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

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. VAR for the Branch as at 31 December 2006 is CZK 6.90 million (31 December 2005: CZK 7.28 million, 31 December 2004: CZK 7.40 million) and average daily consolidated VAR for the Branch was CZK 4.78 million in 2006 (2005: CZK 5.18 million, 2004: CZK 5.50 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.



(d) Derivative financial instruments

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

Total financial derivatives

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)
Total	568,442,922	568,826,215	3,253,936	(3,819,196)

31 December 2005

	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Interest rate derivatives	164,329,675	155,024,075	500,712	(611,487)
Currency derivatives	134,562,557	134,280,238	1,434,191	(1,188,321)
Total	298,892,232	289,304,313	1,934,903	(1,799,808)

31 December 2004

	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Interest rate derivatives	332,888,342	326,898,817	920,815	(1,104,778)
Currency derivatives	160,543,172	160,946,686	9,288,695	(9,530,536)
Total	493,431,514	487,845,503	10,209,510	(10,635,314)

Trading agreements

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				
FRAs	416,119,700	416,119,700	340,600	(344,689)
Swaps	26,561,959	26,651,959	148,363	(171,218)
	442,681,659	442,681,659	488,963	(515,907)
Currency derivatives				
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)
	125,083,222	125,466,515	2,764,973	(3,204,249)
Total	567,764,881	568,148,174	3,253,936	(3,720,156)

31 December 2005

	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Interest rate derivatives				
FRAs	150,039,675	140,734,075	390,285	(377,313)
Swaps	13,511,959	13,511,959	108,986	(126,325)
	163,551,634	154,246,034	499,271	(503,638)
Currency derivatives				
Forwards	606,552	595,895	9,848	(1,511)
Swaps	133,956,005	133,684,343	1,424,343	(1,186,810)
	134,562,557	134,280,238	1,434,191	(1,188,321)
Total	298,114,191	288,526,272	1,933,462	(1,691,959)



31 December 2004

	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Interest rate derivatives				
FRA's	318,734,450	312,744,925	807,790	(817,373)
Swaps	13,423,049	13,423,049	113,025	(165,016)
	332,157,499	326,167,974	920,815	(982,389)
Currency derivatives				
Forwards	554,744	575,740	5,254	(26,318)
Swaps	159,988,428	160,370,946	9,283,441	(9,504,218)
	160,543,172	160,946,686	9,288,695	(9,530,536)
Total	492,700,671	487,114,660	10,209,510	(10,512,925)

Fair value hedging agreements

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	678,041	678,041	-	(99,040)

31 December 2005

Interest rate derivatives	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Swaps	778,041	778,041	1,441	(107,849)

31 December 2004

Interest rate derivatives	Nominal amount assets CZK'000	Nominal amount liabilities CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Swaps	730,843	730,843	-	(122,389)

(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 repricing 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, matu-

ring 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. In a short term view (up to two days) the Branch does not hold cash for all amounts on its current accounts as it is able to refinance itself on the inter-bank market or with the headquarters.

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 respectively as unspecified, because the Branch is not able to analyze the fair value according to remaining maturity. 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.



At 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
Assets						
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
	41,594,813	9,488,309	14,099,392	4,025,988	1,743,254	70,951,756
Liabilities						
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
	59,799,378	4,921,197	3,591,813	1,729,913	909,455	70,951,756
Net assets/(liabilities)	(18,204,565)	4,567,112	10,507,579	2,296,075	833,799	-

At 31 December 2005

	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central banks	76,477	-	-	-	142,544	219,021
Due from banks	71,790,475	1,027,566	556,277	-	275,812	73,650,130
Due from customers	13,899,657	3,279,550	7,551,523	3,585,154	2,048	28,317,932
Securities available-for-sale	-	-	344,104	803,905	-	1,148,009
Other assets	917,748	613,864	78,227	2,027	740,771	2,352,637
	86,684,357	4,920,980	8,530,131	4,391,086	1,161,175	105,687,729
Liabilities						
Due to banks	75,368,096	3,059,499	3,473,377	572,068	-	82,473,040
Due to customers	19,878,312	399,490	1,420	1,422	-	20,280,644
Provisions	-	-	-	-	4,332	4,332
Other liabilities	863,311	394,636	122,004	7,519	1,542,243	2,929,713
	96,109,719	3,853,625	3,596,801	581,009	1,546,575	105,687,729
Net assets/-liabilities	(9,425,362)	1,067,355	4,933,330	3,810,077	(385,400)	-

At 31 December 2004

	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Unspecified	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Assets						
Cash and balances with central banks	60,649	-	-	-	1,271,282	1,331,931
Due from banks	51,655,809	1,032,555	540,783	-	411,565	53,640,712
Due from customers	17,434,120	5,175,851	4,414,539	2,461,104	1,784	29,487,398
Securities available-for-sale	-	-	-	572,341	-	572,341
Other assets	3,898,590	5,740,023	61,859	4,840	1,660,134	11,365,446
	73,049,168	11,948,429	5,017,181	3,038,285	3,344,765	96,397,828
Liabilities						
Due to banks	63,469,211	1,476,199	2,692,862	232,285	-	67,870,557
Due to customers	16,332,879	177,035	599	600	-	16,511,113
Provisions	-	-	-	-	187,938	187,938
Other liabilities	4,261,140	5,523,800	74,582	27,310	1,941,388	11,828,220
	84,063,230	7,177,034	2,768,043	260,195	2,129,326	96,397,828
Net assets/(liabilities)	(11,014,062)	4,771,395	2,249,138	2,778,090	1,215,439	-

24 subsequent events

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 2006.

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
31 March 2007	Dr. Jutta Walter	Ing. Eva Collardová	Ing. Radek Hudáček

