ČESKÁ SPOŘITELNA

Annual Report 2008

Consolidated Financial Highlights

under International Financial Reporting Standards (IFRS)

Balance Sheet Highlights

MCZK	2008	2007	2006	2005	2004
Total assets	862,230	814,125	728,393	654,064	581,780
Loans and advances to financial institutions	93,306	65,688	73,179	97,846	77,112
Loans and advances to customers	461,424	418,415	329,105	283,420	239,289
Securities	209,888	226,813	230,354	192,210	191,627
Amounts owed to financial institutions	57,561	58,482	46,361	34,898	32,905
Amounts owed to customers	642,504	588,526	537,487	481,556	444,771
Shareholders' equity	64,805	55,576	48,594	43,322	39,299

Profit and Loss Account Highlights

MCZK	2008	2007	2006	2005	2004
Net interest income	30,239	24,727	21,206	18,719	17,416
Net fee and commission income	11,020	9,639	8,997	8,384	8,238
Operating income*	42,712	36,075	32,471	28,834	27,217
Operating expenses	(19,541)	(18,349)	(17,316)	(16,395)	(15,883)
Operating profit*	23,171	17,726	15,155	12,439	11,334
Net profit	15,813	12,148	10,385	9,134	8,137

Basic Ratios

	2008	2007	2006	2005	2004
ROE	26.3%	23.8%	23.0%	22.3%	21.8%
ROA	1.8%	1.5%	1.5%	1.4%	1.4%
Operating cost/operating income*	45.8%	50.7%	53.3%	56.9%	58.4%
Non-interest income/operating income*	29.3%	31.9%	34.7%	35.1%	36.0%
Net interest margin on interest-bearing assets	4.1%	3.7%	3.6%	3.4%	3.5%
Customer receivables/customer liabilities	71.8%	71.1%	61.2%	58.9%	53.8%
Capital adequacy**	10.3%	9.6%	9.3%	8.7%	9.0%

* The figures for 2007 were adjusted with regard to the sale of Pojišťovna ČS

** Parent bank according to the CNB'S methodology (2008 and 2007 Basel II)

Key Operating Indicators

Number	2008	2007	2006	2005	2004
Staff (average headcount)	10,911	10,897	10,809	11,406	11,805
Česká spořitelna's branches	646	636	637	646	647
Clients	5,293,632	5,294,470	5,276,897	5,326,378	5,353,923
Sporogiro accounts	2,874,110	2,838,173	2,789,076	2,761,062	2,757,929
Active cards	3,304,197	3,340,180	3,095,614	2,941,843	2,758,486
of which: credit cards	553,329	622,161	447,089	340,510	204,564
Active users of SERVIS 24 and BUSINESS 24	1,199,329	1,142,170	1,033,198	934,874	772,185
ATMs	1,164	1,124	1,090	1,076	1,071

Rating

Rating agency	Long-term rating	Short-term rating	Outlook
Fitch	A	F1	Stable
Moody's	A1	Prime-1	Stable
Standard & Poor's	A	A1	Negative

Content

Company Profile

Market

The Czech financial services market is highly competitive. At present it includes 37 banks and branches of international banks and a number of other companies providing financial services. With 5.3 million clients, Česká spořitelna is the largest financial institution and has the longest history of any financial institution on the market. Since 2000, the Banks has been a member of Central European Erste Group, a strong retail bank with nearly 17 million clients in 8 European countries (Czech Republic, Slovakia, Austria, Hungary, Croatia, Serbia, Romania and Ukraine).

2008 was a turbulent year for the Czech banking market as well as for the remaining Euro- American banking community. Thanks to a highly prudent and responsible bank policy, however, the impact of the financial crisis on the Czech banking market was merely sporadic and indirect.

On the local market, Česká spořitelna is perceived as a progressive and credible bank that provides services, products and consulting to all client groups. Traditionally, the Bank's core activities include retail banking although Česká spořitelna clients also comprise small and medium-sized companies and large firms. Česká spořitelna has a significant position as a traditional partner of Czech cities and municipalities and as a provider of financial market services. In recent years, the Bank has won a leading position in the market of modern banking disciplines such as payment cards, internet banking, mortgage and consumer loans and other services.

Figures for 2008 clearly show that Česká spořitelna is the largest bank in terms of assets and number of clients. The Bank's financial group manages financial assets exceeding CZK 862 billion. In the turbulent year of 2008, Česká spořitelna generated a net profit of CZK 15.81 billion and thus ranked among the most profitable members of the Erste Group.

History

The roots of Česká spořitelna date back to 1825, when Spořitelna Česká, the oldest legal predecessor of today's Česká spořitelna, began its activities. One of the most important objectives of the Bank since then has been emphasising a close relationship with clients who entrust the Bank with their savings. With that in mind, the Bank has focused on building a broad network of branches and continues to focus on this objective today.

Česká spořitelna decided to follow the lead of the Czech and later Czechoslovak savings institutions, arising as a newly-established joint stock company in 1992. In 2000 Česká spořitelna became a member of the Erste Group, which was a break from the past and the beginning of Česká spořitelna's modern history. This union with a strong partner on the highly competitive European market provided Česká spořitelna with a solid base for fulfilling its vision of a strong and competitive bank.

The Bank undertook an ambitious transformation from July 2000 to December 2001 that affected all areas of the Bank. Česká spořitelna was gradually transformed into a modern, client-oriented financial institution with a broad range of quality products. Two of the most important steps were reinforcing the profitability of the whole financial group and adopting the Erste Group's corporate design.

Products and Services

Through Česká spořitelna's extensive branch network providing ever-increasing accessibility and extended opening hours, the Bank's clients can use standard banking services and also conclude contracts on building savings, pension insurance, life insurance, and leasing or collective investing in mutual funds. In its specialised centres, Česká spořitelna offers advisory, leasing and factoring services to corporate clients. The Bank's close co-operation with its 11 subsidiaries facilitates the provision of this comprehensive offering.

Česká spořitelna believes that there is no such thing as an average client. Each client is unique and has specific requirements. The Bank is ready to provide each client with tailored advice on loans so that the repayment schedule and the drawn amount perfectly suit the client‘s needs and possibilities. Česká spořitelna offers flexible Personal Accounts for transactions that vary according to the clients' needs. Since April 2008, mortgage loan owners have had the opportunity to configure their loans under the Česká spořitelna's Ideal Mortgage programme. In August 2008, the Bank started offering the Clever Card. Holders of this card can select the card's functions as well as its design. The Bank provides a detailed investment profile according to the specific possibilities and needs of each client interested in investing. Česká spořitelna's experts then recommend a method of deposit that suits the client's individual needs and their approach to risks.

Česká spořitelna is primarily a bank for retail clients, but supporting small and medium-sized enterprises in their development is part of the Bank‘s programmes as well. In the last few years, Česká spořitelna has succeeded in building one of the best and most dynamic corporate banking services on the market – and it is still growing. In addition to programmes for retail and medium-sized enterprises, Česká spořitelna is a strong player in financing large enterprises and corporations, and the Bank's share in this closely watched segment of the market continues to show positive growth. Česká spořitelna has developed a special offering for various business areas, such as the unique Energy programme for financing, and provided advisory services to clients engaged in energy projects.

Services provided to cities and municipalities constitute a key area for Česká spořitelna. The Bank manages complex accounts for budget management and secures payment systems for most of them. Thanks to the Bank's offer of advantageous financial services the municipalities are able to accelerate a number of investment transactions principally concerning the reconstruction and construction of infrastructure or new flats.

Česká spořitelna also facilitates the drawing of funding from the European Union. The Bank offers cities, municipalities and firms a comprehensive programme, and prepares and helps implement projects that are financed with EU funds.

Česká spořitelna is the leading player in introducing new services and technologies. Thanks to this approach more and more clients use the Bank's modern direct banking services, both over the phone and through the Internet. Nearly 1.2 million clients use the Bank's direct banking services, i.e. SERVIS 24 for retail clients and BUSINESS 24 for firms. In addition, Česká spořitelna holds a leading position in the area of payment and credit cards. The number of payment cards with Česká spořitelna's logo has exceeded 3.3 million, of which more than 500,000 are credit cards.

Česká spořitelna's specialised centres have facilitated faster and more convenient access to new services and have supported the integration of such services over the last few years of their existence. Mortgage and development centres, offering comprehensive services for the financing of housing or investments in real estate, including offers of suitable property, are established throughout the territory of the Czech Republic. Česká spořitelna has also been opening commercial centres: affiliated service points of branches specialised in services for corporate clients. The Bank has opened the Expat Centre in Prague, which is the first specialised point of business for foreign-language clients in the Czech Republic. In July 2008, Česká spořitelna opened the first of many self-service zones where clients can complete their transactions irrespective of the branch's opening hours.

Česká spořitelna is also expanding its services provided through the ATM network. ATMs have become multifunctional appliances that clients can use for making cash withdrawals and also placing payment orders, changing their card's PIN code, mobile phone recharges and other services. In July 2008, the Bank installed the fist deposit ATM, which can both provide and accept banknotes. At the beginning of 2005 Česká spořitelna introduced the very first ATM for the visually-impaired in the Czech Republic, of which there are now approximately 50 throughout the country.

The Year 2008 Review

January

- Česká spořitelna established a specialised consulting centre for clients in financial distress. Together with the Czech Consumer Association and in co-operation with other banks, we opened the Financial Distress Advice Bureau to provide advisory services to insolvent consumers. The consulting centre, which is the first of its kind in the Czech Republic, aims to assist debtors in solving issues related to threatening social disqualification resulting from insolvency. In compliance with the principles of responsible lending, the Bureau provides information and increases the awareness of potential debtors.
- On 1 January, Česká spořitelna started co-operating with Hradec Králové University as the winner of the tender for the University's strategic partner in 2008–2012. In the following five years, the Bank will be the University's exclusive provider of all banking services and a general partner based on a framework contract entered into with the University.

February

- The number of Private Accounts exceeded 500,000.
- Česká spořitelna established the Ladies' Investment Club, whose members include women interested in investing. By establishing this platform for women, the Bank supports equal opportunities and training in finance. During regulars meetings, the Club's members receive information on capital market developments, new investment tools and various investment strategies.
- New specialised Developer Centres provide comprehensive services to investors and developers in the project financing of residential and non-residential development for sales or long-term lease. By co-operating with the Developer Centres, clients receive maximum comfort and remarkably simplified and accelerated project financing.

March

- Direct banking security was increased. Changes in the telephone number for sending authorisation messages under the SERVIS 24 internet banking is not made immediately but only after 24 hours so as to provide more time to clients who find out that an attempt to change the set-up mobile phone number for sending an SMS was made.
- The Erste Group decided to sell the insurance activities to a strategic partner, Vienna Insurance Group. In the Czech Republic Pojišťovana ČS is impacted by this decision.

April

- Česká spořitelna approved a new strategy for Corporate Social Responsibility, which is implemented under the "We Invest in Our Future" keynote and comprises three key areas: education (namely in finance), help to people in need, and sustainable development of the environment in which we live.
- The Ideal Mortgage became another variable product offered by Česká spořitelna. Clients can configure their mortgage loans according to personal requirements. The Ideal Mortgage covers the conclusion of a mortgage loan contract for free, a thirty-day guarantee of the offered interest rate, on-line real estate valuation and unlimited drawing in the first three months. In addition to the basic mortgage loan offering, other optional products and services entitled Individuality, Flexibility, and Security can be selected.
- Debit card holders may apply their own image on their payment cards under the "A Card According to You" service using an internet application accessible on www.kartapodlevas.cz.

May

- Česká spořitelna's Gold Deposit is a new product offered to appreciate client funds. It is an account combining deposit and investment products with a guaranteed interest rate. Clients make their deposits for two years and select from the Security and Premium alternatives. As of 31 December, i.e. after eight months from the introduction, the volume of deposited funds amounted to CZK 11.3 billion and the number of accounts exceeded 44,000.
- Since 1 May 2008, the insurance coverage for payment card misuse in case of loss or theft has remarkably increased. The time limits within which payment card misuse needed to be reported were eliminated. The insurance now covers the costs of card blocking and the issuing of a new card. As a new service, the Bank offers compensation for costs relating to the theft of a mobile phone. The best insurance alternative increases the coverage in unauthorised card transactions to CZK 60 thousand while the insurance cost remains the same.
- The Association of Czech Insurance Brokers selected Pojišťovna České spořitelny the 2007 Insurance Company of the Year in life insurance. FLEXI insurance was awarded the best insurance product on the Czech market.

June

- On 29 June, Jonannes Kinsky, the Chairman of the Supervisory Board of Česká spořitelna unexpectedly died of a heart attack. Johannes Kinsky was elected Chairman of the Supervisory Board on 23 June, replacing Andreas Treichl, the Chairman of the Board of Directors of Erste Group Bank, who was the Chairman of the Supervisory Board from 2000.
- The number of Private Accounts exceeded 750,000.
- In the jobpilot.cz Employer of the Year competition organised by Fitcentrum Media, Česká spořitelna placed second in the category of Most Desired Employer of 2008. In the competition, Česká spořitelna was the only bank on the Czech market that ranked among the top ten best employers.
- To the segment of company clientele with turnover up to CZK 30 million, Česká spořitelna offers a new and fast type of financing – Mini Profit loans (the Mini Profit overdraft loan and the Mini Profit term loan). This type of financing is simple, fast and available in all of the Bank's branches.
- Česká spořitelna joined the European Charter for Responsible Business within the European Savings Banks Group, whose members have been active for many years in sustainable development and consider corporate social responsibility an integral part of their business throughout Europe.
- The Bank's Supervisory Board elected Bernhard Spalt, a member of Erste Group Bank's Board of Directors responsible for risk management, to the office of Vice-Chairman of the Supervisory Board of Česká spořitelna.

July

- Non-cash branches specialising in professional consulting were introduced as a new service in the branch network. The crucial advantage of non-cash branches are qualified and experienced advisors, a friendly atmosphere and an individual approach to clients.
- Other innovations include self-service zones, which are areas where clients can complete basic banking transactions quickly and easily without the assistance of the Bank's staff. The zones also comprise deposit ATMs, which release and accept cash, and multifunctional terminals with a safe access to internet banking.

August

- Clever Card became the third flexible product in Česká spořitelna's offering. A Clever Card holder may choose the card's design and functions by selecting up to 10 optional services. The Clever Card is intended for shopping as it can save considerable amounts for its holder by a lowest price guarantee, an extended warranty for purchased goods and other services.

September

- Erste Group completed the sale of its insurance investments in Central and Eastern Europe to Vienna Insurance Group. Česká spořitelna participated in the transaction by selling its subsidiary, Pojišťovna České spořitelny, where it has retained a 5 percent shareholding. In addition to the sale of insurance companies, a contract was concluded that would guarantee close co-operation in the next 15 years.
- Česká spořitelna was the first bank in the Czech Republic to offer the option to receive and pay electronic invoices using SERVIS 24 internet banking (electronic invoicing is applied, for example, by ČEZ). The new service, an e-invoice, may be activated by individuals, entrepreneurs and firms using SERVIS 24.
- Česká spořitelna extends the opening hours in its branches. Services of the Na Příkopě branch can be used by clients until 9 p.m. and there are also weekend branches that are open seven days a week until 7 p.m.

October

- On 1 October, Manfred Wimmer, a member of Erste Group Bank's Board of Directors responsible for finance management, was elected the Chairman of the Supervisory Board of Česká spořitelna.

November

- In the seventh year of the prestigious MasterCard Bank of the Year competition, Česká spořitelna won the Most Credible Bank of the Year award for the fifth year in a row. The Clever Card placed first in the Loan of the Year category and Pojišťovna ČS won in the life insurance category.
- The number of Private Accounts exceeded 1 million.
- The number of issued Clever Cards exceeded 100,000.

- Česká spořitelna was the 2008 Bank of the Year in the Czech Republic in a contest organised by The Banker magazine.
- In the TOP Firemní Filantrop 2007 List, Česká spořitelna placed second for the second time in the category of Absolute Volume of Funds Provided to Socially Beneficial Projects. Česká spořitelna was also awarded for involving its employees in voluntary and socially beneficial activities. In 2008, over 900 employees participated in the Charity Day project.

December

- The volume of the aggregate portfolio of loans to individuals exceeded CZK 250 billion.
- Penzijní fond České spořitelny achieved 750,000 clients.
- Česká spořitelna accelerated the processing of payment transactions thanks to online payment settlement, whose average time in the Bank is less than three minutes. Česká spořitelna's payment system is one of the fastest on the market.
- After four years of renovation, a ceremonial opening of the historic branch in Rytířská Street was held on 11 December. This flagship of Česká spořitelna's branch network located in a beautiful neo-Renaissance building provides modern banking services and is open to the general public. A new café and a conference centre are available in its premises.
- Česká spořitelna is the first bank to have its payment cards accepted in Makro Cash & Carry Czech Republic.

Opening Statement by the Chairman of the Board of Directors and CEO

Gernot Mittendorfer, Chairman of the Board of Directors and CEO

Dear Shareholders, Ladies and Gentlemen, Clients, and Colleagues,

The media have been extensively using the word ‘crisis’ since at least autumn of 2008 to describe the economic climate, but for Česká spořitelna, 2008 was yet another in a series of successful years, one which yielded record results and was full of focused efforts to provide premium quality service to our clients. From a more optimistic perspective, 2008 could be referred to as the “Year of Value”.

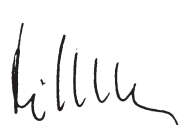
First of all, 2008 was valuable in the sense of what we learned about the world around us and ourselves as a result of the financial turbulence. The products and services that we offered to our clients in 2008 were valuable, just as our colleagues in both sales and support functions whose hard work crystallised into record results even in these troubled times. As a banking house, we also hope that we were able to bring value. My assessment is based on our clients’ growing confidence and trust in us. Although we take immense pleasure in the progress made in 2008, we also see it as a commitment going forward. In banking, one’s success is not solely connected with generating significant sales. Being successful, above all, means enjoying the privilege of being able to establish and develop long-term relationships with our clients and being faithful and trusted partners throughout their lives. This is our goal.

Our clients’ demands are growing and, as a result, they require better advice and better financial products and services, ones which are both valuable and can be adjusted to fit their individual needs. At the same time, we are beginning to deal with a generation of clients who are focusing more and more on not only what we offer, but also on how we present it – whether we are only concerned with instant yields or whether we also respect our client’s long-term interests.

As a market leader, we strive to be a bank that sets the tone in this respect. This is the reason why we have developed innovative and tailor-made products for both retail clients and corporate clientele, increased bank card and electronic banking security, and expanded our branch network in 2008. It is also,why we formulated a corporate social responsibility strategy which is closely linked to our business strategy and represents our commitment to a long-term responsible approach to all target groups, and society as a whole. Our goal is to help our clients fulfil their individual wishes and needs, as well as to be a useful and responsible part of society. After all, it was these very principles which gave birth to the savings bank notion in the Czech lands nearly 190 years ago.

Despite the fact that we find ourselves in complicated times, I am confident that next year we will once again be in a position to report a great deal of positive results. Just as all crises are bound to end sooner or later, all crises are bound to bring both valuable insights and unique opportunities.

April 2009



Gernot Mittendorfer

Board of Directors as of 31 December 2008

GERNOT MITTENDORFER
Chairman of the Board
of Directors and CEO

PAVEL KYSILKA
Member of the Board
of Directors and Deputy CEO

DUŠAN BARAN
Vice Chairman of the Board
of Directors and First Deputy CEO

HEINZ KNOTZER
Member of the Board
of Directors and Deputy CEO

DANIEL HELER
Member of the Board
of Directors and Deputy CEO

PETR HLAVÁČEK
Member of the Board
of Directors and Deputy CEO

JIŘÍ ŠKORVAGA
Member of the Board
of Directors and Deputy CEO

GERNOT MITTENDORFER
born on 2nd July 1964
Chairman of the Board of Directors and CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Mittendorfer studied law at the University of Linz and is a graduate of Webster University in Vienna (Master of Business Administration, specialization in finance). He joined Erste Österreichische Spar-Casse Bank AG in 1990. In 1997, he was appointed to the Board of Directors of Sparkasse Mühlviertel West Bank AG. In 1999 he was appointed as a member of the Board of Directors of Erste Bank Sparkassen (CR), where he was responsible for retail banking. From July 2000 he has been the member of the Board of Directors of Česká spořitelna, responsible for corporate banking. He resigned from all his functions in Financial Group of Ceska Sporitelna as of 31st July 2004 after accepting the offer to become the CEO of Salzburger Sparkasse, a member of the Erste Bank Group family. He resigned from this function and as of 31st May 2007 he became the Chairman of the Board of Directors and CEO of Česká spořitelna.

Membership in other companies: none

DUŠAN BARAN
Born on 6th April 1965
Vice Chairman of the Board of Directors and First Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Baran is a graduate of the Mathematics and Physics Faculty of Charles University in Prague; an International Executive MBA program at Katz Graduate School of Business, the University of Pittsburgh together with the CMC Graduate School of Business in Čelákovice and a banking course at the Graduate School of Banking, University of Colorado, Colorado, USA. During 1991–1993 he worked for Agrobanka, a. s. in the treasury function. He joined Česká spořitelna in November 1993, where he held various managerial positions in Treasury and Risk Management division. He was appointed a member of the Board of Directors and Deputy CEO of Česká spořitelna in May 1998 and was promoted to Chairman of the Board of Directors and CEO in March 1999. On 4 July 2000 he was elected Vice Chairman of the Board of Directors of Česká spořitelna and appointed the First Deputy CEO. He is also the Chief Financial Officer of Česká spořitelna. Mr. Baran is a member of the Czech Institute of Directors and a member of the Board of Directors of the European Savings Banks Group (ESBG) in Brussels.

Membership in other companies: none

DANIEL HELER
Born on 12nd December 1960
Member of the Board of Directors and Deputy CEO
Reference Address: Evropská 2690, Prague 6, Czech Republic

Mr. Heler is a graduate of the Prague University of Economics, Faculty of International Trade. He held internships with J. P. Morgan, Goldman Sachs, S. Montagu, UBS, N. M. Rothschild, Shearson and Bayerische Hypobank. He has also attended a number of courses focused on global banking, profitability in banking, retail banking strategy, treasury and risk management. He has worked in the banking sector since 1983. First he held various positions in the Department of Foreign Exchange and Money Markets and then, in 1990, he became the Director of the Financial Markets Division of Československá obchodní banka Praha. In 1992 he was appointed as Treasurer and member of the Board of Directors of Crédit Lyonnais Bank Praha. In 1998, he was appointed as a member of the Board of Directors of Erste Bank Sparkassen (CR) and assumed the responsibility for the Financial Markets. In 1999, he became the Vice Chairman of the Board of Directors of Erste Bank Sparkassen (CR) and since 1st July 2000 he has been the member of the Board of Directors of Česká spořitelna responsible for asset management and retail investment products, corporate finance and investment banking, treasury sales and trading, capital markets, balance sheet management, financial institutions and corresponding banking.

Membership in other companies: brokerjet České spořitelny, a. s., Erste Corporate Finance, a. s., RAVEN EU Advisory, a. s., REICO investiční společnost, a. s.

PETR HLAVÁČEK
Born on 19th November 1955
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Petr Hlaváček graduated from the Prague University of Economics and the University of Toronto. He has been active in the banking sector since 1984. After nine years of work for the Canadian Imperial Bank of Commerce, he joined the Czech National Bank as an advisor to a member of the Banking Board in 1993. In 1994 he joined Česká spořitelna where he held the post of Director of the Capital Investment Division. In June 1999 he was appointed as the member of the Board of Directors of Česká spořitelna responsible for the preparation of privatisation and investment banking. In 2000 he joined the Senior Management Team and became Director of the Transformation Program 'Naše spořitelna.' In his capacity as a Board member, he is responsible for project management and IT area.

Membership in other companies: Consulting České spořitelny, a. s., Informatika České spořitelny, a. s.

HEINZ KNOTZER
Born on 8th April 1960
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Heinz Knotzer is a graduate of the University of Vienna (JUDr. Doctor of Jurisprudence). He started his career in banking after one year practicing at courts in Austria. He worked in Investkredit and joined later Girozentrale und Bank der Österreichischen Sparkassen AG which, after a merger in 1997, became a part of Erste Bank. In 1995 he joined Creditanstalt and was 1996 seconded to Creditanstalt, a. s., Prague, assumed the position Manager of Corporate Customers Dividion. In 1998, within the framework of the merged Bank Austria Creditanstalt Czech Republic, a. s., he became the director of the Division for Corporate Customers II. In June 1999 he joined Erste Bank Sparkassen (CR), a. s. and was appointed as a Member of the Board of Directors and Executive Director. After the privatization of Česká spořitelna by Erste Bank Group AG, he worked for ČS where he became a Member of Senior Management Team. In August 2004 he was appointed as member of the Board of Directors and a Deputy CEO of Česká spořitelna, since July 2007 he is responsible for Risk Management.

Membeship in other companies: Erste Corporate Finance, a. s., Factoring České spořitelny, a. s., Leasing Ceské spořitelny, a. s., s Autoleasing, a. s., REICO investiční společnost, a. s.

PAVEL KYSILKA
Born 5th September 1958
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Kysilka is a graduate of Faculty of Economics of the University of Economics in Prague; in 1986 he passed internal postgraduate research there. In 1986–1990 he worked at the Institute of Economics of the Czechoslovak Academy of Sciences.

In 1990–1991 Mr. Kysilka worked in the Ministry for Economic Policy as the Chief economic advisor to the Minister for economic policy. In the 1990s he held various positions up to the post of Executive Governor in the Czech National Bank, where he also managed the splitting of the Czechoslovak currency in 1993. At the same time in 1994–1997 he acted as an expert of International Monetary Fund and he participated in implementation of national currencies in several East European countries. In the 90's he was President of Česká ekonomická společnost. Before joining Česká spořitelna Mr. Kysilka worked in Erste Bank Sparkassen (CR) in Prague as Executive Director responsible for IT, Organization, Human Resources, and Services. He started to work for Česká spořitelna in 2000 as Chief Economist and Member of the Senior Management Team. On October 5, 2004, the Supervisory Board of Česká spořitelna appointed him a Member of the Board of Directors. Mr. Kysilka is responsible for payment systems, financial market analyses, security, EU Office and corporate cash management and pooling. Among others he is member of the Scientific Board and the Managing Board of University of Economics in Prague.

Membeship in other companies: none

JIŘÍ ŠKORVAGA
Born on 26th April 1963
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Jiří Škorvaga is a graduate from the Institute of Chemical Technology in Prague and from the post-gradual studies at Czechoslovak Academy of Sciences. He joined Česká spořitelna Financial Group in 1994, as a project manager. In 1998 he took over the position of Card Center Head and in 1999 he was appointed as a Head Manager of retail banking. Since 2000 he was responsible for business management of retail business and was a member of Senior Management Team. In November 2006 Mr. Škorvaga became a member of the Board of Directors and a Deputy CEO of Česká Spořitelna. He is responsible for retail banking.

Membership in other companies: Stavební spořitelna, a. s., Pražské jaro, o.p.s.

Česká spořitelna's Supervisory Board as of 31 December, 2008

MANFRED WIMMER
Born on 31st January 1956
Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Wimmer graduated from the Law Faculty of the University of Innsbruck where he was awarded the Doctor of Law degree. From 1978 to 1982, he worked as an academic assistant in private law. From 1982 to 1998, he worked in the International Division of Creditanstalt. In 1998, he joined the International Division of Erste Bank der österreichischen Sparkassen AG. Since February 2002 Mr. Wimmer was Head of the Strategic Group Development Division of Erste Bank. Since August 2005 Mr. Wimmer was Executive Director Group Architecture and Group Program Mng.
In September Mr. Wimmer was appointed to the Management Board of Erste Group Bank into the function of the CFO.
He has been a member of the Supervisory Board of Česká spořitelna since 27 June 2000; the General Meeting in 2006 re-elected Mr. Wimmer into the function of a Member of the Supervisory Board.
Mr. Wimmer resigned upon his function in 2007 and as of 1st October 2008 was coopted by CS Supervisory Board a member and also elected a chairman of CS Supervisory Board.

Membership in other companies: Erste Group Bank AG, Erste Bank Hungary Nyrt, Banca Commerciala Romana SA.

BERNHARD SPALT
Born on 25th June 1968
Vice-Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Spalt graduated from the Law Faculty of Vienna University where he specialised in European law.
During his studies in 1991, he joined DIE ERSTE österreichische Spar-Casse Bank AG, where he started to work in the Legal Department. From September 1994 to June 1997, he performed various positions in the Work Out Department. Following the sale of Erste Bank Sparkassen (CR), a. s. to Česká spořitelna, a. s., Mr Spalt took over the responsibility of the Work Out Department in Česká spořitelna, a. s. In June 2002, he returned to Erste Bank, Vienna where he was responsible for Strategic Risk Management until Oct. 2006. In Nov. 2006 he was appointed to the Managing Board of Erste Bank der österreichischen Sparkassen AG with responsibility for Group Risk Management.
Mr. Spalt was elected into the function of a Supervisory Board member as of 15th May 2003 and re-elected in 2006 by the General Meeting, in June 2008 he was elected Vice-Chairman of the Supervisory Board.

Membership in other companies: Erste Reinsurance S.A., Joint Stock Company Erste Bank, Erste Bank Hungary Nyrt., Banca Commerciala Romana SA, ecetra Central European e-Finance AG, ecetra Internet Services AG, Slovenská sporiteľňa, a. s., s Haftungs- und Kundenabsicherungs GmbH., Erste Group Bank AG.

ELIŠKA BRAMBOROVÁ
Born on 4th December 1953
Member of the Supervisory Board
Reference Address: Česká spořitelna, a. s., Olbrachtova 62, Prague 4

Mrs. Bramborová is a graduate of the Law Faculty of the Charles University. She started her professional career in ČKD; in 1992 she joined Česká spořitelna as a lawyer. Presently, she is a head of Corporate Banking Legal Support Dept. She represents ČS in the Legal Commission of the Czech Banking Association. She is a member of the Internal Committee of the Ladies Investment Club of Česká spořitelna, a. s.
Mrs. Bramborová was elected to ČS Supervisory Board by employees as of October 2008.

JOLANA DYKOVÁ
Born on 23rd July 1966
Member of the Supervisory Board
Reference Address: Česká spořitelna, a. s., Malé nám. 219, Rokycany

Mrs. Dyková is a graduate from the secondary technical college for machinery in Kladno and completed a term at the Czech Technical University in Prague. She started her professional career in 1985 at Czech Radio where she worked as an assistant to the editor-in-chief. Then she held the position of a deputy manager in the company Západočeské kamenolomy (West Czech Stone Quarries) for two years. In 1991 she joined

Česká spořitelna as a bank officer, later she became the head of the branch in Zbiroh. Since 2002 she has been a manager at the advisory branch in Rokycany and since October 2007 a manager of microregion Rokycany.
Mrs. Dyková was elected to the Supervisory Board by ČS employees as of November 2007.

MAXIMILIAN HARDEGG
Born on 26th February 1966
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Hardegg graduated from Agricultural Sciences in Weihenstephan, Germany. In the period 1991–1993, he worked at AWT Trade and Finance Corp, which is part of the Creditanstalt Group. He also worked as an advisor to the Czech Ministry of Agriculture in respect of the privatisation of agriculture.
Since 1993, he has been engaged in agriculture management. He has participated in the Phare, Sapard and Leader+ titles projects, which are designed to support the cooperation among agricultural systems within the EU. He is also a member of lobbyist groups in Austria and the EU, which are focused on supporting sustainable development in land use and agriculture. He was elected a member of Česká spořitelna's Supervisory Board on 22nd May 2002 and re-elected in April 2005.

Membership in other companies: DIE ERSTE österreichische Spar-Casse Privatstiftung, Sparkassen Prüfungsverband.

ZDENĚK JIRÁSEK
Born on 31th July 1950
Member of the Supervisory Board
Reference Address: Česká spořitelna, a. s., Masarykova 645, Kutná Hora

Mr. Jirásek is a graduate of the Czech Technical University in Prague and a post-graduate study at the School of Economy in Prague. He started his professional career in 1974 at ČKD Kutná Hora, where he worked in several interesting positions in distribution, sales and finally as a foundry manager. He joined Česká spořitelna in 1994 where he held managing positions until 2000; when Česká spořitelna joined Erste Bank Group he moved to a non-manger position as a sales skills trainer. At the end of 2007 he was elected Chairman of the Bank's Trade Union Committee.
Mr. Jirásek was elected to ČS Supervisory Board by employees as of October 2008.

HERBERT JURANEK
Born on 13rd November 1966
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Juranek graduated from the Commercial College in Austria – Bruck/Leitha. He began his banking career in 1990 in Girozentrale der österreichischen Sparkassen in the area of securities business. From 1994 to 1996 he headed the department "Derivative Clearing & Technical Support" at GiroCredit. During the years 1996–1998 in Reuters Ges. m.b.H., he lead all sales and risk management activities of Reuters Austria. 1999 he took over the position as Executive Director of Treasury & Securities Operations in Erste Bank der österreichischen Sparkassen AG. As the CEO of "ecetra Central European e-Finance" and "ecetra Internet Services AG" he took overall responsibility for the online broker and internet bank of Erste Bank Group. From March 2003 he assumed the assignment as Executive Director of Group Organization & IT of Erste Group. In July 2007 he was promoted to Chief Operating Officer and Member of the Executive Board of Erste Group responsible for Organisation, IT, Facility Management, Operations and Processing within the entire group. Since 2008 the Group-wide responsibility includes also Card Management and Procurement.
Mr. Juranek was elected by the General Meeting into the function of a Supervisory Board Member as of 29th April 2005.

Membership in other companies: Banca Comerciala Romana SA; Dezentrale IT – Infrastruktur Services GmbH, ecetra Central European e-Finance, ecetra Internet Services AG, Informationstechnologie Austria GmbH, s IT Solutions AT Spardat G. m. b. H., s IT Solutions SK, spol. s r. o., Slovenská sporiteľňa, a. s., Informations-Technologie Austria SK, spol. s r. o., Erste Group Bank AG, Erste Steiermaerkische bank d. d. Rijeka, Informations-Technologie Austria CZ, s. r. o.

HEINZ KESSLER
Born on 19th August 1938
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Immediately after finishing his studies, in 1964 Dr. Kessler became employed by Nettingsdorfer Papierfabrik AG, became a member of the Board from 1974 and Chairman of the Board from 1982.
Mr. Kessler was elected by the General Meeting into the function of Supervisory Board Member on April 2007.

Membership in other companies: Die Erste österreichische Spar-Casse Privatstifung AG, Allegemeine Sparkasse Oberösterreich Bankaktiengesellschaft, AVS Beteilligungsgesellschaft m. b. H., Tiroler Sparkasse Bankaktienge, Erste Group Bank.

ANDREAS KLINGEN
Born on 18th August 1964
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Klingen is a graduate of Technische Universität in Berlin with specialization in physics and philosophy and a graduate of Rotterdam School of Management. His professional career started as a researcher in Festkörper – Laser-Institut in Germany. During years 1993–1998 he worked as an analyst and associate in Lazard Freres, afterwards until 2005 as senior Associate and senior Vice President of JP Morgan in London. He joined Erste Bank der österreichischen Sparkassen AG in 2005 as a General manager for Strategic Group Development. Mr. Klingen was elected by the General Meeting into the function of Supervisory Board Member in April 2007.

Membeship in other companies: Open Joint Stock Company Erste Bank, Erste Bank Hungary Nyrt, Erste Bank AD Novi Sad.
Members of Managing and Supervisory Boards declares not to be aware of possible conflict of business, private and other interests or duties.

ANDREAS TREICHL
Born on 16th June 1952
Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Andreas Treichl studied economic sciences at Vienna University in 1971–1975. After completing a training program in New York, he began his career at Chase Manhattan Bank in 1977. In 1983 he began to work at Die Erste for the first time. In 1986 he accepted a General Manager position with Chase Manhattan Bank Vienna. In 1994 Mr Treichl was appointed to the Management Board of Die Erste. In July 1997, he was appointed as CEO.
He became a member of the Supervisory Board of Česká spořitelna at the Extraordinary General Meeting in June 2000; subsequently he was elected its Chairman. The General Meeting in April 2006 re-elected Mr. Treichl in his function.
Mr. Treichl resigned upon his function as of April 2008.

JOHANNES KINSKY
Born on 7th August 1964
Vice Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Kinsky studied on the Institut d'Etudes politiques de Paris, where he graduated in 1988 in finance, law history and political science. His career started in Deutsche bank, where he performed various positions as credit analyst, Head of Debt Capital Market and finally as a country manager for the Czech Republic, Slovakia and Croatia. Since 1999 Mr. Kinsky was Managing Director and Head of CEE in JP Morgan. In July 2007 Mr. Kinsky should became a member of future Erste Bank Group Board.
Mr. Kinsky was elected by the General Meeting into the function of Supervisory Board Member in April 2007 and Vice Chairman of the Supervisory Board in May 2007.
Mr. Kinsky demised in June 2008.

PÉTER KISBENEDEK
Born on 12th September 1964
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Kisbenedek graduated from University of Economics in Budapest in 1988 with specialization in Foreign Trade

and Marketing Line. In 1988 he began to work for Sancella Hungary as a Product Manager and further as Sales Director. From 1991 until 1995 he performed various managing positions in Philip Morris. In 1995 Mr. Kisbenedek was appointed into the function of Deputy CEO of Sales and Marketing in ÁB – AEGON General Insurance. Within the Company he was appointed as a Head of Retail Division and Deputy CEO of Non-life Insurance. Since 2000 he has been working in the Erste Bank Group, till 31. 12. 2006 he was a Chairman and CEO of Erste Bank Hungary with responsibilities especially for Strategic Management, Human resources, Legal, Marketing. Since 1st July 2007 was Mr. Kisbenedek elected to Chief Financial Officer, CPO (Chief Performance Officer) and Member of the Board of Directors of the future Erste Bank Group Board.
Mr. Kisbenédek was elected by the General Meeting into the function of Supervisory Board Member in April 2007.
Mr. Kisbenédek resigned upon his function in April 2008.

MONIKA LAUŠMANOVÁ
Born on 30th October 1962
Member of the Supervisory Board
Reference Address: Na Perštýně 1, Prague 1, Czech Republic

Mrs. Laušmanová graduated from the Faculty of Mathematics and Physics. Her carrier started on the Faculty of Matheamtics where she worked as an assistant in the area of finance and insurance mathematics.
In 1997 she worked as a risk manager and analyst in Expandia Finance. In 1998 she joined Erste Bank (CR) in the position of Head of Risk Management. Since the merger of Česká spořitelna and Erste Bank Mrs. Laušmanová is responsible for the Central Risk Management in ČS. Mrs. Laušmanová is a member of Czech Banking Association, she is Head of Commission for the Bank regulation.
As of 12th August 2005 she was elected by the ČS employees as a Member of the Supervisory Board of Česká spořitelna, a. s.
Mrs. Lausmanová term of office expired in November 2008.

MAREK POSPĚCH
Born on 1st October 1967
Member of the Supervisory Board
Reference Address: Nám. Dr. Beneše 6, Ostrava, Czech Republic

Following graduation from a secondary professional school of construction in Valašské Meziříčí, Mr. Pospěch worked with Tesla Rožnov in the control and quality assurance department for six years. In 1992, he joined Česká spořitelna's branch office in Ostrava where he worked in the operations security department. From 1995, he worked in the general administration department and is currently a head office manager of the property management department. With effect from 1994, he has sat on the Organisation-wide Committee of the CS Labour Union. Since 2006 he is a member of Czech Institute of Directors within certification of Corporate Governance Program. With effect from 1 April 2002, he has been elected by the employees of Česká spořitelna as a member of the Supervisory Board, and re-elected in July 2005.
Mr. Pospěch's term of office expired in October 2008.

JITKA ŠROTÝŘOVÁ
Born on 18th November 1948
Member of the Supervisory Board
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mrs. Šrotýrová graduated from the secondary school of general education in Prague. In 1967, she joined Tesla Prague as a specialist. From 1970 to 1984 she worked as a supply manager for Tesla Eltos and the Project and Engineering Organisation. She has worked with Česká spořitelna since 1985, largely as a senior professional official of the recreation department where she is in charge of the operation of recreation facilities. Since 1986, she has been a member of the Organisation-wide Committee of the CS Labour Union. She is also chairwoman of the Sports Committee at Česká spořitelna. With effect from 1st April 2002, she has been elected by the employees of Česká spořitelna as a member of the Supervisory Board and re-elected in 2005.
Mrs. Šrotýřová's term of office expired in October 2008.

Macroeconomic Development of the Czech Republic in 2008

The economy in recession due to Western Europe, return to growth no sooner than in 2010

The Czech economy grew by 3.1 percent in 2008, some 2.9 p.p. less than in 2007. In the first half of 2008, the economy slowed mainly due to the January 2008 reforms which lifted the price level and dragged down the otherwise fast growth of nominal wages (9.1 percent year on year in the first half of 2008). Consumption thus grew only 3 percent over the same period (compared to more than 5 percent in 2007). The impact of the financial crisis on the growth became evident in the latter half of 2008, and particularly the last quarter of 2008. While the Czech Republic coped well with the first banking phase of the crisis, being a small and open economy it is not in a position to avoid the dramatic slowdown in foreign demand over the last three months of 2008. Given the large share of industry in gross added value (one third, which is the highest among EU countries) and given that the industry is largely export-driven, significant drops in foreign orders in the fourth quarter of 2008 resulted, not surprisingly, in a decline in industrial production of more than 13 percent. Hence, the growth in the fourth quarter of 2008 dropped, year on year, to 0.7 percent, and by 0.9 percent compared to the previous quarter.

In 2009, Česká spořitelna's analysts expect that due to the crisis and slowdown of European economies the economy will decrease by 1.3 percent primarily due to the significant drop in net exports and investment. Household consumption will be dragged down by a substantially weaker labour market (the Bank expects unemployment above 8 percent at the end of 2009 and low nominal wage growth) and, mainly in the second half of 2009, a gradual pickup in inflation due to the weaker rate of the Czech crown. Consumption will thus grow at a mere 0.9 percent in 2009. A gradual recovery in the Czech Republic can be expected only when the major markets pick up in 2010. If that happens, the Czech Republic should grow by 1.5 percent.

Inflation slowing dramatically, CZK to ward off deflation

Cost factors (food prices and energy prices) from late 2007 and administrative interventions from January 2008 drove the average 2008 inflation to 6.4 percent. This put the Czech National Bank under pressure to hike rates mainly in the first half of 2008 when there were few signs of a slowdown ahead. The fourth quarter of 2008, when inflation dropped to 3.6 percent in December and the European economy experienced a substantial slowdown, hinted at what lies ahead in the first half of 2009. The Bank expects a strong disinflationary effect of the previous strong CZK (the first quarter of 2009) and oil prices (the first and second quarter of 2009), and a disinflationary effect of a recessionary real economy thereafter. In the first and second quarter of 2009, the year-on-year inflation values will be close to 0 percent in some months. However, the weaker CZK will gradually lift inflation in the second half of 2009 and then bring it slightly above the CNB target in 2010 (2 percent from 2010).

CZK on a rollercoaster ride from one extreme to another

The CZK exchange rate was extremely volatile in 2008 and tracked the market sentiment and associated flows closely. Sentiment was decisively in favour of Central Europe or Europe in the first half of 2008, when it was claimed that issues with bad assets were essentially an American problem and that Europe would escape these problems. This then reinforced the optimistic view on Central and Eastern Europe – the Czech Republic viewed as "an island of stability" – and was reflected in the major strengthening of the EUR against the USD and the major strengthening of the CZK (and other Central and Eastern European currencies) against the EUR. The CZK got as high as CZK 23/EUR 1, prompting a reaction by the CNB, which thus became the first bank in the region to decrease rates. Since late summer 2008, the CZK has been on a weakening trajectory, moving closer to its fundamental value, expected by the Bank, of around CZK 25.50–26.00/EUR 1 at the end of 2008. However, sentiment swung to the other side in the fourth quarter of 2008, when investors "realised" that the region is very dependent on overseas demand; accordingly, regional currencies slid further and more rapidly. The Polish zloty lost 18 percent in the first six weeks of 2009, while the Czech crown shed 10 percent. This led the CNB to intervene verbally, both on the part of the Governor and the other members of the Banking Council.

According to Česká spořitelna, the CZK will remain volatile in the short term, with a tendency to weaken, although this should be kept in check by the CNB. There are three reasons for this: poor sentiment (nurtured by inaccurate information in some media) and a failure to differentiate between the Czech Republic and other countries of the region; a worse trade balance; and the absence of flows (hedging of exporters). Once the situation stabilises in the second half of 2009 and investors own up to the fact that there are differences among the countries in the region, the CZK will return to strengthening. The 2009 year-end will see the CZK average CZK 25.10 /EUR 1 over the fourth quarter of 2009.

Rates bottom out due to the CZK, normalisation to be slow

The development of rates in 2008 differed in the first and second half. While the CNB lifted the two-week repo rate to 3.75 percent in February 2008 where it stayed in the first half of 2008, the strong CZK in late summer and the outbreak of the crisis led to the rapid decline of rates to as low as 1.75 percent at the beginning of 2009. Given the weak crown and the weakness of the economy, the Bank's analysts do not see much space for further cuts in rates; they expect one more hike in rates of 25 p.p. later this year, with the weak currency skewing the risks towards an earlier hike. Effective short-term rates should keep falling for some time, as the risk premium gradually disappears. As for long rates (bond rates), the Bank expects that two effects will be at work: on one hand, the risk premium that investors now require of the Czech Republic and which does not align with the situation of the economy will gradually fall; on the other hand, the supply will rise, due to the higher financing needs of the government. Česká spořitelna sees the second effect as larger in the long term, leading to overall growth in yields.

Report on Performance and Business Activities

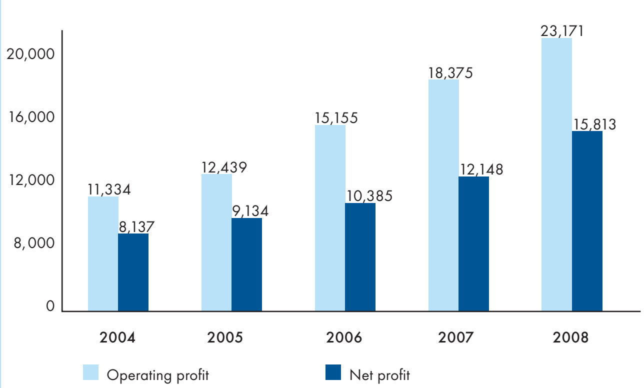
CONSOLIDATED RESULTS OF OPERATIONS (INTERNATIONAL FINANCIAL REPORTING STANDARDS)

Česká spořitelna achieved the best results its almost two-hundred-year history. The success was due to outstanding operating results which confirmed that **Česká spořitelna's conservative approach including its well-balanced and prudent business policy was the right method to take.** The achievement was supported by non-recurring income from the sale of Pojišťovna ČS. On the other hand, 2008 witnessed a major financial downturn culminating in the collapse of Lehman Brothers and Icelandic banks which adversely affected Česká spořitelna's operations. **Yet in aggregate, the impact of non-recurring factors on profit or loss was neutral.** At the 2008 year end, clients voted Česká spořitelna the Most Credible Bank of the Year for the fifth time in a row acknowledging again that the Bank is heading in the right direction.

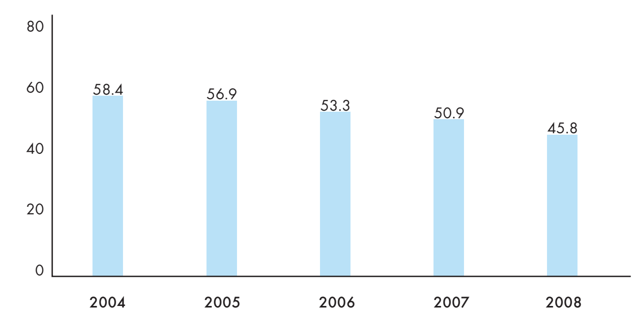
PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2008 Česká spořitelna reported, under International Financial Reporting Standards (IFRS), a consolidated **net profit**, net of minority interest, of CZK 15,813 million. Compared to 2007 when the net profit amounted to CZK 12,148 million, the net profit grew by CZK 3,665 million, i.e. 30 percent. **The key indicator of return on equity (ROE) improved to 26.3 percent due to the increase in net profit.** In 2007, ROE was 23.8 percent. Return on assets (ROA) improved to 1.8 percent. Profit before taxes, net of profit from discontinued operations and minority interest, decreased by 6 percent to CZK 14,076 million year on year.

Net profit and operating profit (CZK mil)



Cost/Income (%)



Česká spořitelna's performance was driven by three major factors: the bank's operating profit demonstrating the bank's strength to generate profit grew by 31 percent to CZK 23,171 million year on year; the non-recurring income from the sale of Pojišťovna České spořitelny of CZK 4,261 million; and financial markets' downturn mirrored in the negative result of CZK 4,352 million due to financial assets revaluation.

Operating profit, determined as the difference between operating income and expenses, **reported** marked growth of CZK 5,445 million to CZK 23,171 million, i.e. **a 31 percent increase**. Total operating income, comprising net interest income, net fee and commission income, and the net trading result rose by 18 percent to CZK 42,712 million. **Remarkable operating income is driven by outstanding trading results** supported by product innovations such as Personal Account, Ideal Mortgage, Golden Deposit or Smart Card. Operating expenses, comprising staff costs, other administrative expenses and depreciation/amortisation charges on property and equipment and intangible assets, increased by 6 percent to CZK 19,541 million in line with inflation.

The key **cost/income ratio** was successfully decreased to **45.8** percent thanks to the considerable growth in operating income, which is a year-on-year improvement of 51 basis points.

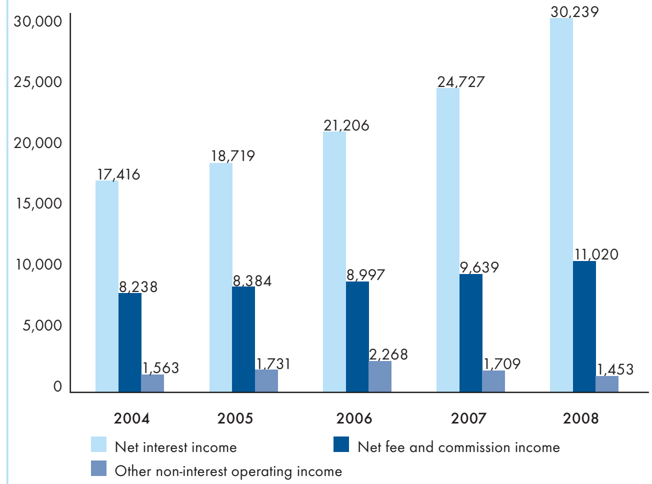
The significant operating income was predominantly driven by net interest income. **Net interest income** for the year ended 31 December 2008 amounted to CZK 30,239 million, which represents a **significant year-on-year increase of 22 percent**.

The successful result was primarily attributable to a further increase in lending, particularly loans for housing, consumer loans and loans to small and medium sized enterprises, giving rise to a notable 30-percent increase in interest income on loans and advances to customers totalling CZK 29,151 million. The interest income on loans and advances to customers represents 66 percent of interest income. The major growth in loans and advances to financial institutions supported by higher market inter-bank interest rates helped increase the net interest income from transactions with financial institutions by 67 percent to CZK 5,629 million. The fastest growing component of interest income was income from dividends, which grew by 77 percent to CZK 816 million. Income from debt securities fell slightly by 3 percent to CZK 7,453 million due to a year-on-year decrease in their portfolio volumes. **In total, interest income grew by 27 percent to CZK 43,852 million.**

The growth of interest expenses reflected the increased volume of products on the liabilities side as well as growing interest rates. Principally, interest expenses on client deposits, amounts owed to financial institutions and bonds in issue including subordinated debt increased. **The total interest expenses represent CZK 13,613 million**, which is a 38-percent year-on-year increase.

The net interest margin in relation to interest-earning assets improved by 35 basis points to 4.07 percent; the improvement was due to greater allocation of funds to products bearing more effective interest rates. Net interest income was also stimulated by higher interest rates although the ČNB dramatically decreased its rates at the year-end; in 2008, the ČNB's two-week repo rate initially grew by 25 basis points to 3.75 percent in February, then returned to 3.50 percent in August and finally fell to 2.25 percent at the end of November).

Net interest income and other operating income (CZK mil)



Net fee and commission income increased by 14 percent year on year, reaching CZK 11,020 million. The achieved year-on-year growth in net fee and commission income was primarily driven by the increase in the volume and number of payment and card transactions, expansion of loan transactions and sale of insurance products.

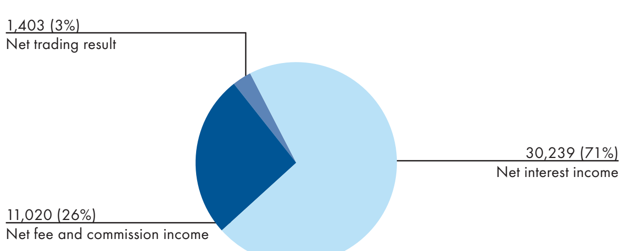
The successful result is primarily attributable to net fee income from payment and card transactions which rose by 15 percent to CZK 6,349 million; card transactions represent 21 percent. **Payment and card transactions grew considerably in their volume and number**, e.g. the number of payment card transactions in Česká spořitelna's network grew by 54 percent, the number of ATM withdrawals rose by 6 percent, the number of single payment orders increased by 8 percent.

Net fees and commissions from lending transactions grew by 17 percent to CZK 2,206 million **due to continuing development of loan deals**. The notable 87 percent growth in net income from insurance products was driven by both the selling of traditional insurance products and insurance services closely tied to banking products. The majority of newly provided loans include a certain form of insurance. Net insurance income totalled CZK 282 million.

Net fee income from securities trading fell moderately by 5 percent to CZK 1,222 million due to **declining fee income from mutual funds** and asset management **in response to lower demand as a result of the financial downturn**. The proportion of net fee and commission income to total operating income has been gradually decreasing, from 31 percent in 2004, to 26 percent in 2008.

The net trading result for the year ended 31 December 2008 totalled CZK 1,453 million, a decrease of 15 percent year on year. **The net trading result was affected by adverse development in financial markets and unprecedented volatility of foreign exchange rates** during 2008. The generated net trading result was predominantly driven, particularly in the second half of the year and with respect to declining interest rates, by income from debt securities trading. Profit from securities trading represented CZK 837 million. On the other hand, declining interest rates drove costs of interest derivative trading to the negative value of CZK 811 million. Although profit from foreign currency transactions dropped by one-third in connection with the weakening CZK mainly at the 2008 year-end, it amounted to CZK 1,249 million.

Structure of operating income (CZK mil)



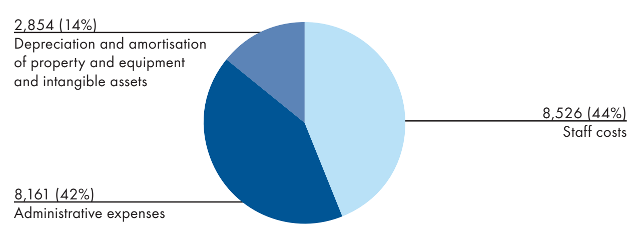
General administrative expenses (operating expenses) grew 6 percent year-on-year in 2008, i.e. in line with the annual inflation level, also due to the **measures aimed at cost cutting implemented in the last quarter of 2008**. The total amount of general administrative costs was CZK 19,541 million.

Staff costs represent CZK 8,526 million of the total general administrative expenses. **Compared to 2007, staff costs rose only by 1 percent**. Increases in staff salaries and performance-driven bonuses were partly offset by newly established limits of social security and health insurance contributions.

Other administrative expenses, the second largest component of operating expenses, **grew profoundly** by 23 percent to CZK 8,161 million. The year-on-year growth is attributable namely to the increase in data processing expenses of 37 percent relating to the outsourcing of IT services and other IT expenses. Office space costs and advisory, advertising and marketing expenses also grew as a result of the continuous business expansion of the Bank. The largest item within administrative expenses is data processing expenses representing 34 percent. Other significant expenses relate to office space (19 percent); trading (17 percent); advertising and marketing (13 percent); and legal and advisory services (7 percent).

The volume of depreciation/amortisation of property and equipment and intangible assets, primarily IT products licenses and software and hardware, **was reduced considerably** by 13 percent to CZK 2,854 million due to the outsourcing of IT services. The depreciation/amortisation structure is well-balanced; property and equipment, and intangible assets both represent 50 percent.

Structure of operating expenses (CZK mil)



The net charge for provisions for credit risks reported a negative balance of CZK 3,544 million, which represents nearly a two-third increase year on year. Of the total net charge for provisions for the year ended 31 December 2008, the parent bank represents 93 percent. **The principle reason for the year-on-year increase in the net charge was the maturing**

of loans provided in recent record-breaking years and the growing volume of loans, which resulted in a higher charge for provisions for credit risks, principally for consumer loans and loans to small and medium sized enterprises.

The balance of other operating income and expenses of CZK –5,551 million at the end of 2008 markedly decreased compared to 2007. **The key reasons** for the major **decrease** include **income and losses from the revaluation and sale of financial assets** at fair value, securities available for sale and assets held to maturity, which in total reported a negative result of CZK 4,352 million in direct connection with considerable declines in financial markets. The result includes the impairment of Lehman Brothers' bonds of CZK 301 million, the impairment of Icelandic banks' bonds of CZK 2,245 million and loss on structured credit products revaluation totalling CZK 1,120 million. The negative impact of losses on financial assets was partly offset by income from sales on the Prague Stock Exchange amounting to CZK 636 million.

Other operating results also include: a higher contribution to the Deposit Insurance Fund due to the growth of client deposits volumes; worse results of the sale and revaluation of real estate owned by real estate funds; lower provisions for non-credit risk; and reduction of costs of the clients' share in profit of Penzijní fond České spořitelny.

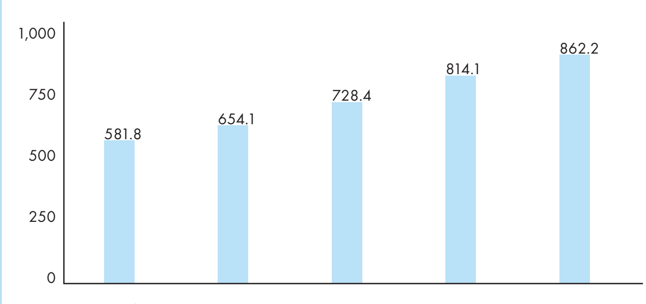
The tax liability of the Česká spořitelna Financial Group **for the year ended 31 December 2008 decreased by 13 percent to CZK 2,809 million**, which represents an effective tax rate of 15.1 percent. Compared to 2007, the effective rate is lower by 5.5 basis points as a result of the sale of Pojišťovna ČS and the ownership interest on the Prague Stock Exchange, which are not subject to taxation, and due to a lower corporate income tax rate. The tax amount comprises the current year tax charge of CZK 3,001 million and the aggregate impact of movements in deferred taxation resulting primarily from the change in the income tax rate in the aggregate amount of CZK 192 million.

In the context of the strategic sale of insurance companies within the Erste Group, **Česká spořitelna sold its equity investment in Pojišťovna České spořitelny** to Vienna Insurance Group in September 2008. Česká spořitelna retained a 5 percent interest in Pojišťovna České spořitelny. In addition to the sale of the insurance company, **a contract establishing grounds for future close cooperation was entered into for the forthcoming fifteen years.** Both the income from the sale of Pojišťovna ČS and net profit from insurance activities between 1 January 2008 and 15 September 2008 amounting to CZK 4,460 billion were reported as profit from discontinued operations after taxes. For the year ended 31 December 2007, profit from discontinued operations after taxes comprised net profit from insurance activities. **The net income from the sale totalled CZK 4,261 million.**

BALANCE SHEET

As of 31 December 2008, the consolidated assets of Česká spořitelna amounted to CZK 862.2 billion. Compared to the 2007 year-end, the consolidated assets rose by 6 percent, which, in absolute terms, represents an increase of CZK 48.1 billion while considering that the total assets decreased by the selling of Pojišťovna ČS. **The increase in total assets on the liabilities side of the balance sheet was primarily due to amounts owed to customers**, the negative fair value of financial derivative transactions and shareholder's equity; on the assets side of the balance sheet it was mainly **due to the increase in customer loans, loans and advances to financial institutions** and positive fair value of financial derivative transactions.

Total assets (CZK billion)



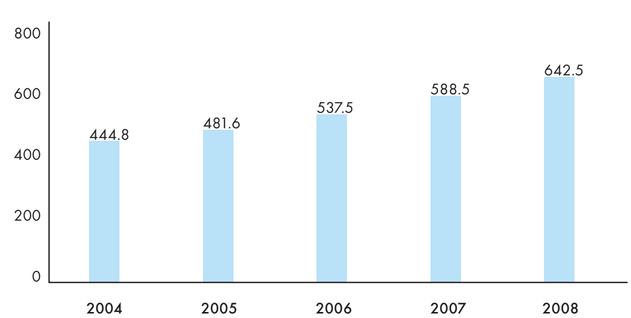
Liabilities

Client (primary) deposits have traditionally formed the key resource of Česká spořitelna's funding in respect of lending activities which **makes Česká spořitelna substantially independent of inter-bank funding**. Client deposits accounted for 74 percent of all liabilities. Client deposits rose year on year by CZK 54.0 billion to CZK 642.5 billion representing a year-on-year increase of 9 percent. The growth in client deposits has also driven Česká spořitelna's strong liquidity. Deposits denominated in foreign currencies represent a stable 4 percent portion of the total client deposit volume.

The year on year increase in the volume of deposits by citizens shows their confidence in the Bank. Deposits made by private individuals which account for 76 percent of all client deposits increased by 10 percent to CZK 489.0 billion. The largest increase in deposits was noted in respect of giro accounts, retirement benefit deposits, term placements and construction savings. By contrast, deposits in savings books suffered a decline.

Deposits made by the public sector reached CZK 61.7 billion, i.e. an increase of 21 percent, particularly on current accounts and repo transactions. While deposits made by corporate clients stayed at CZK 91.8 billion, their structure changed moderately when balances of term placements grew and current account balances dropped.

Client deposits (CZK billion)



The total volume of client funds under the Group's management (i.e. deposits made by clients, mutual funds of Investiční společnost ČS and REICO ČS and asset management in Česká spořitelna) increased year on year by 4 percent, regardless of poignant outflow of investment from mutual funds, **totalling CZK 733.8 billion**, of which nearly one-fourth is managed by subsidiaries.

The balance of amounts owed to financial institutions, comprising loans, term placements and current account balances, slightly fell year on year by 2 percent and was CZK 57.6 billion as of 31 December 2008, of which loans under repo transactions accounted for CZK 17.2 billion. While the proportion of Česká spořitelna's inter-bank market transactions dropped moderately, the proportion of leasing companies in the Group and real estate funds increased in connection with their trading activities.

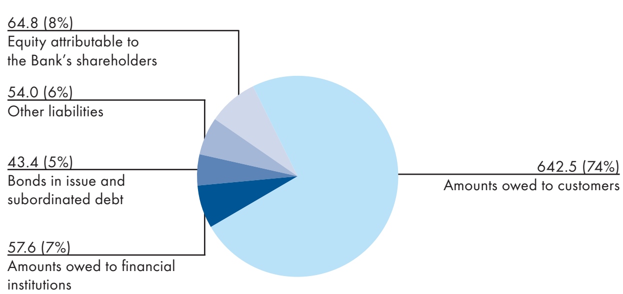
The total volume of bonds in issue decreased, on a consolidated basis, year on year by 19 percent to CZK 38.2 billion, excluding structured bonds in issue at fair value. The decline is due to the maturing of bonds issued earlier and a lower need of the Bank to issue new bonds compared to the record-breaking year 2007. The total volume of mortgage bonds, representing a stable and long-term source of funding for mortgage transactions within the balance sheet of the consolidated group, accounts for CZK 32.3 billion. The volume of bonds in issue and depository bills was CZK 3.5 billion and CZK 2.4 billion, respectively.

In the context of dynamic lending growth, Česká spořitelna issued subordinated bonds to strengthen its capital base in 2005 and 2006. As of 31 December 2008, the subordinated debt totalled CZK 5.2 billion.

The balance of equity attributable to the Bank's shareholders, comprising share capital, share premium, the statutory reserve fund, the revaluation gains and losses (especially securities carried within the available-for-sale portfolio and exchange rate differences), retained earnings and profit for the reporting period, **grew by 17 percent to CZK 64.8 billion year on year**, which was primarily attributable to the generated profit. By contrast, the balance of shareholder's equity decreased as a result of the payment of dividends for 2007 amounting to CZK 4.6 billion.

The individual capital adequacy of Česká spořitelna calculated in compliance with the Basel II directive significantly improved by 80 basis points to 10.31 percent. The total capital used to calculate the capital adequacy (Tier 1 and Tier 2 net of deductible items) was CZK 43.0 billion and the total capital requirements amounted to CZK 33.3 billion.

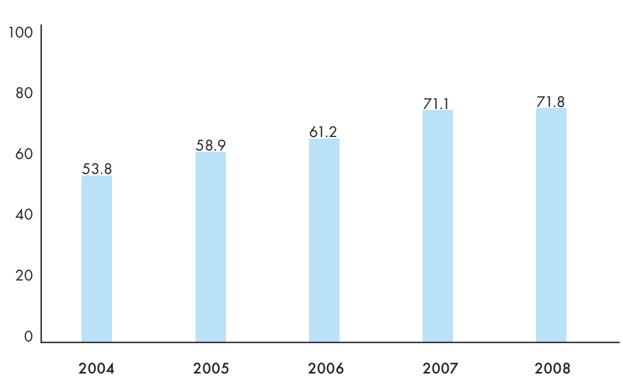
Structure of liabilities (CZK billion)



Assets

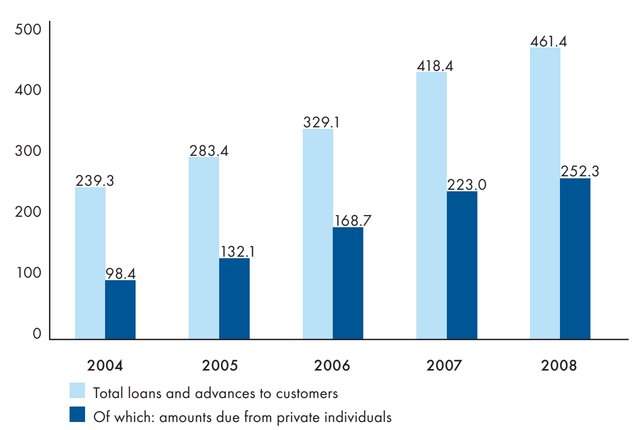
The key component of Česká spořitelna's lending transactions, which generates the predominant portion of operating income, includes loans and advances to customers. **In 2008, lending growth continued**; the total volume of loans and advances to customers grew by 10 percent, which accounts for CZK 43.0 billion, in absolute terms, reaching CZK 461.4 billion. Regardless of excellent results the growth rate of new loans, particularly mortgage loans, kept slowing down. **The proportion of client loans relative to client deposits stayed at 71.8 percent, a rather conservative level.** In all lending transactions, net loans and advances to customers account for 52 percent while at the end of 2003 their proportion represented only 32 percent. Proportion of client loans advanced in foreign currency represents only 5 percent.

Proportion of client loans relative to client deposits (%)



The volume of loans to private individuals, including mortgage loans, reached CZK 252.3 billion, **an increase of 13 percent over the previous period**. This outstanding achievement was mainly attributable to housing loans and construction savings loans. Consumer loans including credit cards and overdraft loans on giro accounts rose by 24 percent to CZK 76.7 billion. Bridging loans and construction savings loans provided by Stavební spořitelna ČS grew by 28 percent to CZK 42.8 billion. The retail mortgage loan portfolio increased by 4 percent to CZK 119.5 billion; the relatively low growth is due to Česká spořitelna's conservative approach to the real estate market development. The proportion of loans to private individuals to total loans and advances to customers rose from 47 percent in 2005 to 55 percent in 2008.

Total loans and advances to customers (CZK billion)



Česká spořitelna also experienced **growth in the volume of loans and advances, including mortgage loans, to customers in the business and corporate segment** where the aggregate loan portfolio increased by 9 percent to CZK 194.4 billion. The most significant increases were attributable to **mortgage loans advanced to corporate clients** primarily for development projects, the volume of which reached CZK 52.0

billion, a year-on-year increase of 22 percent. The portfolio of loans and advances to large corporate clients (excluding mortgage loans) represented over CZK 64.1 billion at the 2008 year end, an increase of 7 percent; loans and advances to small and medium sized enterprises accounted for CZK 54.7 billion, an increase of 11 percent. The public sector is a long-term partner of Česká spořitelna. The aggregate balance of loans issued to this segment was CZK 14.8 billion, a decrease of 15 percent over the previous period. Mortgage loans to the public sector represent CZK 2.3 billion.

The overall portfolio of mortgage loans to private individuals, legal persons and the public sector totalled CZK 173.9 billion, reasonable growth of 9 percent; **mortgage loans accounted for 38 percent of all loans in the portfolio**.

Compared to the 2007 year end, the quality of the Group's loan portfolio worsened as expected due to the rising financial downturn. While the proportion of high-risk loans grew from 2.5 percent to 3.4 percent, it stayed at a low level.

Loans and advances to financial institutions notably increased, year on year, by 42 percent to CZK 93.3 billion; in particular, the volume of reverse repo transactions grew to CZK 13.7 billion. Of the total balance of loans and advances to financial institutions, placements with financial institutions and loans provided to banks amounted to CZK 65.5 billion and CZK 25.5 billion, respectively. **The growth in loans and advances to financial institutions is attributable to the reallocation of funds on the liability side of the balance sheet**; liquidity surplus is placed with the Česká národní banka (CZK 9.0 billion).

The aggregate balance of the portfolio of securities at fair value, securities available for sale, and securities held to maturity was **CZK 209.9 billion**, a decrease of 7 percent compared to 2008.

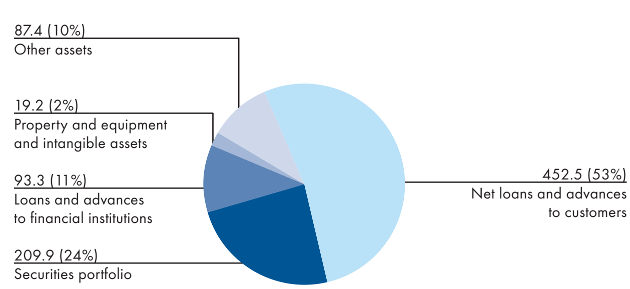
Only the portfolio of securities at fair value whose volume amounted to CZK 55.9 billion reported a slight increase. The available-for-sale portfolio decreased moderately to CZK 35.0 billion and securities held to maturity showed a decrease to CZK 118.9 billion. The **decline in the securities portfolios is attributable to the successful allocation of funds to loans and advances to customers and financial institutions.**

Bonds accounted for 96 percent of the securities portfolios. **The portfolio structure altered significantly** because Česká spořitelna preferred acquiring bonds issued by government institutions of the Czech Republic whose total percentage rose from 57 percent to 66 percent. Of the total portfolio, bonds issued by foreign financial institutions and bonds issued by financial institutions in the Czech Republic represented 20 percent and 6 percent, respectively and, in 2007, 27 percent and 7 percent, respectively. Other bonds were issued by foreign government institutions, other entities in the Czech Republic with a state guarantee and other foreign entities.

Investment property, including property under construction grew by 7 percent year on year, totalling CZK 19.2 billion. New acquisitions amounted to CZK 1.1 billion. **Real estate financing is one of the key areas of interest to Česká spořitelna.** The Bank also finances real estate investment funds, operating as part of the Group, for institutional investors focused on the Czech and Slovak markets. Investment property was aimed at achieving rental income or capital appreciation.

The aggregate **balance of property and equipment and intangible assets**, of which land and structures accounted for 68 percent, decreased year on year by 3 percent to CZK 19.2 billion. The balance of intangible assets fell by 16 percent to CZK 3.8 billion. By contrast, the balance of property and equipment slightly grew to CZK 15.4 billion. The aggregate proportion of property and equipment and intangible assets to total assets was 2 percent.

Structure of assets (CZK billion)



Business Activities and Operations

BUSINESS ACTIVITIES AND OPERATIONS

Česká spořitelna has successfully completed the "First Choice Bank" Programme, the aim of which involved transforming Česká spořitelna into a dynamic and respected bank in the Czech Republic. **Our achievements in implementing our strategic vision – the practical implications of which included an increase in the number of clients, higher client satisfaction with the quality of services**, increased volumes of the key lending and deposit products, and a number of prizes awarded in competitions intended for the professional and general public **– confirmed that our vision is accurate.**

PRIVATE CLIENTELE

The Bank's key client segments include citizens of the Czech Republic as well as foreign clients who reside in the Czech Republic, students, entrepreneurs, sole traders and independent professionals.

In the client products and services segment, Česká spořitelna worked to achieve maximum flexibility and variability. The first product adjusted to this strategy is the Private Account ("Osobní účet"), which gives the Bank's clients freedom to create their accounts by selecting what they really need from 14 optional services offered in 3 levels. The Private Account was introduced to the market in August 2007. In November 2008, the number of users exceeded one million clients.

The second variable product offered by Česká spořitelna, which is based on the same individual approach, was the Ideal Mortgage ("Ideální hypotéka"). Introduced in April 2008 this mortgage allows clients to select the final configuration of their mortgage loans. In addition to the basic mortgage loan offering, other optional products and services entitled Individuality, Flexibility, and Security can be selected.

In mid-August 2008, Česká spořitelna introduced the third flexible product, a Clever Card ("Chytrá karta") to the market. A Clever Card holder may choose the card's design and functions by selecting up to 10 optional services. The **Clever Card** is intended for shopping as it can save considerable amounts for its holder by a lowest price guarantee, extended warranty for purchased goods and other services. In early November 2008, the number of issued Clever Cards amounted to 100,000 after approximately 3 months of the card's existence.

Financing the Housing of Individuals

The new mortgage loan market in the Czech Republic decreased in 2008 compared to the record year of 2007 and, consequently, Česká spořitelna was impacted by the decline.

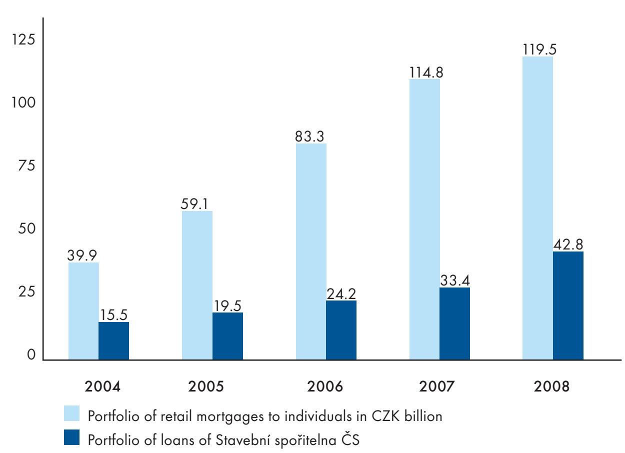
Česká spořitelna places great emphasis on the quality of mortgage loans. **The close relation between the quality of advanced mortgage loans**, the type of some external partners **and** individual **risk parameters** of loan transactions **resulted in the need to make some changes in advancing mortgage loans**, principally to reduce co-operation with problematic external agents. In combination with lower demand compared to the record increase in mortgage loans in 2007 and the fast recession in late 2008, the sale of new mortgage loans significantly slowed down. The number and volume of newly-advanced mortgage loans to individuals decreased to one-half year on year.

In spite of the above-mentioned circumstances, **the total volume of the portfolio of mortgage loans advanced to individuals increased by 4 percent to CZK 119.5 billion.**

Co-operation in financing housing for individuals is one of the most important activities of Česká spořitelna. Every client expects an individual approach and **Česká spořitelna responded to this client requirement with the Ideal Mortgage, a product from the variable product portfolio**, which allows the Bank's clients to set up their individual mortgage loans according to their needs and wishes. The Ideal Mortgage includes arranging and advancing mortgage loans free of charge, a thirty-day guarantee of the interest rate offered, on-line valuation of the real estate prepared in a branch, and unlimited drawing for free in the first three months. In addition to the basic offering, clients may select from products and services entitled Individuality, Flexibility, and Security.

Thanks to Individuality, clients can select the type of their mortgage loans, for example a loan of 100 percent of the real estate's value. Flexibility allows them to adjust the loan to where they are in their lives, for example it allows them to reduce the loan outside the fixed period using one of the services offered. Security protects them from risks that would render them incapable of making payments. Thanks to this package, clients can insure their capability to pay or receive advantageous interest rates if they pay the mortgage loan from an account with Česká spořitelna. Mortgage holders who had been given mortgage loans before the Ideal Mortgage was introduced may use the same services as the Ideal Mortgage holders.

Housing loans to individuals portfolio in CZK billion



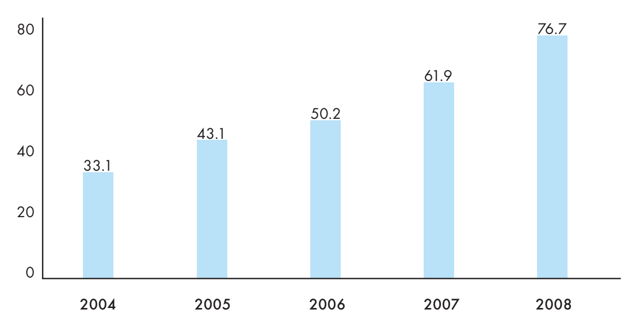
In the Česká spořitelna Financial Group, **clients extensively use services of Stavební spořitelna České spořitelny** to finance their housing needs.

As opposed to mortgage loans, the **dynamic pace of providing Stavební spořitelna ČS's loans** continues. The overall portfolio of bridging loans and construction savings loans in close co-operation with the parent bank reported a 28 percent increase year on year to CZK 42.8 billion, of which bridging loans represent nearly three-quarters. In 2008, Stavební spořitelna ČS provided nearly 35,000 new loans in the total volume exceeding CZK 13.5 billion. The total number of loans towards the year end exceeded 200,000.

Financing the Needs of Private Individuals

The positive growth trend in satisfying the financial needs of individuals through consumer loans for private clientele continued its pace in 2008. **Česká spořitelna achieved its historic maximum absolute year-on-year increase in the consumer loan portfolio.** The aggregate amount of the portfolio of commercial loans advanced to individuals, including loans on credit cards and overdraft loans on Giro accounts, increased by nearly 25 percent to CZK 76.7 billion year on year. The portfolio includes over 2.5 million loans. In 2008, nearly half a million new consumer loans were advanced in the amount of CZK 33.1 billion. The average amount of consumer loans grew by 22 percent and the average maturity remained at 71 months.

Total volume of the commercial consumer loans portfolio in CZK billion



Traditionally, a CKZ 50 thousand loan is the most popular loan from the consumer loans advanced. The number of CZK 100 and 200 thousand loans is also growing rapidly. The aggregate number of cash loans grew by 10 percent to 0.8 million, and the volume grew by 32 percent to CZK 55.6 billion. This achievement reflects Česká spořitelna's effort to make its loans the most accessible for its clients. In addition to favourable interest rates, Česká spořitelna offers fast and simple loan processing.

The cash and consumer loans collateralised by real estate, **"American mortgages"**, continue the positive trend, which is proven by the increase in the number of advanced loans by 12 percent to over 16,000 and in the portfolio volume by 15 percent to the present CZK 8.6 billion. The process of advancing American mortgages has been successfully simplified and accelerated. Compared to regular consumer or cash loans, American mortgages have substantially lower interest rates and their advantages include long-term payment.

Despite the total decrease in the number of credit cards relating to the introduction of the Clever Card and exclusion of inactive cards from registration, the **volume of credit card loans grew** by 17 percent towards the end of 2008 to CZK 3.7 billion year on year.

For more than a million clients, the Bank prepared pre-approved loan products, such as loans, overdraft loans or Clever Cards. The pre-approved loan products are also accessible through internet banking, client call centre or by mail. Such loans are processed in several minutes. Clients receive their contracts by mail and do not need to go to the branch. In the event of health problems or loss of employment, clients may receive insurance payments to the account of their choice. Naturally, payment protection insurance is optional.

The decrease in balances of historical social loans continued, while their volume decreased by 14 percent to CZK 3.1 billion. The slow trend in the decreasing volume of social loans is a result of their composition, as the residual portfolio is solely composed of long-term loans used to finance investments in housing construction.

Private Account ('Osobní účet')

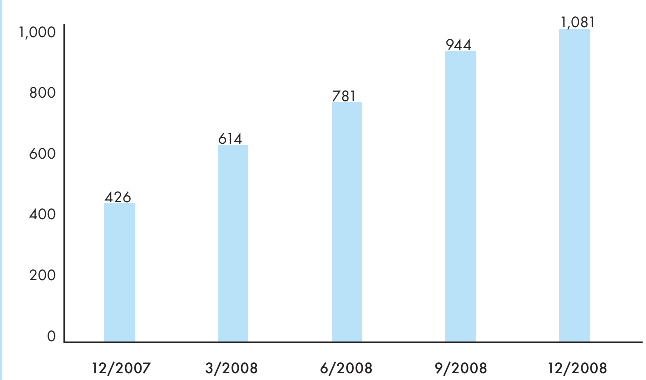
Before the Private Account was introduced, clients could choose from predefined and unchangeable product packages of which several products were often not used. This practice was changed by the Private Account. **Now, all clients have the opportunity to establish their individual accounts based on their selection of products and services they want.** The Private Account provides a variable offering of 14 products and services on the Standard, Plus and Special levels according to clients' individual choices based on the "select-what-you-really-need" concept.

Shortly after its introduction on the market, the **Private Account was expanded to include additional services that had not been offered together with transaction accounts on the Czech market before**. These services include payment protection insurance against regular expenses, which is used to cover a one-off payment or monthly payments arising from work disability or unemployment, and assistance services to resolve car repairs or household emergencies. Additional services also include legal protection, which can be used for contingent legal disputes, such as complaints. Česká spořitelna continuously improves account administration comfort and increases the availability of its products and services. Since February 2008, the Private Account may be configured using SERVIS 24 Internetbanking. At the same time, the "SMS on Account Balance for Free" service may be selected by clients who do not use SERVIS 24. In August 2008, a telephone sale of Speciál products was introduced.

The high variability of the Private Account is confirmed by only 12 percent of clients who choose the same, most frequent combination of Private Account products and services. The most popular optional service is a debit card followed by withdrawals from Česká spořitelna's ATMs, an overdraft facility, SERVIS 24, the balance SMS, payments within Česká spořitelna, payments in the Czech Republic, a Savings Plan and a Gold debit card.

The Private Account is very successful and shortly after its introduction to the market in August 2007 it became the most frequently used product of this type in the Czech Republic. In February 2008, the number of Private Accounts exceeded half a million, in June 750,000 and **the 1 millionth Private Account was contracted on 3 November 2008**. Towards the end of 2008, the number of clients using the Private Account exceeded 1.08 million. The volume of deposited funds increased three times to CZK 61.7 billion compared to 2007.

Number of Private Accounts in CZK thousand



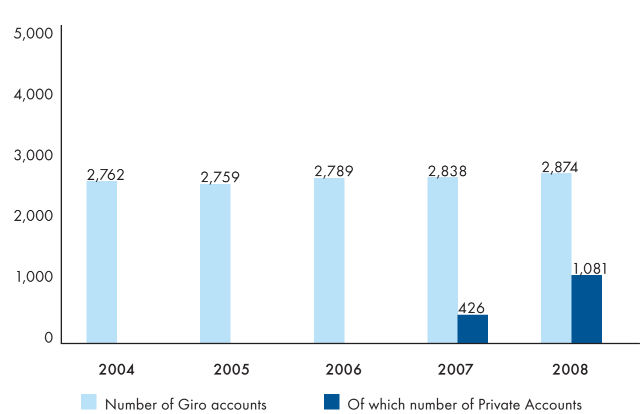
Other Accounts

Česká spořitelna continues to offer accounts for children and students. Czech and foreign students between the ages of 15 and 30 in high school or at university can open the **popular Student+ programme**. The number of high school and university students who use the Student+ account is stable and reaches 180,000, with the volume of funds amounting to CZK 2.6 billion. **X Account ("X konto") is a special account for children** between the ages of 10 and 15 and allows them to gain firsthand experience in the administration of their finances.

The ideal product for wealthy customers is the **Exclusive Account ("Exclusive konto")**, which is outstanding because of its scope of provided services, the high appreciation of liquid funds and the prestigious Gold card. The volume of funds deposited to Exclusive Accounts amounted to CZK 34.5 billion.

At the end of 2008, **the Bank maintained 2.87 million Giro accounts** (including Private Accounts) **with a balance of CZK 196.3 billion**. The amount of deposits placed to Giro accounts grew by 23 percent year on year. Giro accounts have the largest deposit amount placed by customers in the entire financial group. A growing number of clients use additional products that relate to Giro accounts. The proportion of Giro accounts having overdraft service amounts to 37 percent. Private Accounts represent 38 percent and the proportion of payment cards issued for Giro accounts amounts to 92 percent.

Number of Giro accounts in CZK thousand



Investment Products

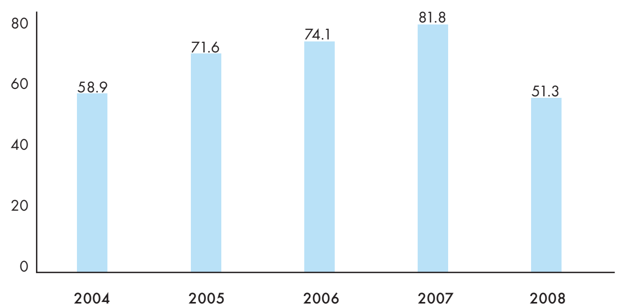
In 2008, the largest impact of the global financial crisis was felt by private clientele in investment products. **The entire mutual fund market in the Czech Republic lost a significant portion of its clients' capital**, including the clients of the Česká spořitelna Financial Group. The loss was attributable to the fall of financial markets and subsequent panic of investors, namely in the first and fourth quarters of 2008.

All segments of capital markets, i.e. equity markets where increased volatility is a standard feature as well as bond and money markets, reported a decrease. **Money market funds saw the largest outflow of funds due to their volume.** Participants withdrew cash mostly from money and bond funds while the equity funds, mixed funds and funds of funds reported the largest decrease in asset value. **On the other hand, the current crisis on the financial market supports regular investments** because for the same invested amount, participants may buy a larger number of investment certificates and benefit from the expected change in prices. Although 2008 was not favourable to short-time investments, principally to risk assets, **future years will again show the advantages of collective investments.**

In terms of possible risks and potential income, an optimum solution for **clients is to distribute investments and use the advantages of regular investments**. Česká spořitelna in close co-operation with Investiční společnost České spořitelny offers clients a complete investment solution, qualified distribution to various types of assets to reduce possible risk, a chance to participate in multiple investment opportunities, and liquidity, i.e. the possibility to change assets for cash. The core part of the offering is formed by mutual funds of Investiční společnost České spořitelny, which is number one on the mutual fund market in the Czech Republic.

Investiční společnost ČS administers a large number of mutual funds. At the end of 2008, the Bank offered 29 funds including special funds of qualified investors. In 2008, the volume of assets managed by Investiční společnost decreased by 37 percent to CZK 51.3 billion. **Most of the outflow was directed to fixed income products and term deposits of Česká spořitelna.** Nearly all funds of Investiční společnost have FX hedging, which significantly eliminates the risk of decrease caused by the high volatility of the Czech crown's exchange rate.

Volume of assets administered by Investiční společnost ČS in CZK billion



The advantages of collective investments include the **absolute return fund concept**, which was offered by Investiční společnost ČS to the private banking segment (four AR funds with 0-75 percent share participation). The structure of these funds limits the risk of loss and offers large growth participation. As opposed to instruments with fixed payment period, these funds are always liquid.

The offering of structured **investments with a guarantee of deposited funds** continued to include guaranteed funds where Česká spořitelna's clients invested nearly CZK 1.5 billion. For investors with a shorter investment horizon, **the Bank continued distributing** currency and equity **premium deposits**. The aggregate volume of all issued premium deposits amounted to nearly CZK 2.5 billion. The issue of structured bonds exceeded CZK 0.5 billion. The most attractive issues included the Global Index – Rainbow issue. Traditionally, **mortgage bonds** and fixed rate bonds have represented the most popular investments. In 2008, their aggregate sales amounted to CZK 3.5 billion.

Since March 2007, Česká spořitelna in co-operation with REICO investiční společnost ČS has offered retail clients the possibility to invest in real estate through the ČS real estate fund, an open mutual fund. The **ČS real estate fund maintains its position as the largest real estate fund for retail clients in the Czech Republic** in terms of capital volume (CZK 1.6 billion as of 31 December 2008) and the number of real estate properties in the portfolio. The fund's portfolio comprises six real estate properties, five in the Czech Republic and one in Slovakia. Investments in real estate are relatively safe with an anticipated yield slightly above the level of bond funds and are an ideal instrument for diversifying the investment portfolio. **In 2008, the fund achieved a profit rate of 4.39 percent and ranked among the best performing open investment funds on the Czech market irrespective of asset class.**

Savings Products

Considering the crisis on financial markets, 2008 was the year of return to traditional deposit products. **More than in the past, clients are paying attention to the interest rate guarantee and deposit insurance.**

Česká spořitelna as the leading bank on the deposit product market responded to this trend and in May 2008 started offering **Gold Deposit of Česká spořitelna** ("Zlatý vklad"), which is an account **combining two-year deposit and investment products** with a guaranteed interest rate. The Gold Deposit exceeded the initial expectations in terms of the number of opened accounts (over 44,000) and the volume of placed funds (CZK 11.3 billion) and fully compensated fluctuations on the investment product market that relate to the financial crisis. Apart from the Gold Deposit, other types of savings products also reported a significant increase.

2008 was historic year for the Bank as **construction savings deposits** became **the most significant product in the financial group**, replacing the traditional savings books after the nearly two-hundred year history of Česká spořitelna. The aggregate deposits of clients on construction savings accounts of Stavební spořitelna ČS grew by 4 percent year on year and amounted to CZK 93.2 billion with the total number of clients at 1.2 million. In 2008, clients concluded deposit contracts with an aggregate target value of CZK 64.8 billion, which is a 53-percent increase compared to 2007.

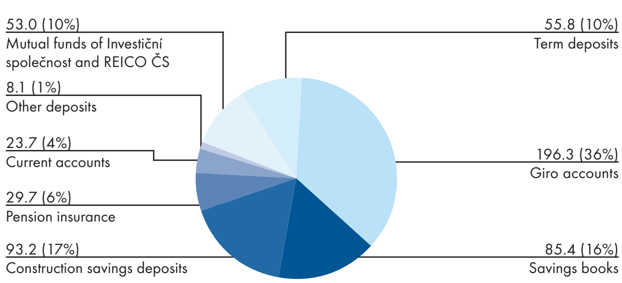
The number of savings books and the volume of deposits placed continue to decrease (by 6 percent year on year); however, at the end of 2008, Česká spořitelna maintained over **1.7 million** registered **savings books** with a balance of CZK 85.4 billion.

Pension insurance is among the most sought after long-term forms of savings. **Penzijní fond České spořitelny experienced further**

dynamic growth of deposited funds by customers, the volume of which increased by more than 21 percent and amounted to CZK 29.7 billion. The number of customers increased by 18 percent and exceeded CZK 750,000 at the end of 2008. The profit of Penzijní fond also largely benefited from co-operation with employers— as part of the corporate programme Penzijní fond ČS co-operates with more than 8,000 employers who actively contribute to pension insurance of their employees.

Term accounts for individuals **experienced a revival** in 2008. Term accounts are safe forms of savings accounts with an advantageous interest rate for customers and ensure partial liquidity without sanction fees. The volume of balances on term deposits at the end of 2008 was CZK 55.8 billion, which is an 18 percent increase year on year. Of this amount, term deposits in foreign currencies, of which the preferred currencies are euro and US dollar, amounted to CZK 5.9 billion.

Savings and investments of individuals in CZK billion



Independent Profession Clients

Česká spořitelna continues to co-operate with professional chambers including: general partnership with the Czech Medical Chamber, partnership with the Czech Dental Chamber, the Czech Pharmacy Chamber, the Czech Bar Association, the Chamber of Tax Advisors, and more, which consist of independent professional clients. These long-term partnerships help Česká spořitelna recognise the individual financial needs of independent professional clients to whom it responds with specific product offers.

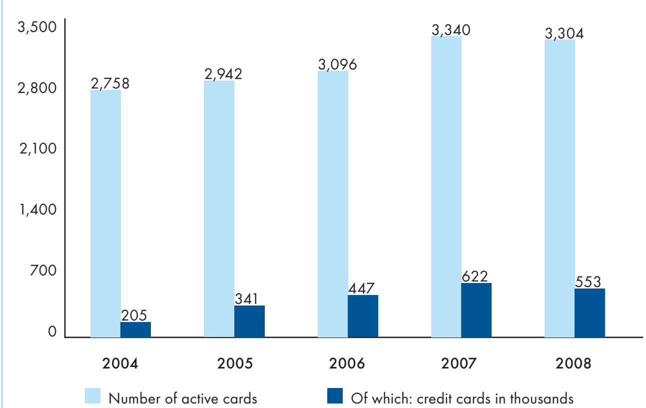
The services to independent professional clients are based on an individual approach offered by specialised advisors for independent professions. Trained professional advisors provide clients with comprehensive information on private and corporate finance.

Independent professional clients can utilise the Bank's **Professional programmes (Profesionál)**, which is attractive predominantly due to its variability and flexibility in combining products according to individual client needs. As compared to the prior period, the number of Professional programmes increased by 10 percent, with the volume of balances reaching CZK 1.4 billion.

Card Programme

The total number of payment cards decreased by 1 percent in 2008 to 3.3 million, of which debit and credit cards represent 2.7 million and 0.6 million, respectively. Although the number of payment cards stagnated, **Česká spořitelna has maintained its dominant position** in this important market, which is illustrated by the significant growth in the number and volume of card transactions.

Number of active cards in thousands



In August 2008 Česká spořitelna successfully introduced the Clever Card, which can be tailored according to the client's needs. The Clever Card is one of the Bank's flexible products that respects free choice and client individuality, allowing the holder to choose from among ten options and even the card's design. **The Clever Card is intended predominantly for shopping and will gradually replace all Kredit+ private credit cards.**

Within three months of the Clever Cards introduction to the public, the number of issued cards reached 100,000. The total number of credit cards, however, fell by 11 percent year-on-year to 553,000 due to the Clever Card roll out and elimination of inactive credit cards from registration. **In spite of the decrease in the number of credit cards, the volume of payment transactions and withdrawals from ATMs** using credit cards **grew** by 20 percent to CZK 8.6 billion.

The most popular services among Clever Card holders were free use of the card, the advantageous Bonus programme, the Sphere discount programme, and a bonus for Penzijní fond České spořitelny. Only 15 percent of card holders have the same combination of services on the card. **Česká spořitelna's Clever Card was appreciated by professionals, being awarded the 2008 Loan of the Year in the MasterCard Bank of the Year competition.**

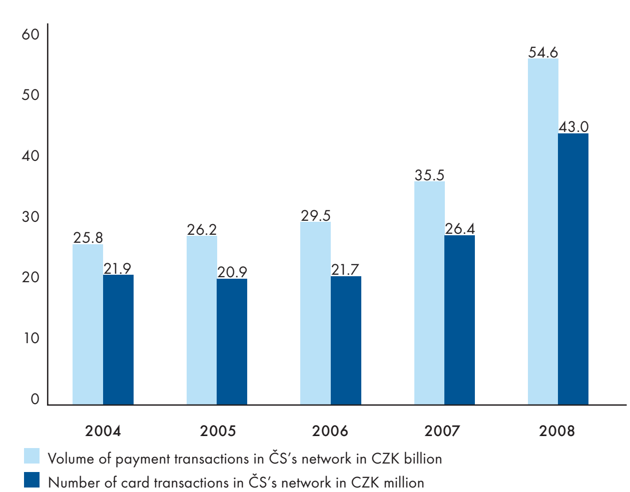
In 2008, the migration of the existing debit electronic card portfolio to chip cards was completed, and the migration of embossed cards is to be completed in 2009. Improving and expanding the range of provided services is a regular practice for Česká spořitelna. As part of new services, clients may collect information about their payment cards through the SERVIS 24 internet banking or select the design of their payment cards using the gallery of images offered by Česká spořitelna or their own images. Since 1 May 2008, the insurance conditions for payment card misuse have changed. Česká spořitelna **significantly increased insurance coverage periods and expanded the coverage to include additional risks** relating to this type of insurance. The popularity of sending payment cards by mail to client's substantially increased.

Successful development was also seen in the number of cards activated for making non-cash payments in shops. Česká spořitelna reported a 19 percent increase in debit and credit card payments in shops when the number of payments amounted to nearly 74 million. The volume of transactions grew by 19 percent to CZK 69 billion.

The number and volume of transactions completed through Česká spořitelna's payment terminals were extremely high in 2008. Payment card holders performed 43 million transactions in 2008, which is 63 percent more than in the previous year. **The volume of transactions made through Česká spořitelna terminals**, which is an important **indicator** in terms of transaction fees, **grew by 54 percent year-on-year** to CZK 54.6 billion. 22 December 2008 was a record day for the Bank, with payment card holders making 375,000 transactions using Česká spořitelna's terminals, which totalled CZK 443 million. **All payment terminals of Česká spořitelna are equipped with chip technology, which significantly increases the security of each transaction.**

Expanding the number of new locations where payment cards are accepted and the increase in the number of establishments of Česká spořitelna's business partners – by 18 percent to more than 15,000 – attributed to the Bank's excellent achievements. Major business partners who started co-operating with the Bank in 2008 include Tesco Stores Czech Republic with 100 sales points and OBI Czech Republic with 17 stores. **Česká spořitelna is the first bank to have their payment cards accepted in Makro Cash & Carry** Czech Republic **(since December 2008)**. For the first time, clients can pay using any debit or credit card in Makro's 13 sales points.

Card transactions in ČS's network

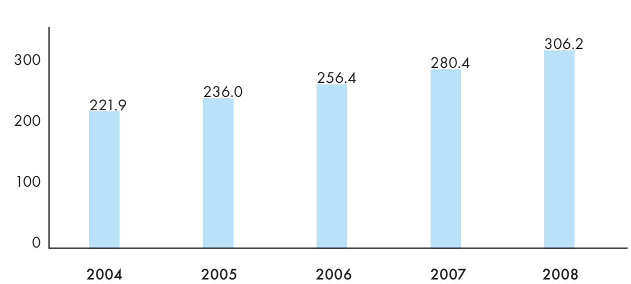


In **E-commerce** processed by Česká spořitelna, the number of transactions increased significantly in 2008 by 165 percent to 549,000 with a volume of CZK 802 million. The average transaction value was CZK 1,459.

The **Bonus programme** introduced registered membership in 2008. From the original 2.3 million automatically assigned members, 700,000 clients were registered for the new programme and actively use the services offered. Since August 2008, clients may collect points 33 percent faster if they activate the Bonus programme service on their Clever Card. The Bank also introduced a new approach to distributing bonuses using an electronic voucher, which allows the bonus to be collected immediately in shops.

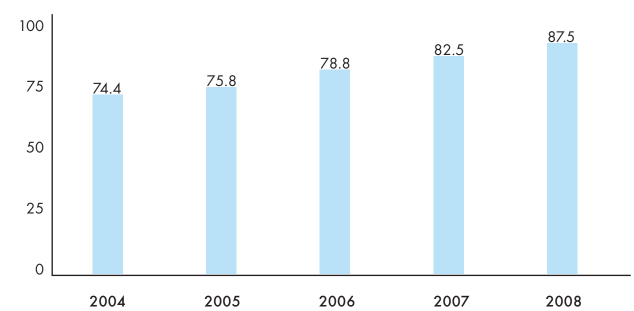
Česká spořitelna is the leading bank on the market in terms of ATM network size. At the end of 2008, the Bank operated 1,164 ATMs. The number of ATMs adjusted to the needs of the visually impaired increased to 52. The Bank continues to modernise ATMs and expand ATM functions to include, for example, bar code scanners. In 2008, 95 ATMs were replaced. A**ll ATMs are equipped with chip technology and a security system that minimises the risk of skimming.** In a pilot operation, Česká spořitelna started to operate deposit ATMs that, in addition to standard services, allow making cash deposits to accounts maintained by Česká spořitelna as well as other banks in the Czech Republic.

Volume of collections in ČS's ATMs in CZK billion



The volume of cash collected in Česká spořitelna's ATM network amounted to CZK 306.2 billion in 2008, which is

Number of collections in ČS's ATMs in CZK billion



an increase of 9 percent year-on-year. The number of collections grew by 6 percent to 87.5 million. The number of mobile phone recharges achieved 3 million and the volume of recharges approached the CZK 0.9 billion level.

Additional Products and Services

Sales of additional products and services are undergoing significant development in the Česká spořitelna network, which is attributable to two reasons. First of all, Česká spořitelna works to provide a comprehensive solution to the financial needs of its clients. The second reason is closely related to the sale of Pojišťovna České spořitelny and the contract on long-term co-operation with Kooperativa and Pojišťovna ČS. **In its distribution network, the Bank has increased sales of insurance products** such as life insurance, property insurance, and payment protection insurance, which relates to loan products, travel insurance, regular expense insurance, legal protection relating to the Personal Account, and other products. **The popularity of additional services is growing rapidly. For example, most newly-advanced loans include a certain type of insurance.**

In its payment protection insurance offer, Česká spořitelna introduced a unique service for its insured clients in 2008. If clients are insured against unemployment and actually lose their job, they are able to participate in the Job Care project, which will provide them with help with finding a new job. These clients will receive advice on how to find a new job and how to prepare CVs, motivation/cover letters, etc. At the same time, these clients may use the services of the Employee Support Centre, which include educational and advisory activities focusing on career, professional and psychological consulting. The centre arranges for accommodation for clients from other regions. All these services are provided for free.

COMPANY AND CORPORATE CLIENTELE, PUBLIC AND NON-PROFIT SECTOR

Company and corporate clientele are the second pillar on which the Česká spořitelna Financial Group focuses. The Group's range of offerings includes classic products for account administration and provision of loans, special projects focusing on investment loans, exports, equity participation, leasing, factoring, real estate funding, syndicated loans, etc. The Bank provides company clientele with extensive assistance in using guarantee funds or drawing subsidies from EU funds.

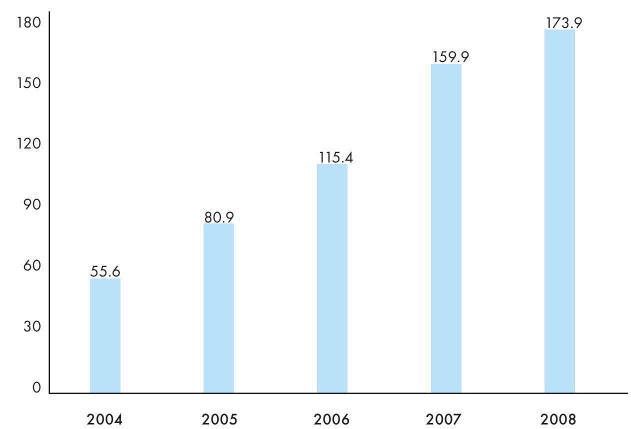
Real Estate Financing

Česká spořitelna ranks among the most active banks in real estate financing, real estate investments and mortgage transactions despite the liquidity problems that occurred on the real estate market in the Czech Republic in the latter half of 2008 and **the descending trend in the development of new transactions in this segment**. In 2008, Česká spořitelna provided CZK 21.2 billion in new mortgage loans to business entities. **The overall development of the portfolio of mortgage loans advanced to business entities showed a significantly higher increase than the portfolio of mortgage loans advanced to individuals.** The total balance as of 31 December 2008 was CZK 52 billion with a positive increase of 22 percent year-on-year.

The total balance of Česká spořitelna's mortgage loans advanced to individuals, business entities and municipalities amounts to CZK 173.9 billion, which is an increase of 9 percent. **Since 2001, Česká spořitelna maintains its position as the largest mortgage bank in the Czech Republic**.

As in previous years, the Bank places emphasis on providing comprehensive financing for housing projects and also focuses on other real estate market sectors, such as office building projects, shopping centres, etc. **In order to support the fast-developing regional market, Česká spořitelna completed development of a new specialised Developer Centre network** in 2008, which provides project financing of real estate and comprehensive services for real estate clients in eight cities in the Czech Republic.

Total mortgage loan portfolio in CZK billion



Real estate transactions rank among Česká spořitelna's key areas of interest, which is reflected in other activities. In 2008, despite the gradual deterioration of market conditions, REICO investiční společnost ČS and ČS Real Estate Fund, whose exclusive manager is REICO, operated successfully on the market. The Bank also maintained its share of real estate investment funds for institutional investors, CEE Property Development Portfolio and Czech & Slovak Property Fund. Both funds are focused on the Czech and Slovak market and are organised as close-ended funds. Managers of these funds include major real estate groups operating in the Central European region. The Bank also invests in close-ended real estate funds, namely the Endurance Fund and Discovery Group Fund. The planned investment cycle of the funds is sufficiently long in order to overcome the current temporary market decline.

Česká spořitelna continues to be the general partner of the prestigious organisation of real estate professionals, the Association for Real Estate Market Development, and the largest central European real estate market conference, CEDEM, and the Best of Real Estate competition which awards the best development projects in the Czech Republic.

Small Businesses and Entrepreneurs

In the segment of small businesses and entrepreneurs with turnover up to CZK 30 million, Česká spořitelna provided over 25,000 new loans in 2008 with a volume of CZK 10.5 billion. In total, the Bank maintains nearly 38,000 loans with a portfolio balance of CZK 19.8 billion, which **represents a remarkable increase of 27 percent** year-on-year.

To the segment of company clientele with turnover up to CZK 30 million, Česká spořitelna offers a new and fast type of financing – **Mini Profit loans** (the Mini Profit overdraft loan and the Mini Profit term loan) – for free. This type of financing is simple, fast and available in all branches. The Mini Profit overdraft loan, the maximum amount of which is CZK 150 thousand, is advanced by providing a loan facility to clients' current accounts for one year with automatic renewal if all contractual conditions are met. For the Mini Profit term account, the Bank transfers the entire amount, which can be up to CZK 300 thousand, to clients' current accounts. Clients may choose a short (one-year) or medium (two to five years) term to pay off the loan. Clients may draw both loans simultaneously.

The popular **Profit** and **Profit Light** programmes are targeted to entrepreneurs and small and micro businesses. While the Profit programme is based on a module approach where clients choose their services according to their individual needs, the Profit Light programme is a package based on a robust price advantage for fixed products and services.

The success of the Profit programme is supported by two factors. **Profit Light was appraised as the best business account of the year in the Golden Crown contest** and the number of Profit and Profit Light programmes increased by significant 49 percent in 2008, thus exceeding 54,000. At the end of 2008, clients deposited CZK 12.2 billion into the accounts managed under the Profit and Profit Light programmes, which is a 26 percent increase.

Small and Medium-Sized Enterprises

A network of 15 commercial centres located in all regions of the Czech Republic are mainly targeted at small and medium-sized enterprises (SME) with a turnover from CZK 30 million to 1 billion. **Commercial centres provide the enterprises with comprehensive services of the entire Česká spořitelna Financial Group.**

In terms of all products, Česká spořitelna provided small and medium-sized enterprises with new loans totalling CZK 25.5 billion in 2008, which represents growth of 13 percent year-on-year. The **aggregate portfolio** of drawn loans **went up by 15 percent compared to 2007**, totalling CZK 54.7 billion.

In 2008, Česká spořitelna continued to provide TOP programmes focused on financing small and medium-sized enterprises. The **TOP Podnik** programme provides long-term investment loans for corporate development projects while **TOP Kapitál** focuses on providing financing through venture and development capital. Both programmes won a significant position on the market and allocation of funds within these programmes exceeded CZK 14 billion.

Following the accession of the Czech Republic to the European Union, Česká spořitelna began to offer programmes designed to support clients in the realisation of projects funded from EU structural funds – the **EU business programme** for entrepreneurs and companies and the **EU Region programme** for towns, municipalities and non-profit organisations. Both programmes involve comprehensive services related to providing support in obtaining grants from structural funds including the identification of a suitable grant programme, drafting applications for grants from a subsidiary, **RAVEN EU Advisory**, and of course the financing of projects which require the grants.

In 2004, Česká spořitelna began its successful **co-operation with the European Investment Bank (EIB)**, which focuses on supporting small and medium-sized firms and funding the needs of public and non-profit sectors. The co-operation takes the form of a global loan and joins the follow-up programme of the European Commission known as the Municipal Infrastructure Facility. In 2008, Česká spořitelna was advanced EUR 200 million of the global loan. **From the beginning of the programme to the end of 2008, EIB confirmed the funding of 278 projects for small and medium-sized enterprises and municipalities.** Given the success and demand for this type of financing, the programme will continue in the following years.

The **TOP Energy programme**, which was developed based on successful co-operation on the Finesa programme with IFC, offers financing of energy projects and comprehensive consulting support in project preparation, drafting subsidy requests, and more. Česká spořitelna forms its energy project know-how using knowledge management principles and stores its project data in a single location, which is available to all relevant employees.

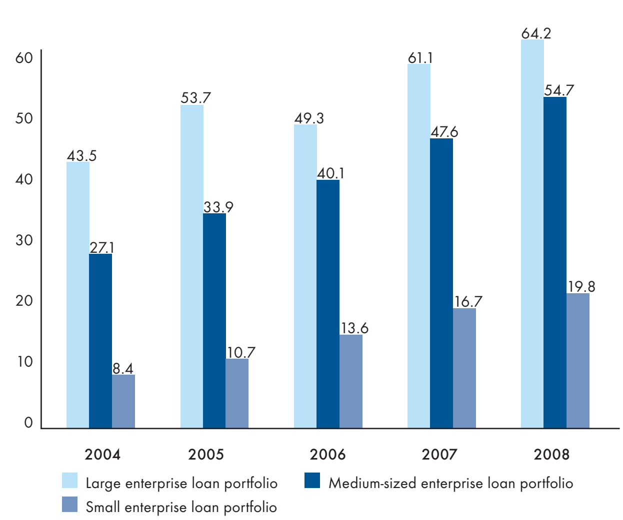
Česká spořitelna was the first bank in the Czech market to introduce a new unique product, **@FAKTURA 24**, which allows electronic invoices to be sent between individual firms. Electronic invoicing provides the advantage of sending electronic invoices safely while saving considerable time and costs. **The service enables electronic invoices to be sent and received, integrates processing in accounting systems and simplifies payments through direct banking.** The recipient as the end user may be a firm or a private person.

The **German Desk** serves as Česká spořitelna's contact and information centre for companies from Germany or German-speaking representatives of companies from other countries. Activities supporting foreign investors in the Czech Republic were expanded to support Czech firms expanding abroad. The **International Desk** now provides support to Česká spořitelna's clients in countries where the parent Erste Group Bank owns subsidiaries.

Corporate Clients

The Bank reported further dynamic growth in all key volume and return categories in the segment of large businesses and corporate clients with annual sales over CZK 1 billion. As of 31 December 2008, the aggregate portfolio of loans to corporate clients increased by 5 percent year-on-year to CZK 64.2 billion. The high-quality client service and intensive use of a wide range of products and services offer by the ČS financial group supported the 23 percent growth of total income from fees and commissions and the 15 percent increase in interest income. The Bank reported growth in bank guarantees, where the volume of commissions grew by 3 percent year-on-year.

Corporate loan portfolio in CZK billion



In syndicated loans, the Bank significantly moved from classic syndicate transactions to client-focused club loans. **The volume of drawn syndicated and club loans grew by more than 17 percent year-on- year.** In addition, the number of agent positions markedly increased to more than double the 2007 amount. Česká spořitelna maintains its leading position in structured syndicated and club financing among banks operating in the Czech Republic.

In 2008, the Group Corporate and Investment Banking concept was successfully implemented and the commercial and investment banking offering in all Erste Group countries was expanded and integrated by location.

Services for Public and Non-Profit Sectors

In 2008, **Česká spořitelna continued to develop its successful co-operation with the public and non-profit sector**. Its leading position among Czech banks in the public and non-profit sector is reflected in the Bank's outstanding achievements in active and passive transactions.

In 2008, **Česká spořitelna supported its partnership with clients from the non-profit sector**, particularly **housing co-operatives and housing associations of apartment unit owners**. The financial needs of these clients comprised financing modernisation, renovation and energy savings in apartment buildings. The volume of loan balances advanced to housing co-operatives and housing associations of apartment unit owners amounted to CZK 9 billion in 2008, while the volume of deposits of these clients exceeded CZK 5 billion. The Bank continues to be a partner for other non-profit organisations such as citizens' associations, foundations, foundation funds, subsidised organisations, professional chambers, public universities, health insurance companies, and others. **The**

Česká spořitelna Foundation is an important element of the Bank's business activities in this sector.

The team of professional advisors for the public and non-profit sectors covering the entire territory of the Czech Republic **provides its clients with qualified financial and consulting services**, including assistance in preparing documentation for drawing subsidies, primarily from EU funds. In this sector, Česká spořitelna co-operates with its subsidiary, **RAVEN EU Advisory**, which provides **comprehensive subsidy and project consulting** throughout the entire life cycle of a project's implementation. RAVEN EU Advisory is among the largest and most successful companies operating in the EU funds sector in the Czech Republic. A combination of specialised consulting services and tailored financing helps clients succeed in implementing their projects.

Investment projects in the public sector can be implemented using the funds and capabilities of the private sector based on a **Public Private Partnership** (PPP). Česká spořitelna adjusted its organisation to get prepared for the growing importance of PPPs. A new PPP Consulting department provides assistance to the government, regions and municipalities in preparing their projects. A team of PPP financial experts prepares project implementation plans in health care, justice, public administration and transport infrastructure. Česká spořitelna is the founder of the PPP Association and promotes PPPs in the Czech Republic.

In **financing both projects and infrastructure**, Česká spořitelna funded a number of publicly beneficial projects in 2008, such as the construction of the National Technical Library on the university campus in Prague–Dejvice and the development of an aqua park in Olomouc. Public infrastructure financing, as a factor having a positive impact on increasing productivity and national wealth, remains an important component of Česká spořitelna's strategy.

At the end of 2008, the number of deposits placed by municipalities and the public sector grew by 20 percent to CZK 61.7 billion. In public sector financing the volume of loans decreased by 15 percent year-on-year to CZK 14.8 billion.

FINANCIAL MARKETS

2008 can be considered exceptional for many reasons. After a number of years of successful macroeconomic growth, **the global economy experienced a massive economic slow-down**. The reasons for this slow-down comprise namely the American subprime mortgage crisis which led to a global financial crisis. **These circumstances significantly impacted operations and, subsequently, the valuation of capital markets.**

In spite of a significant decrease on capital markets, in 2008 **Česká spořitelna reconfirmed its position as an important bank and the key player on capital markets** in the Czech Republic and the Central and East European region. In investment banking, Česká spořitelna **provides** specialised and well-performing consulting services in acquisitions, **advises** issuers preparing for equity and bond issues, and **participates** in issuing shares and bonds. In addition, the Bank offers and provides tailored services and consulting to small and institutional investors interested in investing in securities, open-ended mutual funds, or other instruments of the capital market in either Czech crowns or foreign currencies. The clients may also use information from Česká spořitelna's EU Office as well as reports and analyses of the Chief Economist department of Česká spořitelna.

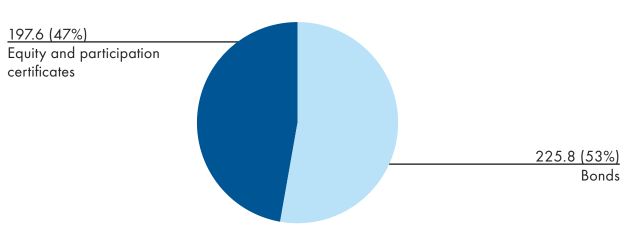
The Sale of Investments Products

In 2008 the successful trend in terms of financial market product sales continued. In addition to traditional currency and interest rate hedging, for several years the Bank has successfully provided commodity hedging products, which are subject to increasing demand because a number of firms have started to consistently hedge the prices of important material input. Due to the high volatility of the economic environment, the hedging policy requirements of a number of corporations are very strict. With its high-quality analytical background Česká spořitelna is able to provide reliable hedge execution as well as underlying data and related consulting for responsible decision-making on hedging strategy as well as the most appropriate timing thereof. **Česká spořitelna's long-term strategy, which focuses on offering a wide range of tailored products for acceptable prices**, proves to be correct as increased volumes of transactions have been generated and clients are satisfied with the Bank's services.

Despite the considerable decrease and high volatility of international financial markets in the latter half of 2008, Česká spořitelna strengthened its exceptional position on capital markets as one of the leading players on the regional capital market. Thanks to its strong position in all of the key market areas (transaction structuring and timing, distribution to institutional and retail customers, and services relating to the period immediately following the introduction of a product on the market) **Česká spořitelna** successfully continued its previous development and once again **became a partner of all significant firms entering the Czech capital market in 2008**, thus strengthening its dominant position in this sector. At the same time, the Bank was one of the first institutions to begin trading as a market maker on the Prague Energy Exchange, which is attached to the Prague Stock Exchange. Česká spořitelna confirmed its position as **the largest government bond trader and primary dealer in the Czech Republic** and was one of the few banks capable of trading government bonds during the culmination of the crisis and liquidity shortage on the market in 2008.

Traditionally Česká spořitelna is one of the two largest bonds, equity and participation certificate traders on the Prague Stock Exchange. In 2008, the Bank completed transactions amounting to CZK 423.4 billion. Despite the decrease in the overall volume of transactions, the Bank slightly increased its performance year-on-year.

The volume of transactions made on the Prague Stock Exchange in 2008 in CZK billion



Initial Offerings of Securities

The volume and number of initial offerings of securities in the Czech Republic in 2008 was impacted by the global financial and credit crisis. Česká spořitelna reconfirmed its strong position in the market of initial offerings of equities and bonds and participated in the prevailing number of significant transactions in the Czech Republic, which were concluded either directly by Česká spořitelna or as part of transactions arranged by Erste Group Bank. Major achievements in 2008 include the creation of a co-manager position responsible for offering securities of the Czech Republic internationally, which totalled EUR 2 billion, and ČEZ's bond issue in the total volume of EUR 600 million. Česká spořitelna was the lead manager of New World Resources' and Vienna Insurance Group's shares in placing the shares on the equity market.

Financial Institutions

In 2008, Česká spořitelna continued to strengthen its position as a bank providing value added services to financial institutions. The Bank considers cash management to be the 'anchor' for other more specialised products required by banks, insurance companies, investment companies, pension funds and other financial institutions. **The number of clients from international banks using cash management services grew by more than 20 percent.** In terms of the number of non-bank financial institutions, substantial growth was achieved compared to the previous year, partially resulting from the increase in the volume of funds managed by, and deposited with, Česká spořitelna.

In 2008, Česká spořitelna continued to improve the conditions of foreign banks with regard to standard currencies. The scope of less common currencies was increased and custody services were strengthened in order to provide a wider range of investment opportunities to Česká spořitelna clients.

Asset Management for Institutional Clients

Česká spořitelna administers over CZK 55 billion in institutional investors including financial institutions (pension funds and insurance companies), the foundation sector, state organisations, municipalities and large enterprises. The volume of managed assets grew by nearly 10 percent in 2008. **The growth in managed assets** in the worst financial crisis in the last several decades **shows the confidence that clients place in Česká spořitelna's asset management.**

In 2008, **the Bank provided institutional investors with a number of innovations**, such as a special fund for managing hedged equity allocations on global markets (ISČS Institucionální akciový fond fondů), new functionalities in the reporting system, and a new design of key client relations.

In 2008, Česká spořitelna was a mutual fund **investment advisor** for certain **mutual funds managed by its fellow subsidiary Erste Sparinvest** in Austria. These funds have volumes exceeding CZK 4 billion and, in order to meet the requirements of local Czech investors, are intended for investors in Czech crowns.

Depositary

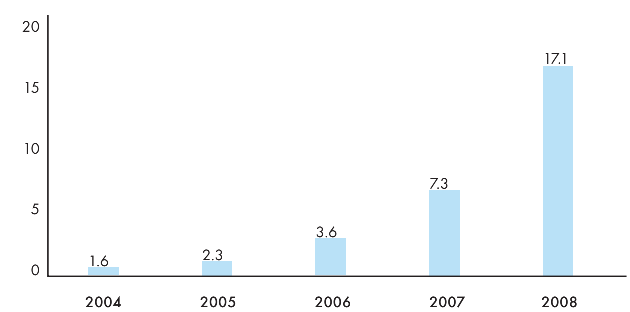
Also in 2008, Česká spořitelna held a very strong position in the provision of depository services for investment companies and their mutual funds, investment and pension funds. **At the end of 2008, the Bank provided these services to 37 funds**, which largely comprised the open-ended mutual funds of Investiční společnost České spořitelny. The assets managed by the Bank amounted to CZK 82 billion.

Erste Private Banking

The demand for the services provided by Česká spořitelna's Private Banking department under the **Erste Private Banking** (EPB) brand **was very strong in 2008** even though the situation on financial markets was not favourable and a number of private banks reported losses in the number of clients. The major reason for this interest by wealthy new clients is that Česká spořitelna is perceived as a stable bank. Given the high volatility on financial markets and the prevailing uncertainty of investors, the **demand of wealthy clients for traditional bank deposit instruments and investment products with fix returns increased**. Traditional client requirements such as adequate appreciation of assets were replaced by concern about principals, and the priority for most clients was the protection of managed assets. With respect to the market situation and client preferences, the **offering of special absolute return funds was expanded to include a conservative variant without the equity component AR0**. The products preferred by clients in 2008 included private issues of structured bonds and also fixed-interest bonds with shorter maturity issued in the Erste Group.

In 2008, the team of private bankers was gradually completed and expansion to other regions began. By entering new regions Erste Group aims to increase the availability of private banking services, which are provided by Česká spořitelna in close co-operation with the branch network. The new and renovated EPB private banking centres were opened in Brno, Prague 6 and Rytířská Street in Prague 1.

Development of the volume of client assets managed by Erste Private Banking CZ in CZK billion



The volume of assets managed by Erste Private Banking more than doubled and totalled CZK 17.1 billion.

Wealth Creation is a project whose objective is to **introduce high-standard services for** Česká spořitelna's **major clients**. The Private Financial Plan service was prepared as part of the project to solve clients' financial needs and develop long-term relationships with clients. **The Private Financial Plan meets the highest demands for providing investment consulting services**, which after the transposition of the EU Markets in Financial Instruments Directive (MiFID) are now part of Czech law. To provide this service, Česká spořitelna introduced a specialised position of investment specialists in its branches. In the Wealth Creation project, investment specialists undergo professional training in financial planning and investment consulting and are obligated to meet high professional requirements. Proposed solutions are tailored to clients' needs in order to optimise their portfolio structure. Česká spořitelna emphasises the quality of the Private Financial Plan via a system of reviewing proposed solutions.

As mentioned above, Česká spořitelna implemented the Markets in Financial Instruments Directive, which regulates business conditions on the capital market. The MiFID defines a new approach to financial instruments, investment services, and client categorisation, and provides extensive guidelines for implementing client instruction. MiFID also defines alternative market platforms and provides detailed information on the measures to be taken to achieve market transparency.

DISTRIBUTION CHANNELS

Branch Network

With its 646 branches Česká spořitelna represents one of the largest bank networks in the Czech Republic. Offering good regional coverage and availability to all clients **the branch network continues to be the basic executive component of the Bank's multi-channel sales model**. The branch network provides a broad and comprehensive offering of services and products of the Česká spořitelna Financial Group to its private clientele as well as SMEs and individual entrepreneurs. While long-term relationships with all clients are developed through advisors, the Bank's specialised consulting service responds to the needs of municipalities and offers solutions for both the corporate and private financial needs of independent professional clients.

In regional coverage optimisation, 10 completely new branches were opened in 2008 and 14 branches were moved to more attractive locations such as business and social centres, new housing estates and residential areas in order to correspond to the current lifestyle of the Bank's clients. **Throughout the Czech Republic, from large cities to small municipalities, approximately 100 branches were renovated.** Examples of demanding renovation include the Jánská branch in Brno, Felberova in Liberec and most notably the building in **Rytířská Street in Prague**. After four years of renovation under architect Gabriela Kaprálová's supervision, clients are provided with modern banking services in a beautiful neo-Renaissance building. **This "flagship" of Česká spořitelna's branch network** is intended for retail and corporate bank clients, although it is also open to the general public. Currently the Rytířská building offers a new café, and in the future a new conference centre will be available.

Each of the new, relocated and renovated branches are open-space consulting centres with modern colours and glass designs, air-conditioning and self-service zones with collection boxes, ATMs and night safes. The larger branches are equipped with plasma screens to provide information on services and products and also with visual pager systems to organise client service. The client-friendly atmosphere is supported with the help of children's corners, magazines, plants and drinking water, which are available in the waiting zones.

In 2008, the Bank performed pilot testing of a non-cash branch model and verified new equipment for self-service zones in traditional branches. The first non-cash branch was established in the business centre in Prague–Čestlice. Non-cash branches specialise in professional consulting, namely consumer loans. Their key advantages include qualified and experienced advisors, a friendly atmosphere without long queues and an individual approach to clients. Cash transactions are performed through deposit ATMs.

Self-service zones are areas where clients can complete basic banking **transactions** quickly and easily **without the assistance of the Bank's staff.** In addition to deposits, clients can use a Call Centre phone for priority processing and a multifunctional terminal to access SERVIS 24 internet banking, the Bank's web site (csas.cz), and a selected range of financial servers. Using the terminal, clients who do not have safe access to the Internet may take full advantage of internet banking during and outside the branch's opening hours. With the direct line to the Call Centre, clients can use telebanking services and perform actions such as blocking lost payment cards and receiving required information from telebankers.

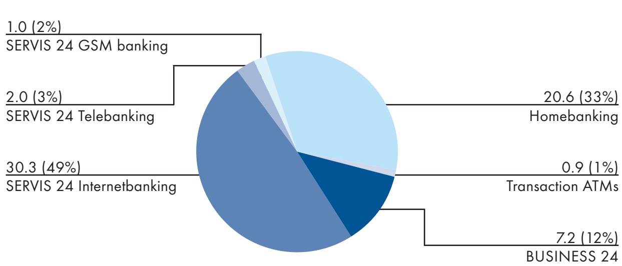
In some new and existing branches (mainly branches in supermarkets), the Bank introduced weekend operating hours and extended opening hours to 9 p.m. At the end of 2008, **there were 11 weekend branches and the number will be increased in the future**.

In the eF1 project, which is a priority for the branch network in 2008 and 2009, Česká spořitelna introduces a system of sales management and coaching in order to receive maximum benefits from branch network staff, maximise efficiency, increase quality, and support staff in meeting business and sales plans in the midst of growing competition. Through a system of small teams, coaching priorities and rules, special motivation and other supporting project tools, branch staff have helped to change the Bank's business culture.

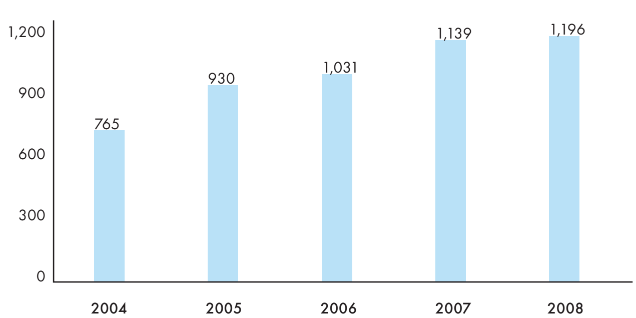
Direct Banking

In 2001, Česká spořitelna started to develop direct banking to provide its clients with the opportunity to manage their finances from home and reduce the number of routine transactions in branches. The target was achieved with electronic transactions representing 77 percent of all transactions, which was one reason for initiating the **new strategy of direct banking focused on on-line sales**. In 2008, 12 percent of all products (over 100,000) purchased by retail clients were sold online via the Internet, phone or ATMs.

Number of electronic debit transactions in million



Number of SERVIS 24 active clients in thousands



Note: Clients using multiple SERVIS 24 clients are included only once

The total number of payment orders made through alternative distribution channels was 61.9 million, which is an 11 percent increase year-on-year.

Internet and Telephone Banking SERVIS 24

As of 31 December 2008, **the number of active SERVIS 24 direct banking clients was 1.2 million**, which represents growth of 5 percent. The total number of transactions made using SERVIS 24 exceeded 71 million, which is a 20 percent increase year-on-year. Clients are most interested in internet banking (931,000 clients) and phone banking (868,000 clients). For the first time, the number of internet banking users was higher than the number of phone banking users.

Česká spořitelna took additional measures to protect SERVIS 24 users against internet banking misuse. The number of authorisation SMSs used to approve payment orders and other cash transfers in internet banking may now be set up and changed only in Česká spořitelna's branches. The Bank also provided new SERVIS 24 functionalities. Through internet banking, clients can receive information on their payment cards, configure their Private Account, and use a pre-approved loan. Stavební spořitelna ČS's clients can receive additional new information on the status of their credit account, use a tool to optimise the level of state contributions, and calculate loan insurance. As a new service, Stavební spořitelna's account statement is updated every working day. SERVIS 24 GSM banking users are provided with access to information on their card and deposit accounts. Other new services include an automated check of duplicate transactions, which means that if an order is made through internet banking or an automatic voice service the system reviews transactions made on the same day and notifies clients if equal transactions are identified.

The key advantages of internet banking include the availability of services that do not exist or have no purpose in the traditional operation of a branch. Internet banking supports the co-operation of large firms from various fields via **electronic invoicing. Česká spořitelna was the first bank in the Czech Republic to introduce this service** (in September 2008) together with ČEZ. If clients activate this service, they receive electronic files instead of traditional postal money orders and can pay with the click of a button.

BUSINESS 24 and MultiCash Electronic Banking

Strategic products of direct banking for corporate clients include BUSINESS 24 services in internet banking and MultiCash, which represents homebanking applications.

The development of direct banking products for corporate clients resulted in further improvements to overall stability, higher availability and advanced application protection. **The most significant achievement is the implementation of BUSINESS 24 Databanking**, which is an upgraded functionality of BUSINESS 24. Databanking provides clients with significant savings to their work, time and finances as it **integrates the features of BUSINESS 24 direct banking directly into the accounting system**.

At the end of 2008, BUSINESS 24 was used by nearly 10,000 clients (net figures). The number of transactions completed through BUSINESS 24 achieved nearly 8 million, which is a 27 percent increase year-on-year. Client satisfaction with BUSINESS 24 increased by 15 percentage points to 82 percent year-on-year.

At the end of 2008, the Bank registered over 3,000 **MultiCash** clients (growth by 13 percent). This client segment completed over 12 million transactions within the local payment system in 2008, creating a total volume exceeding CZK 1 billion, and approximately 132,000 foreign payment system transactions.

Client Centre

Česká spořitelna's **Client Centre** predominantly provides **telephone services to clients 24 hours a day, seven days a week** in Czech and English. 2008 shows that the Bank delivered services of high quality and developed its sales potential. Specialised telephone support for commercial clients was also initiated and a number of new services were introduced through integration from other departments (e.g. payment card support).

In June 2008, the Bank started offering specialised phone support to commercial clients where trained bankers administer the entire range of requirements in Czech, English and German. Support staff answered 90 percent of all incoming calls from commercial clients within 20 seconds and responded to 9 out of 10 e-mails within two hours after receipt. Research from an external agency confirmed that clients are highly satisfied with the scope and quality of support.

The total number of incoming calls received by Client Centre systems decreased by 5 percent year-on-year, with the number of calls totalling 4.7 million. The proportion of calls answered by telephone bankers decreased by 3 percent to 2.7 million calls.

The availability of Client Centre services once again increased. **In total, 83 percent of all calls were answered by telephone bankers within 20 seconds**, which is an increase of 6 percent year-on-year.

In addition to telephone services, the Client Centre serves the major email box of Česká spořitelna Napište nám (Write to Us) (csas@csas.cz) and other service mail boxes. In 2008, over 76,000 e-mails were answered.

External Sale and Cooperation

External sales are an integral part of the distribution model of the Česká spořitelna Financial Group. Via its external partners, the Bank provides services to clients who prefer to procure financial services outside bank branches.

After the slow-down of the external sale of mortgage loans in early 2008, significant changes were made in understanding the role of external sales in the latter half of the year. In response, **Česká spořitelna decided to transform the entire sales network**. A new external sales strategy was approved for 2009–2011, which confirmed the intention to continue using external distribution to increase the market share and provide high-quality consulting and care to clients. The first important transformation step was the introduction of active transaction processing in Mortgage Centres.

The external sales network experienced significant achievements in 2008. The **sale of life-insurance and Stavební spořitelna ČS's products significantly increased** and the Bank continued its business co-operation with its strategic partner Kooperativa.

In the following years, the Bank's external sales will be based on co-operation within its own exclusive network and with major financial advisors on the Czech market. The goal is to approach individual external partners with respect to their segments and their specific needs, provide high-quality sales support and, as a result, achieve co-operation that will benefit all parties.

Web Portals

With the Internet becoming a more and more important source of information, the visit rate of Česká spořitelna's websites continues to grow. Česká spořitelna's web sites were visited by 1.7 million unique users per month, which is year-on-year growth of 30 percent. **The number of transactions completed by web calculators has increased as well.** The volume of loans applied for through web portals exceeded CZK 5 billion.

The opportunity to calculate an instalment or price of a specific product and set up parameters on-line continues to enjoy great popularity. In addition to the standard Mortgage Calculator, Configurator of Česká spořitelna's Private Account, Loan Calculator and Clever Card Configurator, clients use another four tools for cash modelling pension insurance, life insurance and mortgage loans. The Bank regularly monitors user needs and prepares tools for the most efficient and pleasant communication with the Bank, which is why product information was expanded to include a form for fast ordering selected products.

The extensive development of web portals also continued in 2008. In addition to modifying sales tools, more detailed information on sales points was provided. For branches and ATMs, GPS co-ordinates and bank locations are available on maps, and for each ATM displayed, the five nearest ATMs are also shown. Most branches offer a picture of the relevant sales point, and information on the branch including its opening hours may be sent by SMS.

The Bank is very consistent in **complying with all rules for having an accessible web site** so that the information on web portals can be used by handicapped users and minority system owners without any limitations.

NON-COMMERCIAL ACTIVITIES

Human Resources

In the highly competitive environment of the labour market the Bank's employees are the most important element in determining the Bank's direction and success **since they are in direct contact with clients and have a major impact on their satisfaction with products and services.** As having suitable forms, methods and targets with regard to educational activities supports the improvement of staff qualifications and professionalism, Česká spořitelna finds it necessary to provide its employees with equal opportunities, a friendly working environment, education opportunities and motivation.

A comprehensive system of education comprising internal and external training courses, workshops and seminars and a number of e-learning courses form the pillar of employee education and development in Česká spořitelna.

In 2008, Česká spořitelna focused on efficiently training new hires in the branch network and in the Bank's headquarters. The Bank introduced a mentoring system in which new hires have mentors in the trial period, i.e. experienced colleagues who help them adapt both socially and professionally. Other activities focus on supporting management skills and leadership development, training on business improvement (Six Sigma, Kaizen) and service quality. **The catalogue of internal courses offered more than 90 topics and the courses were attended by 34,000 participants.** The key topics of the catalogue courses included new product training, and bank application and regulatory training. **External courses delivered by external suppliers were visited by 8,000 participants.** These activities related namely to soft skills such as teamwork, assertiveness, psychology of success, business skills and management skills.

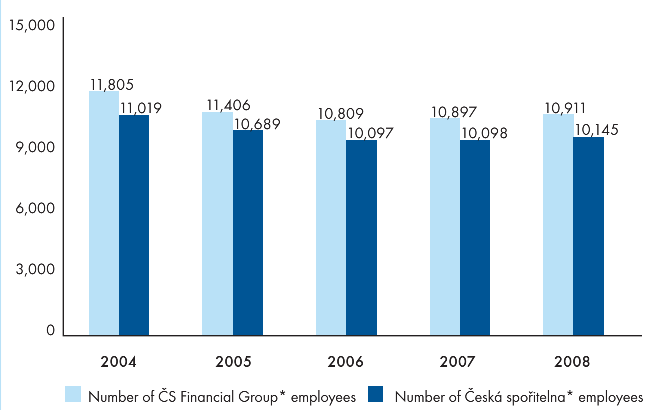
Česká spořitelna implemented special educational and development programmes for various target groups. The most significant were the opening of the Private Banking Academy, the fifth year of the Special Trainee High Potentials programme for young and talented professionals, and the start of comprehensive education for investment specialists. In total, over 80 cross-company tailored programmes were organised according to the Bank's current needs.

In close co-operation with Erste Group, the Group Junior Trainee programme was started for university graduates, which covers all countries of the Erste Group. The Leadership Development Programme for talented senior managers continued. Under Česká spořitelna's supervision, the concept of employee training in SMEs was integrated in all Erste Group countries.

The above-mentioned activities helped **Česká spořitelna place second in the 6th Annual Employer of the Year contest** in the category of Most Desired Employer of 2008.

The average headcount of the entire financial group was stable, representing 10,911 employees. Nearly 24 percent of the employees in the parent bank have university education. The proportion of men exceeds one-quarter of all employees (26 percent), and the average age of employees slightly decreased to 39.2 years. 48 percent of employees work at least 10 years with Česká spořitelna, which is a decrease by four percentage points year-on-year.

Number of employees



* average recalculated headcount

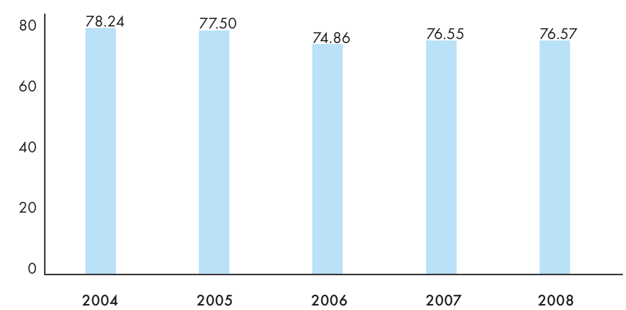
The aggregate average pay of parent bank staff members including bank performance bonuses **amounted to CZK 44,382** in 2008, which represents an increase of 1 percent year-on-year.

Quality of Services

In 2008, Česká spořitelna completed its First Choice Bank transformation programme, which, in addition to the changes in the corporate culture and implementation of a number of improvements for clients and the entire company, was aimed at further developing the Bank's capability to provide services at the highest European level using the Six Sigma and Kaizen methodologies.

A prerequisite for Česká spořitelna's permanent success is the Bank's ability to accurately identify client needs and exceed their expectations. That is why the Bank offers all its employees **Professional Services training**, which is focused on developing the skills necessary to provide first class services and efficiently connect sales with high quality services while paying attention to benefits for clients. At the end of 2008, the Professional Services training course was attended by more than 5,000 employees.

Client satisfaction
(CSI in points, spring – autumn average)



The Bank compared its results using the European Performance Satisfaction Index in the Czech Republic and using the European Finalta benchmark in Erste Group. The outcome indicated that the management system and service quality offered by Česká spořitelna to its clients is among the best in Europe. Within the Erste Group, Česká spořitelna had the best rating.

In the latter half of 2008, Česká spořitelna and the Czech banking market experienced lower levels of client satisfaction. Clients were less satisfied with fees and the waiting time and were more concerned that the Bank's employees did not act for their benefit. **When contacting Česká spořitelna, clients are most satisfied with the range of the network, ATM availability and internet banking.** Česká spořitelna improves its capability to manage client loyalty to the Bank. Client loyalty in Česká spořitelna is the highest on the Czech banking market.

For eight years, a team of ombudsman has been available to Česká spořitelna's clients. Ombudsman can be approached by various communication channels, such as the Blue line (844-117-118), email (ombudsman@csas.cz), personal consultations and mail. The team members solve client problems in Czech, English and German every business day from 8:30 a.m. to 5 p.m. In 2008, they received and solved over 5,000 issues. Client issues include claims, comments, suggestions, complaints, praises and inquiries. Based on these incentives, a number of measures and system changes were implemented in 2008.

Significant progress was achieved in the Bank's capability to use client feedback, i.e. to solve client issues and provide high-quality and fast solutions, register client issues and learn from the feedback. In 2008, the Bank received and resolved over 156 client issues via its branch network, the Client Centre and the ombudsman team. The speed target, i.e. resolving 80 percent of the issues within 24 hours, was first achieved in September 2008. **These numbers and speed are comparable to the benchmark set by European banks.**

Achieving internal client satisfaction is crucial for allowing the Bank to provide high-quality services to external clients. The quality of internal services provided between departments is measured semi-annually. In 2008, Česká spořitelna continued to improve the quality of internal services. The average value of the Service Level Index for the year grew from 77.04 by more than three percentage points year-on-year to 80.20.

Economic and Strategic Analysis

The responsibilities of the Economic and Strategic Analysis team of Česká spořitelna were expanded in three areas. First, the strategic planning and banking sector analyses are performed. Second, the equities analyses cover three sectors: real estate, media, and gas and oil. In aggregate, the team provides analyses relating to eighteen companies. The third area addressed by the team covers macroeconomic analyses used to estimate foreign exchange and interest rates. In equity and macroeconomic sectors, the team also offers investment strategies to its clients. Analyses are published on the Bank's website under the analytical reports section and online data service (www.csas.cz/analyza). The regular set of analytical reports issued at daily to quarterly intervals in Czech and English now comprises 15 different products. Analysts and strategists are available to a selected number of clients of the Česká spořitelna Financial Group for personal and telephone consultations.

EU Office of Česká spořitelna

In 2008, the EU Office of Česká spořitelna continued its activities, which have been provided for five years, such as monitoring, analysing, and providing information about current events in the European Union to the Bank's internal and external clients as well as to the general public.

For the EU Office, 2008 was a year of intensive preparations of the Czech Republic's presidency in the Council of the European Union in the first half of 2009. **EU Office representatives participated in the working group that was established to prepare for the presidency.**

In 2008, the EU Office participated in a number of lectures and presentations in seminars, conferences and discussion forums in the Czech Republic and abroad, which comprised the following:

- A common project of the European Commission;
- The Czech Ministry of Labour and Social Affairs and the Silesian University on development trends on the EU labour market;
- A lecture on the Investment Forum under the auspices of the Prime Minister, Miroslav Topolánek;
- A speech at a conference arranged by the European Commission in Bucharest on the EU's competitive strength; and
- A series of lectures on the euro for the EuropeDirect network.

EU Office representatives had the opportunity to deliver a speech as the key-note presenters at several annual conferences of the management bodies of the Regional Operational Programmes and the annual conference of the International Chamber of Commerce within the Enterprise Europe Network. **For the Bank's clients, 20 presentations on contemporary issues of the commercial centre and branch integration in the Czech Republic were organised.**

In 2008, consulting and advisory activities with respect to public (government and regional) entities continued. EU

Office representatives continued working in a consortium representing the Zlín and Olomouc Regions in the EU institutions in Brussels and participated in preparing strategic development documents with a long-term outlook. Consulting in respect of the Ministry of the Environment, the State Environmental Fund and other government institutions developed.

In Erste Group, the development of the EU Affairs Working Group continued. As the key supplier of the information section of the project the EU Office provided several key contributions to the Erste Group strategy in respect of the future development of the EU.

Project Management

Česká spořitelna implements most of its strategic goals through projects. In 2008, the Bank's projects were focused namely on service development, client satisfaction, internal process efficiency and the development of support activities in the Erste Group. The high quality and professionalism of project management in Česká spořitelna was proven by the fact that the **Customer Interaction Centre (CIC)** project focused on direct banking ranked **second in the Best Project Management** contest organised by Tuesday Business Network.

Major **projects focusing on client benefits** include **Cool Cards**, a project in co-operation with the Consumer Lending Factory project that succeeded in preparing an IT solution for selling Clever Cards. The **Wealth Creation** project prepared Private Financial Plans for clients with high income. In 2009, Private Financial Plans will be offered to clients from all retail banking segments. Česká spořitelna increased client protection using investment services in compliance with MiFID. The **Financial Market Product Processing project** implemented new clearing bank functions to process the Prague Energy Exchange transactions, electricity futures trading and emission allowance trading. The **CIC V project** implemented changes in SERVIS 24 and BUSINESS 24 applications, which increased the safety and reliability of direct banking. In addition, clients of Stavební spořitelna ČS were given the opportunity to collect new information on their credit account and optimise the amount of state contributions using SERVIS 24. Since June 2008, all payment transactions made between accounts maintained by Česká spořitelna have been processed in real time. This is possible thanks to the **Legacy Enhancement project**, which introduced a new on-line version of the Giro account system (Sporožiro).

One major project aimed at increasing process efficiency is the **Cash Handling Centralisation project**, which successfully reduced the number of cash handling points whose management was moved from branches to the Bank's headquarters. The **Core SAP** project prepared a new employee portal in SAP where employees register their absence at work and receive electronic pay slips. The **Collections R2** project introduced a new version of the receivable collection system and was expanded to include credit cards and increase the automation of sending reminders to clients. The **Data Quality Measuring and Analysis** project prepared a comprehensive design of data management in Česká spořitelna and data quality improvement in data sources for activities such as credit risk management. The **Payment Card Development** project prepared connection for payment card terminals at Česká spořitelna's business partners through public networks. In this respect, the project implemented a technical solution for the acceptance of payment cards in Tesco Stores throughout the Czech Republic.

The Bank also participates in projects that are **beneficial for the Erste Group**. Based on the deliverables of the **Group Capital Markets**, a new business model for financial markets between Erste Group Bank and Česká spořitelna was introduced in 2008. The model is based on centralising the commercial book of financial market transactions in Erste Group Bank while maintaining decentralised business units in the Erste Group's local banks. In Česká spořitelna, Procurement Services CZ, and selected subsidiaries the **PARiS project** started a new procurement process, which covers the entire range of services from material and service procurement to invoicing. Co-operation within the payment system of the Erste Group banks had a positive impact on the successful completion of several projects within the Group Payment Initiative. The **Single European Payment Area** (SEPA) project allowed Česká spořitelna clients to make and receive payments in euros under equal standard conditions within the European Economic Area. The **Group Payment Function** and **Swift Centralisation** projects established a uniform access point to the foreign payment system in the Erste Group.

Information Technologies (IT)

The principal objectives of all IT areas involve supporting and playing an active role in the implementation of the Bank's key development activities with the objective of putting in place a flexible and stable IT environment that facilitates the implementation of the Bank's set business strategy while optimising investment and operating expenses and supporting legislation and internal changes.

In October 2008, the pilot phase of the online version of the Giro account payment system was completed. Transactions among various client accounts within the Bank are now made in real time within seconds or, at the most, minutes. Incoming transactions from other banks are processed immediately on the same day. Payments to other banks are sent from Česká spořitelna continuously on the date when they are ordered. **Česká spořitelna has implemented the fastest system of payment transaction processing on the banking market in the Czech Republic.**

In early July 2008, all IT systems supporting the sale of the Clever Card were changed and tested in a pilot operation. As the pilot operation was successful, Clever Card sales could begin in the branch network in mid-August, including all relating functionalities for making changes in the configuration of issued cards.

To optimise the costs of IT services, the Erste Group started the initial phase of an extensive project of moving Česká spořitelna's data centres to Vienna. The first phase of the project should include the development of a feasible concept, verification and testing of the concept on a selected group of applications, and preparation of a realistic timeline of the move. The actual transfer of a selected group of applications to the production mode in Vienna is expected in 2009–2010.

After the CRM system was updated at the end of 2007, the application became very stable and reliable. In spring 2008, new functionalities of the CRM application were introduced to support the Private Account and the Clever Card, to administer related parties (ESSO), and to provide data support for financial consulting services. A new Event Management application (Události) was introduced for corporate banking. Thanks to the ongoing improvement of CRM, the Bank's employees have a tool that allows them to systematically apply an individual approach to clients and offer products that best satisfy client needs.

The key changes in functionalities of alternative distribution channels of SERVIS 24 internet banking and BUSINESS 24 made in 2008 include higher security, higher system stability, direct banking application improvement in terms of user-friendliness and reliability, and legislation changes defined by the MiFID project. Clients of Stavební spořitelna ČS are provided with new information on their credit account balance. The improvement of BUSINESS 24 by the Databanking functionality enables direct and safe communication with client accounting systems. Electronic Bill Presentment and Payment, a service that allows clients to send and receive electronic invoices, was upgraded and the Key Public Infrastructure security was increased (advanced security using client certificates).

Key Performance Indicators (KPIs) were defined in the Internal Services Catalogue as a tool to manage the quality of internal IT services. The process of quality monitoring and assessment was verified in a pilot project and will go live in 2009. The regular research of internal client satisfaction **with IT services in Česká spořitelna shows an increasing trend.** The IT service satisfaction rate was 79 percent, which is very positive as this is the highest rate in the Erste Group.

In 2008, centralisation of IT development business units continued in the Erste Group to optimise the costs of IT development. Full integration to IT Solutions is expected in early 2010.

Security Policy

Česká spořitelna attaches a great deal of importance to its security policy. The Bank operates an independent and stand-alone security department, which has been charged with overseeing financial security, investigating incidents of operational risks, and maintaining IT and physical security. The Bank's operations are primarily focused on preventing all harmful action or improper conduct that could jeopardise the security of clients, staff and assets of the companies within the Česká spořitelna Financial Group.

The mitigation of operational risks is monitored by Česká spořitelna's security policy. The potential criminal activity of clients or employees of the Bank is a priority reference point in evaluating and administering warnings in software applications, assessing methodological procedures, and evaluating new development projects in the Bank. Major attention has been paid to the issues of preventing the legalisation of proceeds from criminal activities, the financing of terrorism and compliance with regulations on the execution of international sanctions.

In IT security, the Bank primarily focused its attention on security monitoring in 2008. With regard to the existing security threats and risks which could impact, namely, the alternative web-based distribution channels, the Bank implemented a number of effective technical and organisational measures to minimise security risks.

2008 was a year with a higher crime rate in the Czech Republic. The number of physical attacks at banks was above the long-term average and Česká spořitelna was among the banks that had to face the attacks. The Bank solved the adverse situation by increasing technical protection in its premises. Compared to other banking entities, the Bank's security measures were highly successful, which confirms the direction of Česká spořitelna's long-term security policy and effectiveness of the policy's implementation.

Internal Audit

Internal Audit is an independent, objective, assurance and consulting activity designed to add value and improve the Bank's processes. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In all the Bank's functions, Internal Audit monitors processes and activities, and reviews the implementation of actions highlighted by internal and external audits and reviews. In 2008, Internal Audit provided the Bank's management, Audit Committee and Supervisory Board with objective information and assurance on the level of risks faced by the Bank.

Strategic Plans for the Next Period

Strategic Objectives

In 2008, Česká spořitelna successfully completed the "First Choice Bank" Programme, the aim of which involved transforming Česká spořitelna into a dynamic and respected bank in the Czech Republic. Practical results of the programme included increasing clients' satisfaction with the quality of services, growing the amounts of deposits and loans and, last but not least, receiving numerous awards from competitions intended for the professional and general public.

The achievement of these results serves as a good basis for further development and is even more precious at the moment when we are entering a period impacted by the consequences of the global economic crisis. Even in these difficult times, Česká spořitelna anticipates a stabilised development based on the proven prudent business model, the well-balanced structure of its client base and optimistic prognoses regarding the development of the Czech economy. Česká spořitelna will continue to support all these competitive advantages through the implementation of the programme involving targeted cost reduction measures designed to significantly reduce the growth of its operating costs.

The principal strategic aims of Česká spořitelna for the following period are defined as follows:
- Continue focusing on client needs and strengthening client trust in Česká spořitelna;
- Continue developing those activities, products and services that were successful in prior years and brought innovations;
- Control operating costs;
- Bring its own innovations and participate in group-wide projects and development initiatives;
- Use the benefits of group synergies in the Erste Group to the greatest extent possible; and
- Strengthen the co-operation among individual members of the Erste Group and harmonise basic processes in the Bank and in the Group.

Macroeconomic Forecast

The uncertainty relating to the current financial and economic crisis and its impacts makes 2009 difficult to forecast. Despite the anticipated decline in most macroeconomic indicators, the Czech Republic has the potential to absorb these negative impacts. The principal advantages of the Czech Republic include:
- Favourable geographical location connecting East and West;
- Non-existence of principal macroeconomic imbalances;
- Relatively low internal and external indebtedness;
- Healthy banking sector with a good level of liquidity; and
- Qualified manpower.

Česká spořitelna's budget for 2009 is based on the following macroeconomic forecasts:
- Decline in the economic performance of the Czech Republic in 2009, and gradual revival in 2010;
- Decrease in the level of inflation;
- Decrease in investments and stagnation in personal consumption;
- Growth of the unemployment rate;
- Changes in the monetary policy of the Czech National Bank; and
- Volatile exchange rate of the Czech crown with a short-term tendency towards slight weakening.

BUSINESS PRIORITIES

In 2009, Česká spořitelna's business divisions will have the following business priorities:

Retail Banking

The strategy of retail banking is included in the "BAROKO" programme, which is to be implemented in the medium term. The programme is based upon the following four pillars: product distribution, client satisfaction, product assessment, and process improvements. The retail banking priority will continue to involve the further growth of mortgage loans while the marketing support will focus on the growth of retail consumer loans. In both cases, the Bank will place greater emphasis on the quality of newly-provided loans and being more consistent regarding the administration of loans provided in the past so as to minimise potential risks relating to payment defaults. On the liability side of the balance sheet, Česká spořitelna will offer new deposit products. In the segment of small and medium-sized enterprises and freelance professions, special attention will be given to attracting new clients. In all client segments, alternative distribution channels will be supported in order to satisfy client demand even outside of the working hours. In the card business sphere, support will be given to achieving further growth in the number of credit cards and the use of cards for cash-free payments through the further development of the Bonus Programme and new products (Chytrá karta – Cool Card).

Corporate Banking

The Bank's strategic aim regarding corporate banking is to continue developing services for small and medium-sized companies and large corporate clients based on comprehensive servicing, knowledge of client needs and matching solution offerings. The principal aim in that regard is to increase the awareness of Česká spořitelna as a reputable corporate bank. In the current period of economic downturn, Česká spořitelna will help its clients to manage any adverse impacts, by taking a responsible approach to client needs and by actively providing advisory assistance and mediating support from other sources. This will, for example, extend to advisory in utilising EU funds, ČMZRB guarantees and/or financial instruments of the European Investment Bank.

In the corporate banking segment, Česká spořitelna will significantly broaden its offer of cash management and comprehensive financial solutions for clients on the Erste Group Bank financial group market. Česká spořitelna will be involved in the areas of advisory, mergers and acquisitions and the long-term hedging of foreign exchange and interest rate risks. In the segment of small and medium-sized enterprises, the Bank will further develop a strategy for providing its clients with comprehensive services and a differentiated approach based on the needs of individual sub-segments. Along with the sale of regular banking products, the Bank will offer its clients other financial and non-financial services, such as advisory client support in the area of utilising EU funds. Pursuant to the experience from the financing of products focused on energy savings and energy production from renewable sources, the Bank would like to strengthen its significant position in this sector. Significant emphasis will be placed on the quality of services and improving the customer service process. Process management will become one of the principal pillars to improving the efficiency of corporate banking.

In respect of real estate activities, the Bank will continue its strategy as a provider of comprehensive services for developers and investors and it will support regional real estate transactions. In providing services to the public and non-profit sectors, Česká spořitelna's goal is to increase co-operation with strategic clients, its strong presence in the regions and also the number of acquisition activities. The Bank will also focus on funding projects, the provision of advisory in the use of EU funds and project advisory.

Financial Markets

The goal of financial markets trading is to maintain a leading position among domestic market makers. The Bank will continue to focus on developing services for financial institutions and also enhance its position as a significant regional financing partner through the placement of bonds and equities. The significant loan potential in the area of retail and corporate banking will be used in order to realise the cross-selling of financial market products with an emphasis on comprehensive solutions and automation. The potential areas for growth include medium-term structured products (structured debt securities and premium deposits) and investment advisory. Transactions with the foreign currencies of countries from Eastern Europe as well as the services for securities portfolio administrators are expected to grow. Česká spořitelna will continue organising primary placements and developing new investment products for existing clients.

ANTICIPATED ECONOMIC AND FINANCIAL POSITION

As with the macroeconomic forecast, the uncertainty regarding markets makes it difficult to predict how the Bank will perform in 2009. The next period will be difficult for Česká spořitelna predominantly for the following reasons:

- Slow-down of economic growth will be accompanied by an increased pressure on growth in risk expenses and decrease in banking activities in all segments;

- Decrease in interest rates will negatively impact the development of net interest income as the principal component of the operating income; and
- Efforts leading to maximum reductions of operating expenses will run counter to the need to create long-term opportunities for the further development of financial services.

With its business model focusing on retail banking, strong market position, a conservative lending policy and strong liquidity position, Česká spořitelna believes that it will continue to achieve sound economic results. Despite these positive factors, in this volatile situation Česká spořitelna considers it too early to provide any forecasts regarding the development of its profits.

Risk Management in 2008

One of the key elements of the Bank's internal management and control system is its risk management processes. As a result of its business and other activities, the Bank is inevitably exposed to a variety of risks, such as credit, market, operational, and liquidity risks, etc. Česká spořitelna's attention to risk management is commensurate with its size, complexity and the number of products and business activities and other operations. As approved by the Board of Directors, the Bank has a risk management strategy in place which consists of risk management principles including risk identification, monitoring and measuring processes as well as sets of limits and restrictions. By adopting these principles the Bank has maintained its risk exposure at an acceptable level, thereby keeping its management processes effective.

The following departments at Česká spořitelna are involved in managing risk:

- The Central Risk Management department, which is primarily responsible for market and operational risks and for managing risks taken by the whole Česká spořitelna Financial Group on a consolidated basis
- The Credit Risk Management department, Credit Risk Controlling department and Portfolio Management department which assume responsibility for credit risk within the Group
- The Balance Sheet Management department, which manages interest rate risk inherent in the banking book (investment portfolio) and liquidity risk based upon the decisions of the Assets and Liabilities Management Committee.

The activities of the Risk Management departments are additionally complemented by the activities of:

- The Security department, which is responsible for risk management in respect of physical security, IT security, and early warning system management
- The Legal Services and Compliance department, which is responsible for compliance risk management and anti-money laundering.

In addition to the Board of Directors, approval authority relating to risk management rests with the following committees:

- The Assets and Liabilities Management Committee
- The Česká spořitelna Board of Directors' Credit Committee
- The Financial Markets and Risk Management Committee
- The Compliance, Operational Risk and Security Committee (CORB) – a body of the Bank's Board of Directors that makes decisions regarding the management of operational risk, compliance risk and security.

CREDIT RISK

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. In managing credit risk, the Bank applies a unified methodology, which is adopted on a Group-wide basis and sets out applicable procedures, roles and authorities. The lending policy includes:

- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan
- Basic framework of the rating system and of setting up and revising borrower ratings
- Basic principles underlying the system of limits and the structure of approval authorities
- Rules of loan collateral management
- Structure of basic product categories
- Methodology for provisioning and risk weighted assets calculations.

Collection of Key Risk Management Information

In managing credit risk, the Bank not only refers to its own portfolio information but also the portfolio information of other members of the Česká spořitelna Financial Group. In addition, the Bank uses information obtained from external sources such as the Credit Bureau or ratings provided by reputable rating agencies. The extensive database which is available for credit risk management purposes provides a basis for modelling credit risk and support during debt recovery, the valuation of receivables and calculation of losses.

Internal Rating Tools

Rating is perceived as a key risk management tool. The Bank uses a client's rating to measure counterparty risk profile. The client rating reflects the likelihood of debtor default in the subsequent 12 month period. The evaluation of the debtor and the determination of the internal rating is part of either the approval process of each loan or significant changes in lending terms. The evaluation of the client reflects their financial situation and non-financial characteristics. For corporate debtors, the evaluation predominantly involves an analysis of strengths and weaknesses, e.g. management quality, competitiveness, etc. For retail debtors, the evaluation predominantly involves demographic and behavioural indicators. As part of risk management, the Bank categorises its client as "clients in default" and "clients without default". For the clients, private individuals, the Bank uses an 8-grade rating scale and 13-grade rating scale for other clients. For all clients in default the Bank uses one rating grade – "R" which is further classified according to the reason of default.

All information essential for assessing clients is collected and stored centrally. The Bank performs regular revisions (at least annually) of internal ratings. The internal rating methodology is validated based on historical data using statistical models. In accordance with the requirements of the regulator, the Bank ensures supervision over the internal rating validation methodology process by an independent entity.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Bank may accept in respect of a client or a group of economically related persons. The system is set to protect gains and capital of the Bank against risk concentration.

Structure of Approval Authorities

The structure of approval authorities is derived from the principle of the materiality of the impact of a potential loss from a provided loan on the Bank's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Supervisory Board and the Credit Committee of the Board of Directors. Lower approval authorities are categorised while taking into account the seniority of Credit Risk Management department staff.

The Bank uses its own internal models in determining risk parameters such as the probability of default (PD), loss given default (LGD) and credit conversion factors (CCF), i.e. coefficients that serve for the transfer of off balance sheet items to balance sheet items. All models comply with the requirements of Basel II. Monitoring and predicting historical risk parameters serves as a basis for the quantitative management of the portfolio. The Bank currently uses risk parameters in monitoring credit risks, in-default loans portfolio management and risk valuation. The active use of the risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments to both internal and external changes.

Provisions for Loan Losses

The Bank has been using a provisioning policy that complies with International Financial Reporting Standards. Portfolio provisions are determined for portfolios of receivables where no individual impairment has been identified. The level of portfolio provisions is established using models based on the Bank's historical experience. The risk parameters PD and LGD form a significant component of these models. Receivables where impairment has been identified are provided for individually. Impairment of non-retail receivables and retail receivables with a value exceeding CZK 5 million is measured using the discounted expected cash flow method. The degree of impairment of other retail receivables is determined statistically on the basis of experience with the recovery of a similar type of receivables. Provisions against all receivables are reassessed on a monthly basis.

Concentration Risk and Risk Weighted Assets

The Bank manages loan portfolio concentration risk through a system of large exposure limits. Large exposure limits are established as the maximum exposure that the Bank may accept in respect of a client with a given rating and underlying collateral. The system is set to eliminate excessive risk concentration for small number of clients in a portfolio. The setting of the system is based on a maximum level of the economic capital which may be allocated to one group of clients.

With regard to the credit risk capital requirement calculation, the Bank complied with the conditions for the use of the IRB approach and since July 2007, the risk weighted assets and the capital requirement have been based on the internal rating and the Bank's own estimates of the PD, LGD and CCF parameters. The risk weighted assets are calculated on a monthly basis. The standard calculation is regularly completed by stress testing, which involves modelling the impacts of sudden changes in the market environment.

MARKET RISKS

Market risks undertaken by the Bank principally relate to transactions in financial markets that are traded in both the trading and banking books, and interest rate risk associated with assets and liabilities in the banking book. Trading book transactions in the capital, money and derivative markets can be segmented as follows:

- Client quotations and client transactions, and the execution of client orders
- Interbank market quotations
- Active trading in the interbank market
- Distribution of financial market products to small clients.

Since 1 February 2008, Erste Group Bank has used a new group business model for trading on financial markets entitled “Group Capital Markets“. Risks from concluded client transactions are transferred through identical transactions to portfolios of Erste Group Bank and quotations on the bonds markets, derivative markets and foreign currency market and interbank transactions were transferred to the Group. Erste Group Bank redistributes the share in the result of the Group arising from the trading according to an approved model on an annual basis. The conclusion of new transactions and quotations on the money and equity markets were retained by the Bank.

Derivative transactions are also entered into to hedge against interest rate risk inherent in the banking book and to refinance the gap between foreign currency assets and liabilities.

Market risk inherent in the trading and banking books is monitored and measured by the Central Risk Management department, which is independent and separate from the Financial Markets Division, in order to avoid a conflict of interest and to ensure that the reports on the risks taken by the Bank are correct and free of bias.

The Central Risk Management department ensures an independent valuation of all financial market transactions for both the Group and client portfolios administered by the Group is conducted. Central Risk Management is also responsible for managing operational risks involved in trading on financial markets and managing market risks. It pays significant attention to control activities and reconciliations to ensure that complete and accurate instrument records held in the Bank’s portfolios are available.

Limits for market risks are determined separately for the trading book and the banking book. All limits for the trading book (specifically VaR limits for one day holding and sensitivity limits) are proposed in cooperation between the Central Risk Management department and relevant business departments and approved by the Financial Markets and Risk Management Committee. All limits for market risks inherent in the banking book (specifically VaR limits for one month holding) are proposed by the Central Risk Management department and the Group Balance Sheet Management department and are approved by the Assets and Liabilities Management Committee. The set of market limits must comply with the maximum risk exposure (measured via the VaR method) as approved by the Bank’s Board of Directors and must also be confirmed by the parent company, Erste Group Bank.

While the VaR for the trading portfolio is determinable by standard and verifiable techniques, the banking book of the Bank and certain subsidiaries includes assets and liabilities for which the VaR cannot be readily established. Hence, the VaR for these portfolios is calculated on the basis of special procedures that seek to reflect, as faithfully as possible, the actual behaviour of assets and liabilities carried in these portfolios.

In order to measure the interest rate risk exposure in respect of financial market transactions, the Bank uses the ‘PVBP gap’, which is defined as a matrix of interest rate sensitivity factors by currency for the individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set for each interest rate product trading portfolio by currency. The limits are compared to the value that represents the greater of the sum of the positive PVBP values or the sum of the negative PVBP values in absolute terms for each period to maturity. By adopting this approach, the Bank manages not only the risk attached to a parallel shift of the yield curve, but also any possible ‘flip’ of the yield curve. A limit for the simple sum of PVBP values is set for major currencies such as CZK, EUR, USD. In addition, the Bank monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

The sensitivities of foreign currency derivative contracts to foreign exchange rate movements are measured in the form of delta equivalents and are reflected in the Bank's foreign currency position. The Bank monitors special limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract value sensitivity to exchange rate volatility in the form of the vega equivalent. In addition, the Bank monitors the sensitivity of the value to the period to maturity (theta) as well as interest rate sensitivity (rho) which is measured, together with other interest rate instruments, in the form of PVBP.

The equity risk of the trading book is monitored using the delta sensitivities of portfolio market values to equity price movements both by equity issue and in aggregate for each of the markets and the entire portfolio.

The commodity risk of the trading book is monitored using the delta sensitivities of portfolio market values to commodity price movements for individual commodities.

The Central Risk Management department uses other sophisticated procedures to assess the value and risks inherent in structured products, including credit investment instruments, whose explicit valuation is not feasible. Monte Carlo is the method used most frequently to simulate the probability distribution for the price and future development of complex transactions, including price sensitivities, to changes in market factors.

In order to measure the market risk inherent in the trading and banking books on an aggregate basis, the Bank uses the Value at Risk concept. Value at Risk is calculated with a confidence level of 99 percent over the holding period of one trading day. The calculation is performed using the KvaR+ system and historical simulations based on historical data over the most recent 500 trading days. Under the condition of the normality of losses distribution, VaR is determined for the holding period of one month, or one year, and for high probability levels (99.9 percent, 99.98 percent).

VaR limits are established for individual trading desks/portfolios. The VaR method is complemented with 'back testing' which is designed to review the model for correctness. Back testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading date. Back testing results have, to date, confirmed the correctness of the setting of the VaR calculation model.

Following an approval by the Czech National Bank (ČNB), the Value at Risk concept is also used to calculate the capital requirement in respect of foreign currency risk, general interest rate risk, general and specific equity risk and risk associated with trading book option contracts. In addition, this method is used for the calculation of Economic Capital for market risks of the trading book and banking book. Value at Risk calculations are also applied when assessing the risks inherent in the asset portfolios of the Bank's subsidiaries (for funds of Investiční společnost ČS, Penzijní fond ČS and Pojišťovna ČS) and in assessing market risks in the banking book of Stavební spořitelna ČS using special models for the mapping of the Bank's balance sheet.

The Bank's trading book undergoes regular monthly stress testing. The following scenarios are applied:
- Scenarios derived from 10–15 year historical data using maximum positive and negative changes (one-day and ten-day) for interest rates, equity prices, exchange rates and volatilities separately
- Value at Risk with a confidence level of 99.8 percent (the worst historical scenario over a series of the most recent 500 scenarios)
- Stress scenarios on the basis of monthly forecasts by the Economic Analysis department.

The results of the stress scenarios are compared to the capital requirement from market risks. In addition to the sensitivity limits and VaR, stop-loss limits are determined and monitored on a daily basis for individual trading desks. The monthly stop-loss limit is compared to the actual monthly results of the relevant trading desk, the annual stop-loss limit is compared to the difference between the best result (realised or unrealised profit) in the year and the most recent result of the trading desk. The Risk Management department also monitors the market conformity of transactions concluded on financial markets with the aim of revealing market manipulations and avoiding operational risks.

The sensitivity limits, VaR and stop-loss limits, including the method of the determination thereof, and measures that will be applied when the limit is breached, are stipulated by the Bank‘s internal directive – the Risk Management Manual which is part of the risk management strategy.

The information on the Bank‘s exposure to market risks and on the compliance with the established limits is reported to: the responsible managers of the Bank on a daily basis; the members of the Board of Directors via the Assets and Liabilities Management Committee and the Committee for Financial Markets and Risk Management on a monthly basis.

INTEREST RATE RISK

The Bank manages the interest rate risk inherent in the banking book by using the following techniques: simulating the net interest income; simulating the sensitivity of net interest income to changes in market interest rates (parallel/non-parallel discreet shift in market yield curves, stochastic simulation of the yield curve); and simulating changes in the theoretical market value of the banking book when a market yield curve shifts by +100/+200/-200 basis points (including key rate duration), and duration and gap analyses. The most recent interest rate risk exposure undertaken by the Bank is assessed on a monthly basis by the Assets and Liabilities Management Committee within the context of the overall developments in financial markets, the Czech banking sector, and structural changes in the Bank’s balance sheet.

The key parameter monitored in respect of the Bank’s interest rate sensitivity involves the relative change in the Bank’s projected net interest income should the market interest rates immediately show a parallel decrease/increase of +100/-100 basis points over the horizon of the subsequent 36 months on the assumption of a stable balance sheet structure (i.e. the product structure of assets and liabilities). At the end of 2008, the sensitivity of the Bank’s net interest income of the banking book to a parallel increase in market interest rates of 100 basis points was +2.9 percent. In other words, if the market interest rate levels increased by 100 basis points, Česká spořitelna’s net interest income over a period of three years would increase by +2.9 percent. If market interest rate levels decreased by 100 basis points, the sensitivity of net interest income would be -4.5 percent.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments when they fall due, or in raising funds to finance its assets. The Bank’s liquidity position is monitored and managed based on expected cash inflows and outflows and by adjusting the structure of liabilities accordingly.

In terms of liquidity management, the key trend for the year ended 31 December 2008 involved the continued growth of the volume of medium-term and long-term assets, particularly client loans (year-on-year increase of 10 percent – mainly mortgage loans and retail loans grew) and bonds held in the held-to-maturity portfolio (increase of 19 percent). This trend was significantly impacted by the financial crisis which entered into its second phase in mid-September after the collapse of the investment bank Lehman Brothers. On the liabilities side, the volume of client deposits rose by 9 percent year-on-year. The internal limit set for the current liquidity ratio was met during 2008. The current liquidity ratio is defined as the proportion of highly liquid assets and highly liquid liabilities. For illustration, the highly liquid assets as of 31 December 2008 amounted to CZK 62.5 billion; the denominator used in calculating current liquidity included CZK 537.1 billion in liabilities.

Current Liquidity Ratio in 2007 and 2008

	31. 3.	30. 6.	30. 9.	31. 12.
Actual status 2007	21.61%	15.25%	17.54%	8.09%
Actual status 2008	15.59%	14.04%	19.51%	11.64%

During 2008, the medium-term liquidity was strengthened by the issues of mortgage bonds in the amount of CZK 2 billion.

OPERATIONAL RISKS

In accordance with the Regulation of the Czech National Bank No. 123/2007 on Prudential Rules for Banks, Credit Unions and Investments Firms, the Bank defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human error, system failure, or the risk of loss resulting from external events, including legal risk. The Bank's management is informed of developments in, and levels of, operational risks at regular intervals.

Česká spořitelna uses a 'Risk Book', developed by the Risk Management and Internal Audit functions, as a tool to unify risk identification for the purposes of the whole Česká spořitelna Financial Group and to standardise risk categorisation, the aim being to achieve consistency in risk monitoring and assessment.

The Bank manages operational risk in compliance with the requirements of the new regulatory concept of capital adequacy – Basel II. The Bank uses a special software application that is used not only to collect data on operational risk with a view to quantifying operational risks and calculating the capital requirement but also serves as a database of valuable information for managing risk, preventing recurrences of operational risks, and streamlining the processes for harmful event record-keeping including insurance claims and payments. Information about operational risk incidents in the Česká spořitelna Financial Group is assessed at regular monthly intervals in terms of the frequency and level of financial losses for individual departments, products and types of operational risks. With regard to any negative trends, specialist groups are called to deal with the incidents and outline adequate measures to mitigate the impacts of the operational risks. The collection and assessment of data regarding improper dealings on the part of the Bank's clients and risk of human error (incorrect behaviour of employees) is of specific importance to prevent losses.

Česká spořitelna does not rely only on data obtained from real operational risk events to assess and manage operational risks. Another valuable source is the expert views of the management regarding risks in their areas of concern. The internal risk assessments are collected and expert risk scenarios are evaluated regularly.

A tool of importance in mitigating losses arising from operational risks is the Bank's insurance programme, which was put in place in 2002. This programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 1 March 2004, the Bank has joined the Erste Bank Grxoup joint insurance programme, which has substantially expanded the Bank's insurance coverage specifically with regard to damage that may materially impact its profit or loss.

With regard to business continuity, the Bank has introduced methodology and procedures based on the internationally recognised standards and Best Practice. The Bank systematically analyses key processes and threats with respect to the risk of process failure, including the evaluation of the efficiency of the adopted measures and testing of the existing emergency plans. In addition, the Bank participates in the activities of the Financial Markets Critical Infrastructure Committee, which involves the key banks under the umbrella of the Czech National Bank.

CAPITAL ADEQUACY

The Bank's capital adequacy exceeded 8 percent as required by the Czech National Bank in 2008. There were two events in 2008 which had a significant impact on the increase in the capital and therefore the increase in the capital adequacy: in March 2008, the equity was increased by including the retained earnings of 2007 in the regulatory capital (CZK 5.7 billion) and given the sale of almost the entire equity investment in Pojišťovna ČS, the deduction of the capital investment in insurance companies (CZK 1.4 billion) was reversed in September 2008. In July 2007, the Bank started to calculate the capital adequacy using Basel II. As of 31 December 2008, the unconsolidated capital adequacy using the CNB methodology was 10.31 percent.

	2008	2007	2006	2005	2004
Capital adequacy*	10,31 %	9,55 %	9,26 %	8,70 %	8,97 %

* Figures reported under the rules of the Czech National Bank.

INDIVIDUAL INFORMATION ON THE CAPITAL AND RATIO INDICATORS IN ACCORDANCE WITH REGULATION 123/2007 COLL.

The share capital of the Bank is composed of 11,211,213 priority registered shares with the nominal value of CZK 100 and 140,788,787 ordinary bearer shares with the nominal value of CZK 100. The shares are in book entry form and are not traded on public markets. To enhance its capital basis, the Bank issued two issues of subordinated bonds that are added to the additional capital Tier 2 in the aggregate amount of CZK 5,196,793 thousand with the maturity on 16 May 2015 and 2 October 2016. The Bank determines capital on both unconsolidated and consolidated basis.

Consolidated and unconsolidated information on capital and ratio indicators:

Data on capital

In CZK thousand	Consolidated data		Unconsolidated data	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Capital	47,541,204	40,268,797	42,956,190	36,679,749
Aggregate amount of original capital (tier 1)	48,237,828	40,373,278	43,560,808	36,786,225
Paid up share capital recorded in the Register of Companies	15,200,000	15,200,000	15,200,000	15,200,000
Share premium	1,689	1,688	1,688	1,688
Obligatory reserve funds	3,284,253	2,814,080	3,040,462	2,639,462
Other funds from the allocation of profit	205,700	205,700	0	0
Retained earnings brought forward	32,975,852	26,023,541	28,984,611	23,329,823
Minority shares	548,319	924,818	0	0
Other than consolidation goodwill	−9,649	−9,649	0	0
Financial foreign exchange differences arising from the consolidation	−178,511	0	0	0
Intangible assets other than goodwill	−3,718,142	−4,403,171	−3,594,272	−4,314,443
Equity securities issued by the person with qualified investment in the Bank	−71,682	−383,730	−71,682	−70,305
Additional capital (tier 2)	5,196,793	5,605,166	5,196,793	5,605,166
Capital to cover market risk (tier 3)	0	0	0	0
Deductible items from the original and additional capital (Tier1+Tier2)	−5,893,417	−5,709,647	−5,801,411	−5,711,642
Capital investments over 10 percent in banks and other financial institutions	−805,000	−900,000	−805,000	−938,008
Capital investment over 10% in insurers	0	−1,363,080	0	−1,363,080
Lack in coverage of the anticipated loan losses in IRB	−5,088,417	−3,446,567	−4,996,411	−3,410,554

Data on capital requirements

In CZK thousand	Consolidated data		Unconsolidated data	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Total capital requirements	38,296,809	34,305,552	33,330,569	30,733,207
Total capital requirement to the credit risk	32,525,216	28,360,508	28,468,757	25,669,281
Total capital requirement to the credit risk in STA	6,455,551	6,309,182	2,891,552	3,292,006
Total capital requirement to the loan risk with STA in IRB to exposures	6,455,551	6,309,182	2,891,552	3,292,006
Total capital requirement to the credit risk with IRB	26,069,665	22,051,326	25,577,205	22,377,275
Total capital requirement to the credit risk with IRB to selected exposures	26,038,842	21,966,745	25,546,382	22,292,694
Capital requirement to the credit risk with IRB to securitised exposures	30,823	84,581	30,823	84,581
Capital requirement to the settlement risk	162	0	162	0
Total capital requirement to the position, currency and commodity risk	661,805	543,116	457,303	368,430
Total capital requirement to the operational risk	4,874,182	4,875,336	4,168,903	4,168,903
Capital requirement to the risk of the exposure of the trading portfolio	235,444	526,592	235,444	526,592
Capital requirement to other instruments of the trading portfolio	0	0	0	0

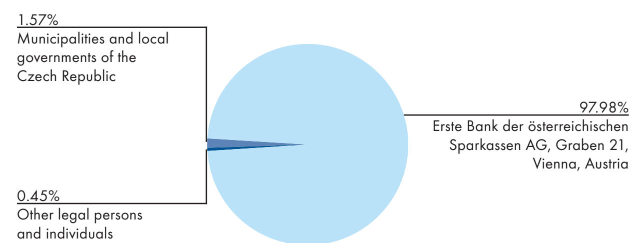
Ratios

	Consolidated data		Unconsolidated data	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Capital adequacy (%)	9.93	9.39	10.31	9.55
Return on average assets (ROAA) (%)	1.8	1.5	2.1	1.6
Return of average equity tier 1 (ROAE) (%)	32.4	30.8	35.7	29.4
Assets per employee in CZK thousand	79,770	74,021	69,192	64,324
Administrative expenses per employee in CZK thousand	1,559	1,414	1,488	1,353
Profit or loss after tax per employee in CZK thousand	1,388	1,114	1,422	1,028

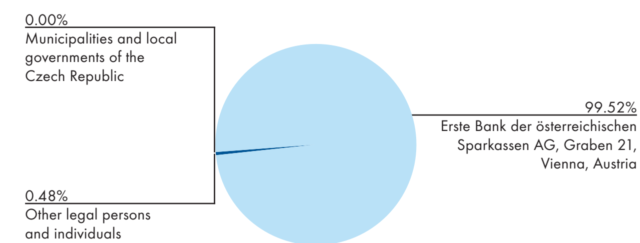
Other Information for Shareholders

PURSUANT TO SECTION 118(3) FROM (C) TO (Q) OF ACT NO. 256/2004 COLL., REGULATING CAPITAL MARKETS BUSINESS ACTIVITIES ON THE CAPITAL MARKET

Structure of Shareholders of Česká spořitelna as of 31 December 2008 – Share in share capital



Structure of Shareholders of Česká spořitelna as of 31 December 2008 – Share in voting rights



Česká spořitelna, a. s. with its registered office at Prague 4, Olbrachtova 1929/62, 140 00, Company ID: 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic following its registration in the Register of Companies held with the Municipal Court in Prague, Section B, Enclosure 1171 on 30 December 1991.

Section 118(3) (g), (h), (i), (k) of Act No. 256/2004 Coll.

The structure of the consolidated and individual equity of Česká spořitelna is presented in the consolidated or individual annual financial statements on page 79 of the annual report or on page 189 of the annual report.

SHARES OF ČESKÁ SPOŘITELNA, A. S.

- **Class:** Ordinary and priority shares
- **Type:** 140,788,787 ordinary bearer shares,
  i.e. 92.62 % in share capital
  11,211,213 priority registered shares,
  i.e. 7.38 % in share capital
- **Form:** Book-entry
- **Number of shares:** 152,000,000
- **Total issue volume:** CZK 15,200,000,000
- **Nominal value per share:** CZK 100
- **Marketability of shares:** Shares are not traded on any public market

The transferability of priority shares is restricted to municipalities of the Czech Republic; transfers to other entities are subject to the approval of Česká spořitelna's Board of Directors. A preference right to receive dividends is attached to priority shares. Priority share holders are entitled to priority dividends every year that the General Meeting makes a decision on profit distribution even if other share holders will not be paid dividends in the given year based on the General Meeting's decision. A right to vote at General Meetings is not attached to the Company's priority shares. Priority share holders have all other rights attached to shares. Other information regarding shareholders' rights is provided in point B. Company's Relationships with Shareholders in Česká spořitelna, a. s.'s Declaration Regarding the Compliance of its Governance with the Corporate Governance Code Based on OECD Principles (see page 68 of the annual report).

Section 118(3) (m), (n) of Act No. 256/2004 Coll.

The Supervisory Board's powers include electing and removing members of the Board of Directors. Public vote (by raising hands) is taken to elect a member of the Board of Directors at the Supervisory Board's session. Any agreement to take a vote in writing or by using communication technology outside of the Supervisory Board's session is unacceptable. The Supervisory Board can make decisions only if the absolute majority of members is present at the session. The Supervisory Board decides by resolution; adopting a resolution requires a majority vote of the Supervisory Board's members. If votes are equal, the Chairman's vote decides.

The Board of Directors is the statutory body which manages Česká spořitelna's activities and acts on its behalf. The standard range of powers and duties is set out under Article 12 Section 6 and 7 of Česká spořitelna's Statutes. The members of the Board of Directors have no special powers as per Section 3 (n).

Section 118(3) (o) of Act No. 256/2004 Coll.
Česká spořitelna has executed ISDA Master Agreements which include the condition that if the ownership of either party changes, the other party has the right to terminate the agreement. The foregoing applies to agreements with the following counterparties: ABN Amro Bank, Amsterdam; BNP Paribas, Paris; CALYON, Paris; ING Bank, Amsterdam; JP Morgan Chase Bank, New York; Morgan Stanley & Co. (International); Royal Bank of Canada, Toronto; UBS, London.

Information arising from Section 118(3) (j), (l), (n), (p) and (q) of Act 256/2004, Coll. regulating capital markets business activities is negative.

CONTROLLING ENTITY

Erste Group Bank AG is the controlling entity of Česká spořitelna, a. s. The measures to prevent the controlling entity from misusing its control are governed by the Commercial Code. The measures primarily include the following: a restriction on misusing the majority of votes in a company (Section 56(a)(1) of the Commercial Code); a restriction on abusing a controlling entity's influence through enforcing an approval of actions or conclusion of contracts that could cause damage to a controlled entity's property unless the damage is compensated at the latest by the end of the accounting period in which the damage was suffered, or a contract is signed stipulating a reasonable period and a method relating to the compensation to be paid by a controlling entity (Section 66(a)(8) of the Commercial Code); an obligation of the Company to prepare a Report on Related Party Transactions in compliance with Section 66(a)(9) and the following provisions of the Commercial Code (refer to page 283 of the Annual Report); the obligation of a controlling entity to pay damages to a controlled entity in compliance with Section 66(a)(14) of the Commercial Code; and guarantees provided by members of statutory bodies of the controlling and controlled entities in compliance with Section 66(a)(15) of the Commercial Code.

Česká spořitelna is a universal bank and is not dependent on other entities either within Česká spořitelna's Financial Group or within Erste Group Bank.

INFORMATION ON THE ACQUISITION OF TREASURY SHARES AND SHARES OF ERSTE GROUP BANK

During the year ended 31 December 2008 Česká spořitelna did not hold or trade any treasury shares, and acted as the market maker in respect of the shares of its controlling entity, Erste Group Bank, on the Prague Stock Exchange. For this purpose, Česká spořitelna acquired, under normal market conditions 10,956 thousand shares with an aggregate purchase price value of CZK 9,192 million and sold 10,958 thousand shares with an aggregate selling price value of CZK 9,202 million. The lowest and the highest purchase prices per share in 2008 were CZK 334 and CZK 1,296, respectively. At the start of 2008, Česká spořitelna held 2,100 shares; at the end of 2008, Česká spořitelna held no shares. The average nominal value of one share of Erste Group Bank was EUR 2 as of 31 December 2008.

INFORMATION ABOUT CONTRIBUTION TO THE GUARANTEE FUND

As a securities trader, Ceska Sporitelna contributes to the Guarantee Fund, which ensures the guarantee system from which compensation is paid to the clients of a securities trader that is not able to fulfil its obligations to its clients. The basis for the calculation of Ceska Sporitelna's contribution to the Guarantee Fund for 2008 was CZK 612 mil.; the contribution itself amounted to CZK 12 mil.

FEES PAID TO DELOITTE FOR THE YEAR ENDED 31 DECEMBER 2008

CZK mil.	Audit Services	Tax Services	Other	Total
Česká spořitelna	25	3	1	29
Other Consolidated Companies	19	0	0	19
Total	**44**	**3**	**1**	**48**

REMUNERATION PRINCIPLES OF EXECUTIVE MANAGERS AND MEMBERS OF THE SUPERVISORY BOARD

Executive Managers

The executive managers of Česká spořitelna, a. s. include the Chairman of the Board of Directors, acting also as the CEO, and members of the Board of Directors, acting also as Deputy CEOs.

Pursuant to the law, the Board of Directors is a statutory body which manages the operations of the Company and acts on its behalf. Members of the Board of Directors of Česká spořitelna exercise their powers in good faith, with due professional care and diligence and in the best interests of the Company and its shareholders. They are experts in managing large corporations and have international experience and the ability to work as a team. Their position calls for ongoing perfection of their industry knowledge and corporate governance skills, a proactive approach to the discharging of their duties, the ability to participate in developing corporate strategy and, last but not least, loyalty to the Company. Members of the Board of Directors observe high ethical standards and are responsible for ensuring that the Company complies with applicable laws. They are also personally liable for damage arising from the breach of legal obligations, and are responsible in their capacity as Board members to the Company as represented by shareholders.

Members of the Board of Directors are remunerated based on the “Contract for the Performance of Duties of a Member of the Board of Directors” concluded in accordance with the applicable provisions of Commercial Code 513/1991 Coll. This Contract was approved by a General Meeting of the Company’s shareholders. The amount of Board members’ remuneration is subject to the approval of a General Meeting.

The fixed component of the remuneration of the CEO and Deputy CEOs is paid as a salary for performed work. In compliance with the Company’s Statutes, the amount of salary is approved by the Supervisory Board and is based, inter alia, on qualified benchmarking analyses of remuneration in the financial sector.

The variable component of the remuneration of the CEO and Deputy CEOs is based on their performance evaluation undertaken based on the fulfilment of defined performance criteria. These criteria are aligned with the overall financial and business objectives of Česká spořitelna’s Financial Group and Erste Group Bank. Performance criteria are set for each calendar year and are approved and subsequently assessed by the Supervisory Board.

Based on their management and professional expertise, experience, and contribution to the Company, the Board Members are entitled to the following remuneration arising from the position of the CEO and Deputy CEOs: monetary income, in an aggregate amount of CZK 40.5 million; bonuses, in an aggregate amount of CZK 49.9 million; income in kind, in an aggregate amount of CZK 4.3 million; and remuneration, including income in kind arising from the position of the member of the statutory body, in an aggregate amount of CZK 0.8 million. These amounts were paid out in connection with meeting financial, qualitative, development, and effectiveness criteria. In 2008, the members of the Board of Directors subscribed for 41,019 shares of Erste Group Bank under the ESOP programme, and received 24,000 options under the MSOP programme.

Members of the Board of Directors or persons closely related to them do not own shares or call options to purchase shares in Česká spořitelna. Since August 2002, the shares of Česká spořitelna have not been publicly tradable.

Supervisory Board

The Supervisory Board is the Company’s controlling body, which supervises the Board of Directors’ exercising of its powers and duties in performing the Company’s business activities. The Supervisory Board checks, in particular, whether the Board of Directors performs its duties in compliance with the legislation and Statutes of the Company and whether the members of the Board of Directors act in the interest of the Company with due professional care. Members of the Supervisory Board perform their duties with due professional care. Members of the Supervisory Board are required to have professional skills, be loyal to the Company and maintain the confidentiality of confidential information and matters. Supervisory Board members are liable for damage arising from the breach of legal obligations, and are responsible in their capacity as members of the Company’s Supervisory Board as represented by shareholders.

Members of the Supervisory Board are remunerated in accordance with the applicable provisions of Commercial Code 513/1991 Coll. The amount of remuneration of Supervisory Board members is subject to the approval of a General Meeting of shareholders.

Members of the Supervisory Board or persons closely related to them do not own shares or call options to purchase shares in Česká spořitelna. Since August 2002, the shares of Česká spořitelna have not been publicly tradable.

Members of the Supervisory Board were entitled to remuneration, including payments in kind, of CZK 4.2 million for their work in the Supervisory Board of Česká spořitelna during 2008.

AFFIDAVIT

The person's signing below do hereby declare that, with all reasonable care, the information stated in the Annual Report of Česká spořitelna, a.s. for the year ended 31 December 2008 reflects the true state of affairs and that no material circumstances that may impact the accurate and correct assessment of Česká spořitelna, a.s. have been omitted.

Dušan Baran Vice Chairman of the Board of Directors and 1st Deputy CEO	Jiří Škorvaga Member of the Board of Directors and Deputy CEO

Corporate Social Responsibility (CSR) of Česká spořitelna

Česká spořitelna is a responsible, open, responsive and helpful partner for all target groups, which comprise employees, clients, shareholders, business partners and the society in which we live. Corporate Social Responsibility (CSR), which connects business activities and social needs, integrates the target groups' interests in the Bank's policy and behaviour, moral integrity and socially beneficial conduct and thus forms an integral part of the Bank's strategy.

"We Invest in Our Future" is the keynote of Česká spořitelna's CSR strategy for 2008-2010, which was developed based on dialogue with the key target groups. In late 2007 and early 2008, the Bank conducted research on its expected behaviour in respect of CSR activities. The research indicated three crucial areas the Bank should focus on:

- Education with primary, however not exclusive, focus on training in finance;
- Helping people in need, namely seniors and persons suffering from drug addiction; and
- Sustainable development and care for the environment in which we live.

Charity

Charity mirrors the Bank's general approach to CSR. In 2002, Česká spořitelna launched a foundation, **Nadace České spořitelny**, which allows working with the Bank's partners on long-term strategic projects. The foundation is the key tool for Česká spořitelna's corporate charity activities aimed at social development, which is an area often ignored by donors. The Bank and its foundation donated more than CZK 60 million to various public beneficial projects in 2008.

Clients

Česká spořitelna is open to its clients and respects the rules of having a fair approach. In addition to standard feedback tools, the Bank's clients can use the services of an independent **ombudsman**. Clients are provided with long-term learning opportunities and consulting for those who face difficult situations in their lives. Moreover, Česká spořitelna initiated a **Financial Distress Advice Bureau** and also provide special products and services for specific groups of the population, such as **ATMs for the visually impaired.**

The Bank's clients may take an active part in supporting charity projects through programmes such as **the Bonus programme**. When using Česká spořitelna's payment card holders receive loyalty credits that can either be exchanged for gifts ranging from magazine subscriptions to flight tickets or donated to specific charity projects. In 2008, the Bank implemented two such projects, Examination Equipment for Breast Tumour Diagnostics and Abandoned Fledglings, which brought in nearly CZK 800,000 in donations. For clients and investors, the Bank established a special **Energy Team** whose members help them prepare and implement projects in producing electricity from renewable resources. Česká spořitelna also developed **TOP Energy**, a special product for financing projects in energy savings and renewable resources.

Česká spořitelna is the first and only bank on the Czech market to offer **@FAKTURA 24**, a unique product for electronic invoicing that allows clients to send electronic invoices safely while saving considerable time, costs and paper consumption.

Employees

Employees are provided with a wide range of benefits comprising **life-long learning** and **support to mothers** on maternity leave. In September 2008, a programme supporting equal opportunities, **Diversitas**, was established to deal with issues related to the unequal proportion of women and men on management positions, compensation differences, personal and career development opportunities, conditions for returning from maternity or parental leave, efficient balancing of professional and private life and other issues. Projects that directly involve employees in implementing the Bank's CSR strategy are of key importance.

Thanks to a special project, **Charity Day**, Česká spořitelna employees may dedicate two working days to charity. In 2008, 927 employees volunteered and helped people in need in over 70 non-profit organisations in the Czech Republic. In addition to charity, Česká spořitelna employees may support environmentally favourable waste processing of small disposed electrical appliances, which they can collect and dispose of in special bins placed in the Bank's premises.

Bearing in mind the importance of employee feedback Česká spořitelna introduced a system of **open communication** between employees and senior management and thus improved employee awareness.

This is the second year the Bank has published an annual independent **CSR Report**, which provides a comprehensive view of Česká spořitelna's CSR and charity activities. This report is available on the Bank's web site.

Česká spořitelna's Declaration

Regarding the Compliance of its Governance with the Corporate Governance Code Based on OECD Principles

In compliance with Česká spořitelna's (henceforth the "Company") statements in its previous annual reports, the members of the Company's Board of Directors make every effort to generally improve the Company's corporate governance standards and ensure, to the extent set out hereunder, compliance with the Corporate Governance Code based on OECD principles (henceforth the "Code"). The Company continues to develop and enhance its governance practices at all times. No major changes adversely affecting the Company's corporate governance standards were effected in 2008.

The principles of Česká spořitelna's governance are indicated below.

A. ORGANISATION OF THE COMPANY

As of 31 December 2008, the Company's **Board of Directors** had seven members. In accordance with the Banking Act, all members of the Board of Directors are also executive members. All members of the Board of Directors possess personal and professional qualifications as required to be a member of the Board of Directors.

Detailed biographical data of the members of the Board of Directors proving their capabilities, professional skills and experience is published in the Annual Report on page 10–12.

The Company's Board of Directors is the statutory body of the Company which manages and acts on the Company's behalf while being responsible for its long-term strategic direction and operational management. Its range of powers and duties is defined under the Company's Statutes and internal rules as well as the legal regulations of the Czech Republic. The Board of Directors exercises its powers and duties with due care and diligence; in discharging its activities, it is accountable to the extent set out by the legal regulations of the Czech Republic. All members of the Board of Directors are internationally experienced professionals who are skilled in managing large corporations and have the ability to work in a team. The members of the Board of Directors comply with legal rules and ethical standards.

Pursuant to the Company's Statutes, the Board of Directors must obtain a prior opinion or approval from the Supervisory Board for a number of acts; in cases determined in a resolution adopted by the Supervisory Board, the Board of Directors must solicit the prior opinion of a committee established by the Supervisory Board. The Board of Directors regularly presents reports on the Company's activities to the Supervisory Board and its committees. In compliance with the Banking Act, the Board of Directors is responsible for the establishment, maintenance and evaluation of an efficient and effective internal management and control system of the Company.

The Board of Directors meets on a regular basis no less than twice a month in compliance with the Company's Statutes. However, regular weekly sessions have become common practice. Last year, the Board of Directors held 45 regular meetings.

The **Supervisory Board** of the Company has twelve members. In 2008, there were significant changes in the composition of the Supervisory Board. In April 2008, Andreas Treichl, Chairman of the Supervisory Board, and Péter Kisbenedek, member of the Supervisory Board, resigned from their positions on the Supervisory Board. Johannes Kinský, the newly elected Chairman of the Supervisory Board, died unexpectedly in June. In respect of these changes, **Manfred Wimmer**, the then member of the Supervisory Board, was elected Chairman of the Supervisory Board by the Supervisory Board in October. **Bernhard Spalt** was elected Vice-Chairman of the Supervisory Board by its members. Manfred Wimmer represents the principal shareholder which is Erste Group Bank. Based on the requirements of the Code, **Maximillian Hardegg** is an independent member of the Supervisory Board. In compliance with the legislation, the Supervisory Board includes representatives of the Company's employees; they are: **Jolana Dyková, and newly elected Eliška Bramborová and Zdeněk Jirásek**. Eliška Bramborová and Zdeněk Jirásek were elected to the Supervisory Board by the Company's employees after the term of office of Jitka Šrotýřová, Monika Laušmanová and Mark Pospěch ended in autumn 2008. All members of the Supervisory Board are professionals guaranteeing and ensuring the high-quality functioning of the Supervisory Board, and they have the personal and professional qualifications required to hold the position of a Supervisory Board member. A full list of all members of the Supervisory Board, including their professional biographies, is published in the Annual Report on page 13–16.

The Supervisory Board oversees the execution of the Board of Directors' powers and duties as well as the performance of the Company's business activities. In addition to its duties and powers ensuing from law, the Supervisory Board has, pursuant to the Statutes, the right to give, in advance, its opinion on certain acts having an impact on the Company's assets (including, among other things, the making of construction investments and plans (projects) in acquiring tangible and intangible fixed assets of the Company beyond the designated limit, the transfer of an ownership title to the Company's assets, the Company's equity investments, etc). The Supervisory Board also gives, in advance, its opinion on the strategic concept of the Company's activities and development, planning tools and regular financial information. Furthermore, the Supervisory Board gives, in advance, its opinion on the appointment and removal of the Internal Audit Department Director and gives its opinion in selecting an external auditor. To support its activities, the Supervisory Board may establish Supervisory Board committees. Last year, the Supervisory Board met four times in total.

Pursuant to the Company's Statutes, two thirds of the members of the Supervisory Board are elected by the General Meeting, and one third by the Company's employees. The term of office of a member of the Supervisory Board is three years. Members of the Board of Directors are elected and removed by the Supervisory Board. In compliance with the Banking Act, nominees for membership in the Board of Directors are consulted in advance with the Czech National Bank, which assesses the professional qualifications, credibility and experience of the nominees. The term of office of a member of the Board of Directors is four years; members of the Board of Directors may be re-elected.

The Company is consistent in ensuring that the members of the Board of Directors and the Supervisory Board are **kept up to date** at all times; the Company has a well-administered and well-developed system supporting the performance of corporate governance. The newly elected members of the bodies have available, forthwith after their election, any and all information regarding the Company's principles and rules of corporate governance.

The Company's supreme bodies, i.e. the Board of Directors and the Supervisory Board, have adopted binding Rules of Procedure for the bodies. These Rules of Procedure deal in great detail with organisational and process issues related to the activities of the relevant body. The **Rules of Procedure of both bodies** regulate the technical processes of the convening of meetings and the voting of the bodies, the preparation of meeting minutes, the activities of the body outside of meetings, and the procedures addressing the potential bias of a member of the body. In addition to the members of the Supervisory Board, the members of the Board of Directors take part in the Supervisory Board's meetings. All members of the Board of Directors participate in the meetings of the Board of Directors and the authors of presented materials introduced to the members of the Board of Directors. The members of the Board of Directors and the Supervisory Board may solicit a legal opinion on individual, discussed materials from the Company's Legal Services Department, or use the services of independent advisors. The Office of the Company's Secretary organises long-term education in corporate governance and legislation for the members of administrative bodies so as to develop and improve their knowledge and skills on an ongoing basis.

The position of **Secretary** is well-established in the Company. The Secretary of the bodies of the Company manages administrative and organisational matters for the Board of Directors and the Supervisory Board, including the organisation of General Meetings. The Secretary acquaints new members of administrative bodies with the activities of these bodies and with the Company's process of corporate governance.

The Company's Secretary ensures mutual co-operation among the Company's bodies. The Secretary is appointed by the Company's Board of Directors and reports directly to the CEO and Chairman of the Board of Directors.

The Secretary is responsible for due and timely distribution of invitations and materials for the meetings of the Company's Board of Directors and the Supervisory Board. The Company has binding regulations in place for the presentation of materials to be discussed at the meetings of the Supervisory Board and the Board of Directors, which stipulate basic rules for the preparation of materials, the presentation thereof, comment procedures prior to the presentation of materials, and conditions for the archiving of materials.

The Secretary takes the minutes of all meetings of the Board of Directors and Supervisory Board both in English and Czech. The Company maintains an electronic database of all minutes from the meetings of its bodies; these are available to authorised persons on the **Intranet** – the Company's internal Internet portal.

The Company's Secretary is, inter alia, a member of the Czech Institute of Corporate Secretaries (ČITOS) and the Steering Committee thereof. ČITOS's mission is to promote and support the professional development of due practices exercised by the secretaries of administrative bodies.

B. COMPANY'S RELATIONSHIPS WITH SHAREHOLDERS

The Company diligently ensures compliance with all the legal rights of shareholders and with the principle of equitable treatment of all shareholders.

The Company's shares are held in the book-entry form. A list of all shareholders is maintained by the Securities Centre. In addition to ordinary shares, the Company has also issued registered priority shares. The transferability of these shares is restricted to municipalities of the Czech Republic; transfers to other entities are subject to the approval of the Company's Board of Directors. A preference right to receive dividends is attached to priority shares. Decisions regarding share transfers are made by the Board of Directors following detailed information on the assignee.

The Company complies with all duties to inform with respect to its shareholders and other entities to the extent imposed by legal regulations; the Company keeps shareholders updated throughout the year through the media and the website of the Company. The website, created mainly for the purposes of shareholders and investors (www.csas.cz/Investor relations), provides information on the Company's current operational results to date, the structure of shareholders, planned events, etc. Press releases covering material facts about the Company are issued on a regular basis; the members of the Board of Directors organise regular road shows for investors and shareholders. All material information that the Company publishes on its website is available in both Czech and English.

The Company, in compliance with the law, convenes its **General Meetings** by making an announcement in the press; such announcements are published in Hospodářské noviny and Obchodní věstník. The announcement always includes basic information for shareholders about the conditions of participation in the General Meeting and the exercising of shareholders' rights. The Company sends announcements of the General Meeting, including basic financial indicators, to all shareholders holding registered shares. The publication of announcements of the General Meeting on the Company's website is a given. Shareholders may acquaint themselves in advance, within the statutory period, with the basic materials (such as financial statements, the Report on Relations or proposed changes to the Statutes) which will form the subject matter of the General Meeting. The Company always organises its General Meetings at venues which are within the reach of all shareholders; the recent practice is that General Meetings are held at the Company's registered office.

Before the General Meeting commences, at registration, shareholders receive all supporting documents for the General Meeting. Such supporting documents always include the Rules of Procedure of the General Meeting to be approved by the General Meeting. If members of the Supervisory Board are being elected, shareholders are provided with detailed biographical data of all nominees proving their professional and personal qualifications to hold such office.

The bodies of the General Meeting are set up by the Board of Directors in such a way as to ensure that all the bodies are able to perform their functions with due and professional care. In most cases, a notary is present at the Company's General Meetings. In compliance with the Rules of Procedure, shareholders may, in person or by proxy, exercise their shareholder rights, i.e. vote on the proposed items on the agenda, solicit and receive explanations on such items, and put forward proposals and counter-proposals.

The members of the Board of Directors and the Supervisory Board take part in General Meetings (there must be at least as many members as required for a quorum) as well as the members of the committees of the Supervisory Board who answer shareholders' questions. The Company provides enough time for shareholders to raise their questions on agenda items prior to the vote being taken. All shareholders' questions and answers are recorded in the minutes of the General Meeting. Each item on the agenda of the General Meeting is subject to a separate vote taken after the debate is closed on the given item. All shareholders registered in the attendance list and present at the General Meeting when the vote is being taken are entitled to vote except for those shareholders who hold priority shares. A right to vote at General Meetings is not attached to the Company's priority shares. In addition, shares whose holders' voting rights for General Meetings were suspended by a decision of the Czech National Bank are not considered voting shares; the shareholder is informed of such a suspension on his/her registration in the attendance list and the Company indicates this fact in the attendance list, including the reasons for such suspension.

C. DISCLOSURE AND TRANSPARENCY OF INFORMATION

The Company is consistent in preventing the **misuse of insider information** which might allow persons who have special relations with the Company to make unauthorised gains in dealing with the Company's securities (insider trading). The members of the Board of Directors and their related parties are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Company or with investment instruments derived from such securities, which they perform on their own account.

To ensure identical terms and conditions for all members of the Boards of Directors of the companies within the Erste Group Bank, it is Erste Group Bank's rules for securities trading that apply – the members of the Company's Board of Directors are obliged to inform the Company's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a designated period.

The Company has a **Compliance** Department in place whose principal activities include ensuring the compliance of the Company's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' behaviour with legal regulations, internal regulations, the Code of Ethics and other adopted standards and employee rules of conducts. Compliance engages in all of the Company's activities and organisation and is part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and the Restricted List of investment instruments as well as any dealings with investment instruments recorded in the above lists. The Compliance Department informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis.

A list of persons with access to insider information is available with the Company's Secretary; the list is regularly updated.

The Company diligently fulfils and complies with all applicable legal regulations under Czech law, the principles of the Corporate Governance Code based on OECD principles, the recommendations of the EU Commission regarding corporate governance and, on an ongoing basis, **provides shareholders and investors with all significant information** on its business activities as well as the Company's financial and operational results, the ownership structure, and other major events. All information is prepared and disclosed in compliance with high quality standards of accounting and financial and non-financial disclosure. In addition, the Company discloses a great deal of information beyond statutory requirements so as to allow shareholders and investors to make well-founded decisions on the ownership of the Company's securities and the voting at General Meetings. To publish such information the Company uses various distribution channels such as the media or the Company's website where information is published both in Czech and English to allow equal participation of foreign investors and shareholders in decisions regarding the Company's business and development.

The Company regularly publishes annual and semi-annual reports. The annual report principally includes audited consolidated and individual financial statements and gives a picture of the financial situation, business activities and operating results of the Company; in addition, in compliance with valid legal regulations, the report gives information on the **remuneration policy of the members of the Board of Directors and the Supervisory Board.** The level of remuneration for the members of the Board of Directors and the Supervisory Board is approved on an annual basis by the General Meeting; the remuneration of the members of the Board of Directors, who are Company employees serving as deputies, is determined by the Supervisory Board. The Company has no equity option scheme for remuneration either for the members of the Board of Directors or the Supervisory Board.

Based on the recommendation of the Audit Committee, the Supervisory Board approves an independent **external auditor** annually. In 2008, Deloitte Audit s.r.o. was appointed to carry out an external audit of the Company.

The Company's majority shareholder, Erste Group Bank AG, as a company whose shares are publicly traded, stringently follows the principles of the Austrian Corporate Governance Code (ACGC).

D. COMMITTEES OF THE COMPANY'S ADMINISTRATIVE BODIES

To support the Company's activities and to ensure the internal management and accountability of the Board of Directors and the Supervisory Board, the Company has established committees under these bodies. The rules of procedure of the individual committees define the range of their powers and duties including a precise description of the applicable rules and tasks.

COMMITTEES OF THE SUPERVISORY BOARD

The powers of the Supervisory Board include the ability to establish committees and to define the content of their activities. In compliance with corporate governance rules the Company has established the following Supervisory Board Committees:

Audit Committee

The Audit Committee is an advisory body of the Company's Supervisory Board cooperating with the Company's Board of Directors and with the internal and external auditors. Its principal role is to participate in the direction, planning and evaluation of the Company's internal audit activities. The Committee discusses material findings resulting from internal audits, gives its opinion on the selection of an external auditor, monitors the procedures and processes pertaining to the audit of the annual financial statements, and oversees accounting and financial reporting, risk management and control, compliance with legal regulations and regulatory measures (compliance of procedures) and the functioning and effectiveness of the Company's internal management and control system.

The personnel changes in the Supervisory Board affected the staffing of the Audit Committee which has seated the following members since mid-2008: Maximilian Hardegg as Committee Chairman, and Heinz Kessler and Andreas Klingen as members, and Mario Catasta as a non-voting member. In compliance with the rules of procedure, the Committee informs the Supervisory Board of its activities at least every 6 months; in 2008, the Committee met four times in total.

Financial Markets Committee

The principal role of the Financial Markets Committee is to oversee the activities and risk management system of the Financial Markets Division. The Committee is regularly updated on business activities, results and risk exposure; it reassesses the management and control system, and key principles of the business strategy and the risk management strategy for the Financial Markets Division. The Committee may set out medium- and long-term objectives for the activities and risk management of the Financial Markets Division. Owing to changes in the Supervisory Board, the Financial Markets Committee has not been fully staffed since mid-2008, adopting its resolutions "per rollam".

Credit Committee

The Credit Committee is mainly an advisory and confirmation body for credit exposures beyond the limits of the approval authorities of the Board of Directors' Credit Committee. Owing to changes in the Supervisory Board, the Credit Committee has not been fully staffed since mid-2008, adopting its resolutions "per rollam".

COMMITTEES OF THE BOARD OF DIRECTORS

Committees of the Board of Directors are advisory bodies of the Board of Directors established by resolution of the Board of Directors. The purpose of the committees is to initiate and present to the Board of Directors recommendations for technical issues; the committees comprise the members of the Board of Directors and selected employees of the Company.

All committees are accountable to the Board of Directors and report on their activities at least once a year.

Credit Committee

The Credit Committee is the highest body assessing and approving credit transactions and products as well as assessing and approving the business policy process, the system of credit risk measurement and management, and the level of the Company's credit portfolio structure, aimed at achieving the designated financial objectives, i.e. achieving the designated level of profitability while maintaining the defined level of credit risk.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is the highest body assessing and approving the process of planning, managing and controlling financial flows and the structure of the Company's assets and liabilities, which is aimed at achieving the optimum combination of the Company's profitability and financial risks taken. The Committee sets out the Company's strategy in this respect and assigns tasks to the Company's organisational units to fulfil the strategy.

Financial Markets and Risk Management Committee

The Financial Markets and Risk Management Committee is a body dealing with decisions on the operational issues of risk management processes related to financial markets.

Investment Committee

The Investment Committee is a body assessing the effectiveness and efficiency of capital expenditure and purchased services.

ATM Committee

The ATM Committee is a body assessing and making decisions regarding ATM issues (strategies, investments, locations, services, income, etc) aimed at ensuring a standard and complex approach to the ATM network development.

IT Change Management Committee

The IT Change Management Committee deals with decisions on changes to "legacy systems" (in the go-live phase), including changes resulting from projects.

Customer Satisfaction Committee

The Customer Satisfaction Committee is a body aimed at improving service quality, satisfaction and loyalty of internal and external clients and supporting increases in the Company's processes effectiveness.

Marketing and Sponsoring Committee of Česká spořitelna Financial Group

The Marketing and Sponsoring Committee of Finanční skupina České spořitelny is an advisory body of the Board of Directors which discusses proposed marketing and sponsoring strategies and strategic communication concepts and campaigns, and deals with the brand and support of sales channels including the merchandising of branches.

Retail Committee

The Retail Committee is a body assessing and approving innovations and the launching or withdrawal of retail banking products and services.

Compliance, Operational Risk and Security Committee

The Compliance, Operational Risk and Security Committee is a body of the Board of Directors for decisions on issues regarding the management of operational risk, compliance risk and security in relation to compliance in the Company.

Capital Investments Committee

The Capital Investments Committee is a body of the Board of Directors assessing and taking decisions on capital investments of the Company in real estate funds/venture capital companies.

E. THE COMPANY'S POLICY WITH RESPECT TO STAKEHOLDERS

Information on this topic is available in section dealing with Corporate Social Responsibility of Česká spořitelna (see page 64–65).

Organizational structure

of ČS as of 31. 12. 2008

Chairman of the Board and C. E. O. Gernot Mittendorfer	Deputy Chairman of the Board of Directors and 1st Deputy C. E. O. Dušan Baran	Member of the Board and Deputy C. E. O. Daniel Heler	Member of the Board of and Deputy C. E. O. Jiří Škorvaga
Office of the Board and the Supervisory Board Section 1001	Accounting and Taxes Department 2100	CS Financial Group Balance Sheet Management Section 3100	Business Development Section 5100
Internal Audit Section 1400	Controlling and Planning Section 2200	Investment Banking Section 3600	Remote Delivery Section 5300
Human Resources Section 1600	Property Management Section 2300	Financial Markets – Wholesale and Trading Section 3700	Card Centre Section 5400
Marketing Section 1700	Investors Relations Department 2010	Financial Markets – Retail Distribution Section 3800	Business Processing Section 5500
Corporate Communication Department 1010	Financial Markets Back-office Department 2020	Business Support Sub-department 3001	West Region Section 5600
Service Quality Management Department 1310	CS Financial Group and Capital Participations Development Department 2030		District Branches in Region
Corporate Customers Section 4100			East Region Section 5700
Commercial Banking Centres Section 4200			District Branches in Region
Real Estate Business Section 4300			External Sales Force and Co-operation Section 5800
Municipalities Section 4400			Support Sub-department 5001
Trade Finance Department 4010			
Business Development Department 4040			
Group Large Corporates Department 4050			

Member of the Board and Deputy C. E. O. Heinz Knotzer	Member of the Board and Deputy C. E. O. Petr Hlaváček	Member of the Board and Deputy C. E. O. Pavel Kysilka
Legal Services and Compliance Section 6100	Org-IT Section 7300	Payment System and Settlement Section 8100
Central Risk Management Section 6200	IT Development Section 7500	Security Section 8200
Credit Risk Management and Credit Services Section 6300	IT Decentralized Systems Section 7600	Economic and Strategic Research Department 8010
Credit Risk Controlling and Portfolio Management Section 6400		Corporate Cash Management Department 8020
Support Sub-department 6001		EU Office 8001

Report of the Supervisory Board

During 2008 the Supervisory Board of Česká spořitelna, a. s. regularly discharged its duties in accordance with the law and the company's Articles of Association. As the company's oversight body, the Supervisory Board monitored the Board of Directors' exercise of its powers as well as the Bank's operations, finances and the realization of its strategic plans. The Supervisory Board was kept up to date on the bank's operations, its financial situation, and other material and important Bank matters.

In accordance with the legal provision, the Supervisory Board at its meetings reviewed the individual and consolidated financial statements as of 31. 12. 2008 and came to the conclusion that the books and accounting records were kept in a transparent manner in accordance with accounting regulations and that the accounts and year-end individual and consolidated financial statements fairly and faithfully reflect the financial situation of Česká spořitelna, a. s. and consolidated unit as of 31. 12. 2008. The audit of the year-end financial statements was performed by Deloitte Audit s. r. o. who confirmed that according to their opinion the Bank's separate financial statements give a true and fair view of the financial position of Česká spořitelna, a. s. as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. The Supervisory Board with agreement took account of the auditor's statement.

The Supervisory Board also reviewed the Report on Relations between connected persons and in accordance with the provision 66a para 10 of the Commercial Code states that it took account of this Report without comments.

In view of all above facts, the Supervisory Board recommends that the General Meeting approves the financial statements of Česká spořitelna, a. s. for the year ended 31. 12. 2008 and the proposed profit allocation as submitted by the Board of Directors.

Manfred Wimmer
Chairman of the Supervisory Board

Consolidated Financial Statements

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union for the Years Ended 31 December 2008 and 2007

Deloitte.

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110 00 Prague 1
Czech Republic

Registered at the Municipal Court
in Prague, Section C, File 24349
Id Nr.: 49620592
Tax Id. Nr.: CZ49620592

Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

Having its registered office at: Prague 4, Olbrachtova 1929/62, 140 00
Identification number: 45244782
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying consolidated financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Česká spořitelna, a. s. as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 10 March 2009

Audit firm:
Deloitte Audit s. r. o., Certificate no. 79

Represented by:
Michal Petrman, statutory executive

Statutory auditor:
Michal Petrman, Certificate no. 1105

Consolidated Balance Sheets

as of 31 December 2008 and 2007

CZK mil.	Note	31 December 2008	31 December 2007
ASSETS			
1. Cash and balances with the CNB	7	24,285	20,394
2. Loans and advances to financial institutions	8	93,306	65,688
3. Loans and advances to customers	9	461,424	418,415
4. Provisions for losses on loans and advances	10	(8,929)	(6,810)
5. Securities at fair value through profit and loss		55,935	53,841
(a) Securities held for trading	11	36,709	28,436
(b) Securities designated upon initial recognition as at fair value through profit and loss	12	19,226	25,405
6. Positive fair value of derivative transactions	13	27,138	17,674
7. Securities available for sale	14	35,015	35,486
8. Non-current assets held for sale	15	177	78
9. Securities held to maturity	16	118,938	137,486
10. Financial placements of insurance companies		–	15,808
11. Investments in associates	5	235	1
12. Unconsolidated investments	5	372	373
13. Investment property	17	13,563	13,626
14. Property under construction	18	5,631	4,319
15. Intangible assets	19	3,751	4,491
16. Property and equipment	20	15,401	15,264
17. Other assets	21	15,988	17,991
Total assets		**862,230**	**814,125**
LIABILITIES AND SHAREHOLDERS' EQUITY			
1. Amounts owed to financial institutions	22	57,561	58,482
2. Amounts owed to customers	23	642,504	588,526
3. Liabilities at fair value	24	7,696	7,609
4. Negative fair value of derivative transactions	25	25,595	11,081
5. Bonds in issue	26	38,195	47,275
6. Technical insurance provisions		–	15,385
7. Provisions for liabilities and other reserves	27	2,219	3,024
8. Other liabilities	28	17,894	19,929
9. Subordinated debt	30	5,197	5,605
10. Shareholders' equity		65,369	57,209
(a) Minority interests	31	564	1,633
(b) Equity attributable to the Bank's shareholders	32, 33	64,805	55,576
Total liabilities and shareholders' equity		**862,230**	**814,125**

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were prepared by the Bank and approved by the Board of Directors on 10 March 2009.

Gernot Mittendorfer
Chairman of the Board and Chief Executive Officer

Dušan Baran
Vice Chairman of the Board 1st Deputy Chief Executive Officer

Consolidated Profit and Loss Accounts

for the Years Ended 31 December 2008 and 2007

CZK mil.	Note	Year ended 31 December 2008	Year ended 31 December 2007
CONTINUING OPERATIONS			
1. Interest income and similar income	34	43,852	34,601
2. Interest expense and similar expense	35	(13,613)	(9,874)
Net interest income		**30,239**	**24,727**
3. Provisions for credit risks	36	(3,544)	(2,211)
Net interest income after provisions for credit risks		**26,695**	**22,516**
4. Fee and commission income	37	13,260	11,043
5. Fee and commission expense	38	(2,240)	(1,404)
Net fee and commission income		**11,020**	**9,639**
6. Net trading result	39	1,453	1,709
7. General administrative expenses	40	(19,541)	(18,349)
8. Other operating expenses, net	41	(5,551)	(575)
Profit from continuing operations before taxes		**14,076**	**14,940**
9. Income tax expense from continuing operations	42	(2,765)	(3,093)
Profit from continuing operations after taxes		**11,311**	**11,847**
DISCONTINUED OPERATIONS			
10. Profit from discontinued operations before taxes	6	4,504	649
11. Income tax expense from discontinued operations	6	(44)	(120)
Profit from discontinued operations after taxes	**6**	**4,460**	**529**
Profit after taxes		**15,771**	**12,376**
12. Minority interests	31	42	(228)
Net profit for the year attributable to the Bank's shareholders		**15,813**	**12,148**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes

in Shareholders' Equity for the Years Ended 31 December 2008 and 2007

CZK mil.	Net profit for the period	Valuation gains or losses	Total recognised income and expenses for the period	Retained earnings	Statutory reserve fund	Share premium	Share capital	Total equity attributable to the Bank's shareholders	Minority interests	Total
At 1 January 2007	**10,385**	**219**	**10,604**	**20,035**	**2,754**	**1**	**15,200**	**48,594**	**1,268**	**49,862**
Dividends	(4,560)	–	(4,560)	–	–	–	–	(4,560)	(153)	(4,713)
Minority interest in newly consolidated entities, capital increase	–	–	–	4	–	–	–	4	274	278
Transfer to reserve funds	(486)	–	(486)	–	486	–	–	–	–	–
Use of funds	–	–	–	–	(4)	–	–	(4)	–	(4)
Revaluation gains or losses	–	(399)	(399)	–	–	–	–	(399)	(3)	(402)
Foreign exchange differences arising upon consolidation (retranslation reserve)	–	(142)	(142)	–	–	–	–	(142)	19	(123)
Hedge of a net investment in foreign operations	–	(65)	(65)	–	–	–	–	(65)	–	(65)
Allocation to retained earnings	(5,339)	–	(5,339	5,339	–	–	–	–	–	–
Net profit for the year	12,148	–	12,148	–	–	–	–	12,148	228	12,376
At 31 December 2007	**12,148**	**(387)**	**11,761**	**25,378**	**3,236**	**1**	**15,200**	**55,576**	**1,633**	**57,209**

CZK mil.	Net profit for the period	Valuation gains or losses	Total recognised income and expenses for the period	Retained earnings	Statutory reserve fund	Share premium	Share capital	Total equity attributable to the Bank's shareholders	Minority interests	Total
At 1 January 2008	**12,148**	**(387)**	**11,761**	**25,378**	**3,236**	**1**	**15,200**	**55,576**	**1,633**	**57,209**
Dividends	(4,560)	–	(4,560)	–	–	–	–	(4,560)	(215)	(4,755)
Minority interest in newly consolidated entities, capital increase	–	–	–	–	–	–	–	–	7	7
Sale of subsidiaries	–	–	–	–	(98)	–	–	(98)	(790)	(888)
Transfer to reserve funds	(538)	–	(538)	–	538	–	–	–	–	–
Use of funds	–	–	–	–	(7)	–	–	(7)	–	(7)
Revaluation gains or losses	–	(2,022)	(2,022)	–	–	–	–	(2,022)	(29)	(2,051)
Treasury and Group share transactions	–	–	–	–	–	10	–	10	–	10
Foreign exchange differences arising upon consolidation (retranslation reserve)	–	187	187	–	–	–	–	187	–	187
Hedge of a net investment in foreign operations	–	(56)	(56)	–	–	–	–	(56)	–	(56)
Allocation to retained earnings	(7,050)	–	(7,050)	7,012	–	–	–	(38)	–	(38)
Net profit for the year	15,813	–	15,813	–	–	–	–	15,813	(42)	15,771
At 31 December 2008	**15,813**	**(2,278)**	**13,535**	**32,390**	**3,669**	**11**	**15,200**	**64,805**	**564**	**65,369**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

for the Years Ended 31 December 2008 and 2007

CZK mil.	Note	2008	2007
Profit from continuing operations before taxes		14,076	14,940
Profit from discontinued operations before taxes		4,504	649
Adjustments for non-cash transactions			
Creation of provisions for losses on loans, advances and other assets		3,692	2,285
Depreciation and amortisation of assets		2,854	3,307
Revaluation of investment property		867	(162)
Unrealised profit on securities at fair value through profit and loss and liabilities at fair value		(1,037)	(1,280)
Gain on the sale of consolidated subsidiary and removal from consolidation	6	(4,261)	–
Gain on the sale of unconsolidated equity investments		(596)	(90)
Impairment of securities available for sale		2,294	–
(Release)/creation of other reserves		(89)	342
Change in fair values of derivatives		5,050	(845)
Accrued interest, amortisation of discount and premium		281	627
Other adjustments		(551)	(125)
Cash flows from operating profit before taxes and changes in operating assets and liabilities and movement in minority interests		**27,084**	**19,648**
(Increase)/decrease in operating assets			
Minimum reserve deposits with the CNB		203	3,396
Loans and advances to financial institutions		(25,980)	7,527
Loans and advances to customers		(45,018)	(91,095)
Securities at fair value through profit and loss		4,746	(3,419)
Securities available for sale		(7,027)	2,676
Other assets		424	(1,205)
Increase/(decrease) in operating liabilities			
Amounts owed to financial institutions		(1,708)	11,581
Amounts owed to customers		53,979	51,040
Liabilities at fair value		149	2,159
Other liabilities		(1,010)	(1,256)
Net cash flow from operating activities before income tax and movement in minority interests		**5,842**	**1,052**
(Decrease)/increase in minority interests		(160)	290
Income taxes paid		(3,623)	(2,636)
Net cash flow from operating activities		**2,059**	**(1,294)**

CZK mil.	Note	2008	2007
Cash flows from investing activities			
Proceeds on sale of securities held to maturity		19,948	3,250
Payments for investment property		(973)	(4,692)
Proceeds on sale of investments in unconsolidated subsidiaries and associates		727	199
Net cash flow from the sale/(purchase) of a subsidiary undertaking	6	4,932	(45)
Payments for property under construction		(1,312)	(1,945)
Purchase of tangible and intangible assets		(2,706)	(5,038)
Proceeds from the sale of tangible and intangible assets		801	628
Net cash flow from investing activities		**21,417**	**(7,643)**
Cash flows from financing activities			
Dividends paid		(4,560)	(4,560)
Dividends paid to minority shareholders		(215)	(153)
Payments with treasury and Group shares		10	–
Bonds in issue		(9,184)	12,574
Receipt of subordinated debt		(408)	(281)
Net cash flow from financing activities		**(14,357)**	**7,580**
Net increase/(decrease) in cash and cash equivalents		**9,119**	**(1,357)**
Cash and cash equivalents at beginning of year		**22,932**	**24,289**
Cash and cash equivalents at end of year	**43**	**32,051**	**22,932**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. INTRODUCTION

Česká spořitelna, a. s. (henceforth the "Bank"), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services on the territory of the Czech Republic.

The principal activities of the Bank are as follows:
- Acceptance of deposits from the general public;
- Extension of credit;
- Investing in securities on its own account;
- Payments and clearing;
- Issuance of payment facilities, e. g. payment cards, traveller's cheques;
- Issuance of guarantees;
- Opening of letters of credit;
- Collection services;
- Proprietary or client-oriented trading with foreign currency assets, forward and option contracts, including foreign currency and interest rate transactions, and transferable securities;
- Management of clients' securities on clients' accounts and provision of advisory services;
- Participation in the issuance of shares and provision of related services;
- Safe-keeping and administration of securities or other assets;
- Rental of safe-deposit boxes;
- Provision of business advisory services;
- Issuance of mortgage bonds under special legislation;
- Financial brokerage;
- Depositary activities;
- Foreign exchange services (foreign currency purchases);
- Provision of banking information; and
- Maintenance of a separate part of the Securities Centre's records.

The Bank provides the following additional services through its subsidiaries (together the "Group"):
- Funds management;
- Building society savings and loans;
- Pension insurance;
- Finance leasing;
- Factoring;
- Consulting services;
- Provision of investment services;
- Real estate activities;
- Lease of information technology, installation and repair of electronic equipment;
- Provision of software and advisory services in relation to hardware and software; and
- Corporate management and finance.

The Group is subject to the regulatory requirements of the Czech National Bank (henceforth the "CNB"). These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk and foreign currency position.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to insurance and collective investment.

2. BASIS OF PREPARATION

These consolidated financial statements comprise the accounts of the Bank and its subsidiaries and have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations approved by the International Accounting Standards Board ("IASB") as adopted by the European Union.

All figures are in millions of Czech crowns ("CZK mil."), unless stated otherwise.

These consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement to fair value of available for sale securities, financial assets and liabilities at fair value through profit and loss, all derivatives, issued debt securities which are hedged against interest rate risk and assets held for sale. Assets held for sale are measured at fair value if this value is greater than their carrying amount (i. e. cost less accumulated depreciation and cumulative impairment losses).

The accounting policies have been consistently applied by the entities in the Group.

The presentation of consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period (refer to Note 4). Actual results could differ from those estimates.

Comparative information has been restated, where necessary, on a basis consistent with the current year presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(a) Principles of Consolidation

The consolidated financial statements present the accounts and results of the Bank and, to the extent that they are material to the Group as a whole, of its subsidiaries and associated companies.

The Group accounts for all business combinations using the purchase method. The Group, as the acquirer, measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given in exchange for control of the acquiree and any costs directly attributable to the business combination.

At the acquisition date, the Group allocates the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at the fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is accounted for as goodwill or negative goodwill.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values.

The Group recognises any adjustments to those provisional values within twelve months of the acquisition date, with effect from the acquisition date, i. e. retrospectively.

Subsidiary Undertakings

An investment in a subsidiary is one in which the Group holds, directly or indirectly, more than 50 percent of its share capital or in which the Group can exercise more than 50 percent of the voting rights or where the Group can appoint or dismiss a majority of the Board of Directors or Supervisory Board members. An investment in a subsidiary is also one in which the Group holds, directly or indirectly, less than 50 percent of its share capital but has the power to govern the financial and operating policies of the company.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

All intercompany balances and transactions, including intercompany profits are eliminated on consolidation. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Minority interests in the equity and results of companies that are controlled by the Group are shown as a separate item in the consolidated financial statements.

Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Unconsolidated Subsidiaries and Associated Companies

Subsidiaries and associates whose results, equity and financial position are, in aggregate, not material to the financial statements are not consolidated. These unconsolidated equity investments in subsidiary and associated undertakings are recorded at acquisition cost including transaction costs less provisions for their impairment. These investments in unconsolidated subsidiaries and associated companies are presented in the balance sheet in "Unconsolidated investments". Impairment of equity investments in subsidiaries and associates is recognised in "Other operating income/(expenses), net".

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Joint ventures are consolidated using the equity method of accounting. The equity method is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity.

Minority Interests

Minority interests are reported as a component of shareholders' equity in the balance sheet. The Group's profit is allocated between minority interests and the Group's shareholders in the profit and loss account. In certain cases (development companies), the Group enjoys a preferential right to seek payment of its share of the reported profits of these subsidiaries. No profit shares of minority shareholders are recognised in respect of these companies unless the Group's claim is fully satisfied.

Associates Held Via Venture Funds

The investments are recognised at fair value as the fair value information is readily available on the market.

(b) Loans and Advances, Other Off Balance Sheet Credit Exposures and Provisions for Losses on Loans and Advances

Loans and advances are stated at the amount of outstanding principal and overdue interest and fees. All loans and advances are recognised when cash is advanced to borrowers.

The Group classifies its loan receivables according to several criteria.

In terms of market segments, loans and advances are split into retail receivables and corporate receivables. Retail receivables include amounts due from individuals/households and sole traders and amounts due from individuals–businessmen, small businesses with the annual turnover of less than CZK 30 million and small municipalities (the MSE category), receivables arising from construction savings loans, receivables arising from instalment sale, loans issued to finance acquisition of securities, and lease receivables. Corporate loans include amounts due from small and medium sized businesses with the annual turnover between CZK 30 million and CZK 1,000 million (the SME category), amounts due from large corporations (with turnover over CZK 1,000 million), the public sector, factoring receivables and lease receivables.

In risk management terms, loan receivables are segmented into non-defaulted (performing) loans and defaulted (non-performing) loans, i.e. loans in default according to BASEL II rules.

In accounting and provisioning terms, loans are segmented into individually impaired, collectively impaired loans where such circumstances were not demonstrated on an individual basis and unimpaired loans with no indication of impairment.

Provisions for losses on loans and advances are recorded when there is objective evidence over the irrecoverability of the loan balance. Provisions for losses on loans and advances represent management's assessment of realised losses in relation to the Group's on and off balance sheet activities. Amounts are set aside to cover losses on loans and advances that have been specifically identified (individually impaired loans) and for potential losses which may be present based on portfolio performance (collectively impaired loans and unimpaired loans). The level of provisions is established by comparing the carrying amount of the loan and the present value of future expected cash flows using the effective interest rate. The level of provisions for individually insignificant loans is determined statistically at the product portfolio level. Individually significant loans are assessed individually to determine if they are individually impaired. The provisioning percentage in respect of individually significant loans which are collectively impaired or unimpaired is established on a portfolio basis. The amount of impairment loss is charged to the profit and loss account line "Provisions for credit risks."

Write offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for credit risks" in the profit and loss account. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. The relevant amount and recoveries of loans and advances previously written off are reflected in the profit and loss account through "Provisions for credit risks."

Additional details can be found in Note 44.1.

(c) Debt and Equity Securities (including Participating Interests Excluded from the Consolidation)

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of the securities and pursuant to the Group's security investment strategy. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Group categorises its securities into the "Securities at fair value through profit and loss" portfolio, the "Securities available for sale" portfolio and the "Securities held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and the recognition of their fair values in the financial statements.

All securities held by the Group are recognised using trade date accounting and initially recorded at their fair value including transaction costs (acquisition cost), the only exception being securities at fair value through profit and loss which are recognised at fair value net of transaction costs.

Securities at Fair Value through Profit and Loss

The portfolio includes debt and equity securities held for trading, that is, securities held by the Group with the intention of reselling them, thereby generating profits on price fluctuations in the short-term, and debt and equity securities that were designated, upon initial recognition, as at fair value through profit and loss. Securities at fair value through profit and loss are recognised at cost at the acquisition date and subsequently remeasured at fair value. Changes in the fair values of assets held for trading are recognised in the profit and loss account as "Net trading result". Changes in the fair values of securities not held for trading are reported as "Other operating income/(expenses), net" in the profit and loss account. Interest on securities at fair value through profit and loss is presented as "Interest income".

Fair Value Option

In addition to securities, the portfolio of instruments at fair value through profit and loss includes, upon origination or acquisition, other financial assets, liabilities and derivatives if such classification reduces the mismatch in reporting financial expenses or income or if it is a group of financial assets and liabilities which are typically managed and assessed according to fair value changes and such a management and presentation treatment complies with the investment strategy and/or the assets and liabilities management strategy.

For debt and equity securities traded on the Prague Stock Exchange ("PSE") and other stock exchanges, fair values are derived from quoted prices. In respect of securities which are publicly traded but the volumes or frequency are small, management assesses the identified market prices on an individual basis to determine if they provide an actual indication of the fair value. In exceptional cases, management uses its own estimates to make adjustments or uses the Group's own valuation models. The fair values of securities that are not publicly traded are estimated by the management of the Group as the best estimation of the cash flow projection reflecting the set of economic conditions that will exist over the remaining maturity of the securities, taking into account the issuer's credit risk.

Securities Available for Sale

Securities available for sale are securities held by the Group for an indefinite period of time that are available for sale as liquidity requirements arise or market conditions change.

Securities available for sale are carried at acquisition cost and subsequently remeasured at fair value. Changes in the fair values of available for sale securities are recognised in equity as "Revaluation gains or losses", with the exception of their impairment and interest income and foreign exchange differences on debt securities. Impairment of securities available for sale is accounted for on the same basis as impairment of securities held to maturity (see below). When realised, the relevant revaluation gains or losses are taken to the profit and loss account as "Other operating income/(expenses), net". Interest income on coupons, amortisation of discounts or premiums, and dividends are included in "Interest income and similar income". Foreign exchange differences are reported within "Net trading result".

If a security is determined to be impaired, the loss is reversed from shareholders' equity and recognised as an expense in the profit and loss account. When an impairment loss on equity securities is accounted for, the recognised charge is not reversible.

The impairment losses on debt securities can be reversed when, following the impairment recognition in expenses, the fair value increases for objective reasons as determined by the Bank.

Annually the Bank makes an assessment to determine if events occurred indicating that an investment has suffered impairment/other-than-temporary impairment. The criteria indicating impairment of a security include, but are not limited to: significant changes with an adverse impact on the investment in the market, economic or legislative environments or such are expected to occur in the nearest future (e. g. absence of an active market), significant financial difficulties of the issuer or the committed party, or contract breach such as the non-payment of the principal, interest or delayed payments.

Securities Held to Maturity

Securities held to maturity are financial assets with fixed maturity and determinable payments that the Group has the positive intent and ability to hold to maturity.

Securities held to maturity are initially measured at acquisition cost. Securities held to maturity are subsequently reported at amortised cost using the effective interest rate, less any provision for impairment. The amortisation of premiums and discounts is included in "Interest income and similar income".

Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(d) Sale and Repurchase Agreements

Where debt or equity securities are sold under a concurrent commitment to repurchase them at a pre-determined price, they remain at fair value or amortised cost (refer to Note 3 (c)) within the relevant portfolio on the balance sheet and the consideration received is recorded in "Amounts owed to financial institutions" or "Amounts owed to customers." Conversely, debt or equity securities purchased under a concurrent commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in "Loans and advances to financial institutions" or "Loans and advances to customers." Interest is accrued evenly over the life of the agreement.

(e) Liabilities at Fair Value

The Group classifies as liabilities at fair value liabilities held for trading and liabilities for which it uses the fair value option as set out in IAS 39 Financial Instruments: Recognition and Measurement.

Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the Group records an obligation to return them which is recognised at fair value as a trading liability and is presented in the balance sheet line "Liabilities at fair value". Upon the repurchase of securities, the difference between the carrying amount of the obligation and the contracted purchase price is recognised in "Net trading result".

The Group additionally classifies as liabilities at fair value certain issued bonds and deposits with embedded derivatives because management believes that this classification materially reduces the inconsistency in valuing these liabilities.

(f) Investment Property and Assets Under Constructions

Investment property is property (land or a building – or part of a building – or both) held to earn rentals and/or for capital appreciation or both. Property used by the lessees from within the Group are not treated and presented as investment property. The Group states investment property at fair value and gains or losses arising from changes in the fair value are included in the profit and loss account line "Other operating income/(expenses), net".

The fair value is the estimated amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction at the remeasurement date.

The valuation is based upon the calculation of expected yearly net income by using a permanent (expected) yield method. The expected yield is determined using the comparison method (similar realised transactions on the same market).

The Group also invests in real estate under construction (investment property under construction). This real estate is classified as real estate held for sale in the ordinary course of business or property that is being constructed or developed for future use as investment property and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories or IAS 16 Property, Plant and Equipment at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of acquiring (acquisition cost) assets under construction not only includes the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised only to the extent to which they directly relate to the acquisition of real estate.

In determining the net realisable value of assets under construction the Group refers to the most recent budget and the current state of completion which is compared to the future value of flats and/or office and commercial premises. In circumstances where the anticipated effect of the sale of these assets under construction falls below their cost, the Group writes down the assets under construction to their net realisable value.

Sales of these assets/flats are recognised as revenues through "Other operating income/(expenses), net" when a statement is received from the Cadastral Office regarding the registration of the flats in the name of a new owner. The same profit and loss account line reflects the costs incurred in selling the flats, that is, the value of the asset and other expenses associated with the sale of the flats (which are not capitalised).

(g) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reported in the balance sheet as a component of "Intangible assets".

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The Group recognises the impairment through the profit and loss account line "Other operating income /(expenses), net." An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(h) Intangible Assets

Intangible assets include identifiable assets without physical substance and with an estimated useful life exceeding one year. The Group has determined that, in addition to fulfilling these criteria, intangible fixed assets should have a cost greater than CZK 60,000. Intangible assets are carried at cost less accumulated amortisation and provisions for impairment and are amortised on a straight line basis through "General administrative expenses – amortisation of intangible assets" over an estimated useful life not exceeding four years. Software acquisition, valuable rights and other intangible assets are treated as intangible assets. Items with a cost less than CZK 60,000 are recognised in expenses in the profit and loss account as part of "General administrative expenses – other administrative expenses" for the period in which they were acquired. Costs associated with the maintenance of intangible assets (software) are expensed through "General administrative expenses – other administrative expenses" as incurred whilst costs of technical improvements, if they exceed CZK 40,000 per one asset for the period and are completed, are capitalised and increase the acquisition cost of the intangible asset.

(i) Property and Equipment

Property and equipment includes identifiable tangible assets with physical substance and with an estimated useful life exceeding one year. The Group has determined that, in addition to fulfilling these criteria, tangible fixed assets must include assets with a cost greater than CZK 13,000. Property and equipment is stated at historical cost less accumulated depreciation and impairment provisions and is depreciated when ready for use through the profit and loss account line "General administrative expenses – depreciation of property and equipment" on a straight line basis over their estimated useful lives. Depreciation periods for individual categories of assets are as follows:

Buildings and structures	20–50 years
Electronic machines and equipment	6–12 years
Tools and other equipment	4–12 years
Equipment, fixtures and fittings	4–6 years
Selected low value machines and equipment	2 years
Leasehold improvements	Period of the lease

Land and works of art (irrespective of their cost) are not depreciated.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes also professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain and loss arising on the disposal of property and equipment is determined based on its carrying value and is recognised in the profit and loss account line "Other operating income/(expenses), net" in the year of disposal.

Property and equipment costing less than CZK 13,000, technical improvements costing less than CZK 40,000 and intangible assets costing less than CZK 60,000 are charged to the profit and loss account line "General administrative expenses – other administrative expenses" in the period of acquisition.

Repairs and maintenance of property and equipment are charged to the profit and loss account line "General administrative expenses – other administrative expenses" in the year in which the expenditure is incurred. Completed technical improvements exceeding CZK 40,000 for the taxation period are capitalised and increase the acquisition cost of intangible assets.

(j) Non-current Assets Held for Sale

The category of 'assets held for sale' includes non-current assets that are taken out of active use at the date on which criteria for sale are met, that is, the sale is approved by an authorised person, steps to locate a buyer have been initiated, and a draft of a purchase contract and other documentation is being prepared. At the same date, the assets held for sale are measured at the lower of carrying amount and fair value less selling costs. At the same time, depreciation on such assets ceases. The fair value less selling costs is determined based on an expert appraisal (refer to Note 4 (g)).

In circumstances where the fair value less selling costs is lower than the carrying amount, the difference is accounted for through the recognition of an extraordinary write-off in the profit and loss account line "Other operating income/(expenses), net". Any subsequent revaluation of assets arising from the change in the fair value less selling costs is presented in the same profit and loss account line.

In addition, assets held for sale include property under construction (refer to Note 3 (f)) after its completion if it was not sold as of the balance sheet date and its sale is likely to take place in the following 12 months.

(k) Impairment of Assets

Where the carrying amount of an asset stated at net book value is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs, and the estimated future economic benefits arising from the use of the asset and its disposal at the end of its service life.

The largest components of the Group's assets are periodically tested for impairment and temporary impairments are provisioned through the profit and loss account line "Other operating income/(expenses), net".

Significant accounting estimates and decisions in the application of accounting policies are additionally disclosed in Note 4.

The Group determines the fair value of investment property under construction on the basis of its estimate of discounted future cash inflows to be derived from the future sale of the property and outflows associated with the sale and construction of the property. The Group uses budgeted future cash inflows and outflows which are regularly assessed for reliability by comparing the budget and the actual condition. The budgeted inflows arising from the sale and outflows associated with construction and sale are also regularly reviewed by reference to estimated real estate market developments.

(l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(m) Provisions for Guarantees and Other Off Balance Sheet Credit Related Commitments

In the normal course of business, the Group enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, loan commitments, undrawn loan facilities and letters of credit. Provisions are made for estimated losses on these commitments on the same basis as set out at Note 3 (b) in respect of on balance sheet loan exposures. In estimating the losses, the Group refers to the historical data regarding risk parameters (credit conversion factors, probability of default and loss-given default). Additional details can be found in Note 44.1.

(n) Shareholders' Equity

The statutory reserve fund comprises funds that the Group is required to retain according to current legislation. Use of the statutory reserve fund is limited by legislation and the articles of individual companies. The fund is not available for distribution to the shareholders.

Where the Bank or its subsidiaries purchase the Bank's treasury shares or obtain rights to purchase its treasury shares, the consideration paid including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. In selling treasury shares, the Bank recognises the difference between their selling price and cost as share premium.

Dividends reduce retained earnings in the period in which they are declared by the Annual General Meeting.

(o) Accrued Interest

Interest receivable and payable accrued using the effective interest rate on outstanding loan balances, debt securities, deposit products, bonds in issue and subordinated debt is reported within "Other assets" and "Other liabilities," respectively.

(p) Foreign Currency

The Group's functional currency is the Czech crown. Transactions denominated in foreign currencies, which are monetary items, are recorded in the local currency at official exchange rates as announced by the CNB on the transaction date. Assets and liabilities denominated in foreign currencies are translated into the local currency at the CNB exchange rate prevailing at the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the profit and loss account in "Net trading result", with the exception of foreign exchange rate differences on equity investments denominated in foreign currencies which are reported at the historical exchange rate, foreign exchange rate differences on equity securities included in the available-for-sale portfolio which are reported as a component of a change in the fair value and foreign exchange rate differences on derivatives entered into with a view to hedging currency risk associated with assets or liabilities whose foreign exchange rate differences are not reported in the profit and loss account.

Upon consolidation, the balance sheet items of entities that report in other than the Group's currency are translated into the local currency at the official exchange rate announced by the CNB at the balance sheet date, with the exception of foreign exchange rate differences which are reported at the historical exchange rate. Profit and loss account items are translated using an average annual exchange rate announced by the CNB. Differences arising from the use of the balance sheet and average exchange rates are recognised in equity as "Foreign exchange differences". The same line is used to account for differences arising from the consolidation of equity and the recognition of equity investments at the historical exchange rate.

(q) Interest Income and Interest Expense

Interest income and expense are recognised, on an accrual basis. The Group accounts for the accruals of interest using the effective interest rate method. Outstanding penalties, contractual sanctions and interest on non-performing loans, which are those loans that have overdue interest and/or principal, or for which management of the Group otherwise believes the contractual interest or principal due may not be received, are only recognised on their collection.

The Group also recognises interest income on non-performing loans. This interest income represents interest income using the effective interest rate in respect of the assets less a provision.

The Group uses the capitalisation model for borrowing costs in respect of investment property. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

(r) Fees and Commissions

Fees and commissions are recognised on an accruals basis, with the exception of fees that are included in the effective interest rate.

The effective interest rate includes the fees directly associated with the provision of the loan, such as loan origination fees, loan application processing fees, etc. These fees are reduced to reflect the Group's direct external transaction costs involved in issuing loans.

(s) Customer Loyalty Programmes

Customer loyalty programmes include the Bonus Programme. The Bank recognises both the full amount of the fees for payment cards and the full amount of a commission from traders for realised transactions as income and the estimated costs of the subsequent use of the points as a provision. At the annual financial statements date, the amount of the provision is adjusted to reflect the current balance of unused points, taking into account the likelihood of their being utilised.

(t) Finance Leases

A Group Company as the Lessee

Leases of property and equipment under which the Group assumes substantially all the rewards incidental to ownership (finance leases) are recognised in the balance sheet by recording an asset at cost and liability equal to the present value of all future lease payments. Leasehold improvements on leased assets are depreciated in accordance with the depreciation policy noted above. The depreciation period is the estimated useful life of the asset, or the lease term if shorter. Lease liabilities are reduced by repayments of principal, whilst the finance charge component of the lease payment is charged directly to the profit and loss account.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

A Group Company as the Lessor

Finance lease income is calculated under an effective interest method to provide a constant rate of return on the net investment in the leases.

(u) Pension Business

Contributions of participants, together with their appreciation and State contribution claims in pension funds are included in "Amounts owed to customers." Pension policy costs are amortised over four years, the average duration of the pension policies.

Technical Provision for Retirement Pension Schemes

The level of the charged provision is determined on the basis of the present actuarial value of committed retirement benefits to be paid decreased to reflect the amount of funds recorded on behalf of pension recipients.

Up to 10 percent of the profits from the pension fund can be distributed to the shareholders and no less than 5 percent of the profits is allocated to the reserve fund. Reflecting this fact the Group accounts for the profit attributable to participants of the retirement pension schemes as amounts owed to customers.

(v) Factoring

Recourse Factoring

The Group recognises funding/prepayments made to factoring clients as loans. Invoices/receivables received as part of factoring transactions are maintained off balance sheet. At the same time, the Group accounts for the commitment to pay the prepayment to the factoring client.

Non-recourse Factoring

The Group recognises receivables arising from invoices/receivables received as part of factoring transactions in "Other assets".

(w) Taxation

Tax on the profit or loss for the year comprises the current year tax charge, adjusted for deferred taxation. Current tax comprises the tax payable calculated on the basis of the taxable income for the year, using the tax rate enacted by the balance sheet date, and any adjustment of the tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. The principal temporary differences arise from certain non-tax deductible reserves and provisions, tax and accounting depreciation on tangible and intangible assets and revaluation of other assets.

The estimated value of tax losses expected to be available for utilisation against future taxable income and tax deductible temporary differences are offset against the deferred tax liability within the same legal tax unit to the extent that the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be available to allow the asset to be recovered.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the profit and loss account, except to the extent that it relates to items previously charged or credited directly to equity.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

(x) Derivative Instruments

Derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency and interest rate options (both purchased and sold), futures and other derivative financial instruments. The Group uses various types of derivative instruments in both its trading and hedging activities.

Derivative instruments entered into for trading or hedging purposes are recognised at fair value as “Positive fair value of derivative transactions” and “Negative fair value of derivative transactions.” Realised and unrealised gains and losses are recognised in the profit and loss account line “Net trading result”, the only exception being unrealised gains and losses on cash flow hedges which are recognised in equity. Fair values of derivatives are based upon quoted market prices or pricing models which take into account current market and contractual prices of the underlying instruments, as well as the time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with gains and losses reported in the profit and loss account.

Hedging derivatives are defined as derivatives that comply with the Group's risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent.

If the Group uses a fair value hedge, the hedged item is remeasured at fair value and the gain or loss from the remeasurement (in respect of an interest rate risk exposure hedge) is recognised as an expense or income in “Interest income and similar income” or “Interest expense and similar expense” as appropriate. The same accounts of expense and income that reflect the gain or loss from remeasuring the hedged item at fair value are also used in accounting for changes in fair values of hedging derivatives that are attributable to the hedged risk.

If the Group uses a cash flow hedge, the gains or losses from changes in fair values of hedging derivatives that are attributable to the hedged risk are retained in equity on the balance sheet and are recognised as an expense or income in the periods in which the expense or income associated with the hedged items are recognised.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 Financial Instruments: Recognition and Measurement and are therefore treated as derivatives held for trading with fair value remeasurement gains and losses reported in "Net trading result".

If the Group uses a hedge of a net investment in foreign operations, the changes in fair values of hedging derivatives that are attributable to the foreign currency risk are recognised as "Foreign exchange differences arising upon consolidation (retranslation reserve)" in equity.

(y) Transactions with Securities Undertaken on behalf of Clients

Securities received by the Group into custody, administration, management or safe-keeping are typically recorded at market or nominal values if the market value is not available and maintained off balance sheet. "Other liabilities" include the Group's payables to clients arising from cash received to purchase securities or cash to be refunded to the client.

(z) Segment Reporting

Segment information is based on two segment formats. The primary format represents business segments – retail banking (including construction savings products), corporate banking, investment banking and other operations. The secondary format represents the Group's geographical markets – the Czech Republic, EU countries, other European countries and other regions.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy. Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Group's consolidated balance sheet. Segment assets and liabilities do not include income tax items.

(aa) Cash and Cash Equivalents

The Group considers cash and deposits with the CNB, treasury bills with a residual maturity of three months or less, nostro accounts with financial institutions and loro accounts with financial institutions to be cash equivalents. For the purposes of determining cash and cash equivalents, the minimum reserve deposit with the CNB is not included as a cash equivalent due to restrictions on its availability.

(bb) Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2008

The Group has adopted the following standards:

- Amendments to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments – Disclosures relating to the reclassification of certain financial instruments from the "held for trading" category under unusual circumstances as it is deemed that the current financial crisis is an unusual circumstance which could justify the use of this option by the Group companies;
- Amendments to IAS 23: Borrowing Costs in relation to qualifying assets (effective 1 January 2009). The Group decided to adopt this interpretation before its effective date in the 2008 reporting period. Amendments to IAS 23 had no impact on the Group's accounting policies. The principal change in the standard that revokes the prior possibility of expensing all borrowings costs as they are incurred has no impact on these financial statements, as the capitalisation of borrowing costs for qualifying assets was already part of the Group's accounting policies;

- IFRIC 11: IFRS 2 on Group and Treasury Shares Transactions (effective 1 March 2007).; and
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective 1 January 2008).

At the date of authorisation of these financial statements, the following standards were in issue and endorsed by the EU but not yet effective:

- IFRS 8 Operating Segments (effective 1 January 2009);
- Revised IAS 1: Presentation of Financial Statements including the requirement to disclose comprehensive income (effective 1 January 2009);
- Amendment to IFRS 2: Share-based Payments defining Vesting Conditions and Cancellations (effective 1 January 2009); and
- IFRIC 13: Customer Loyalty Programmes (effective 1 July 2008).

The adoption of these standards in future periods is not expected to have a material impact on the consolidated profit or equity.

The following standards or interpretations have been issued by the IASB but not yet endorsed by the EU:

- Revised IFRS 3: Business Combinations (effective 1 July 2009);
- Restructured IFRS 1: First-time Adoption of IFRS (effective 1 July 2009);
- Amendments to IAS 27: Consolidated and Separate Financial Statements (effective 1 July 2009);
- Amendments to IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements relating to Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009);
- Improvements to International Financial Reporting Standards including minor amendments to IFRS 5, IAS 1, 16, 19, 20, 23, 27, 28, 29, 31, 36, 38, 39, 40 and 41 (various effective dates);
- Amendments to IFRS 1: First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements relating to the Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009);
- Amendment to IAS 39: Financial Instruments: Recognition and Measurement relating to Eligible Hedged Items (effective 1 July 2009);
- Amendment to IAS 39: Financial Instruments – Recognition and Measurement and IFRS 7: Financial instruments – Disclosures relating to the Reclassification of Financial Assets (effective 1 July 2008);
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008);
- IFRIC 15: Agreements for the Construction of Real Estate (effective 1 January 2009);
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008); and
- IFRIC 17: Distributions of Non-cash Assets to Owners (effective 1 July 2009).

These standards are not yet effective as of the reporting date. Endorsement by the EU is expected by the time the standards and interpretations become effective. The Group believes that the adoption of these standards will not have a material impact on the consolidated profit or equity.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The current financial crisis and subsequent impacts on the financial markets and overall economic environment have triggered significant adjustments to the valuation of the Group's assets. Management is prudent in monitoring all relevant factors to determine appropriate valuation.

(a) Impairment of Loans and Advances

The Group regularly assesses its loan portfolio for possible impairment. As part of this analysis, the Group splits all loans into two categories: defaulted loans (according to the BASEL II definition) and non-defaulted loans. In respect of the first category of loans, the Group believes that there is objective evidence demonstrating that a loss event occurred subsequent to the initial recognition of these loans which impacts future anticipated cash flows arising from these loans and these loans are therefore impaired on an individual basis. The Group makes an estimate of realised losses on an individual basis for individually significant loans, and on a portfolio basis for individually insignificant loans by reference to historical indicators.

The Group additionally splits performing loans into collectively impaired (the 7–8 internal rating) where an indication of impairment on a portfolio basis exists, and unimpaired (the 1–6 internal rating). With regard to all non-defaulted (i. e. including unimpaired) loans, the Group assesses decrease in the estimated future cash flows from the portfolio although the decrease cannot yet be identified with individual loans. Management of the Group uses estimates based on historical experience of losses on loans that have similar risk characteristics. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data. Given the current unstable economic conditions, the actual future cash flows may differ from the estimated cash flows as of the balance sheet date. Details about provisioning can be found in Note 44.1.

(b) Debt Securities Held to Maturity

Based upon the model of the development of future cash flows and its balance sheet structure, the Group invests in securities and categorises a portion of purchased securities in the held-to-maturity portfolio. The key criterion driving this decision is the Group's ability to hold the security to maturity assuming sufficient financial coverage throughout the whole term of the investment. Should the sale of a significant volume of the held-to-maturity debt securities before their maturity take place, pursuant to IAS 39 Financial Instruments: Recognition and Measurement, the Group would be required to reclassify the held-to-maturity securities into one of the remaining portfolios. In terms of the Group's asset management policy, the purchase of a debt security into the portfolio of the held-to-maturity debt securities is primarily considered as a tool of the banking book interest rate risk management, the ability to hold such a debt security to maturity is a pre-condition for using the debt security as a banking book interest rate risk management tool.

(c) Impairment of Securities

Securities held by the Group, the only exception being debt securities in the held-to-maturity portfolio, are regularly marked to market and this fair value revaluation is recognised in the profit and loss account (at fair value through profit and loss portfolio) or in equity (the available-for-sale portfolio). When a decline in the fair value of an available for sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events: significant financial difficulty of the issuer or obligor, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, etc.

If the Group concludes that there is objective evidence that some securities in the held to maturity portfolio are impaired due to the significantly changed situation on the market, they will be transferred to the available for sale portfolio.

(d) Valuation of Instruments without Direct Quotations

Financial instruments without direct quotations in an active market are valued using the mark to model technique. Each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e. g. for correlations, volatilities, etc.). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

The valuation of structured bonds, the yields of which are linked to the underlying assets (asset backed securities) is performed monthly on the basis of quotations requested from listing agents. With assistance from the parent company, the Group analyses the quoted prices by reference to the results of internal valuation models and other facts. Based on this analysis, the Group can value its bonds at other than the quoted price. Where multiple quotations are available, the Group uses the lowest quotation. The estimated carrying amount of these financial instruments is currently adversely impacted by the decreased liquidity and increased risk mark ups on the financial markets. The continuing high volatility of market prices, along with the uncertainty regarding future developments, may result in future adjustments of the estimated valuation.

(e) Provisions

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. Nevertheless the final results may differ from estimated losses at the balance sheet date.

(f) Investment Property

The fair value of investment property is determined by an independent real estate appraiser and is based upon expected yearly net income by using a permanent (expected) yield method. The expected yield is determined using the comparison method (similar realised transactions on the same market).

The current decrease in demand for real estate fuelled by the financial and economic crisis and uncertainty regarding future economic developments may result in differences between the actual and expected yields determined using the comparison method as of the balance sheet date.

(g) Fair Value of Immovable Assets Held for Sale

Immovable assets held for sale are valued based on expert appraisals prepared by independent real estate appraisers and the valuation reflects anticipated prices on the real estate market. Given the current financial and economic crisis, actual results may differ from expected values at the balance sheet date.

(h) Impairment of Assets

The Group tests its assets for impairment at least on an annual basis to determine whether there is any indication that those assets have suffered impairment. If any such indication exists, the Group compares the carrying amount of the assets with their recoverable amount defined as the higher of fair value less costs to sell and value in use.

With regard to equity investments in subsidiaries and associates that are within the scope of IAS 27 Consolidated and Separate Financial Statements and IFRS 3 Business Combinations, the Group determines the value in use which is established as equal to the discounted value of the projected cash flows from individual investments. The discount rate used by the Group matches the zero risk rate increased by a credit mark up reflecting the Group's external rating.

With regard to investment property under construction, the Group determines the fair value on the basis of an estimate of discounted future cash inflows to be derived from the sale of the property, net of costs associated with the sale and development of the investment property.

With regard to tangible assets within the scope of IAS 16 Property, Plant and Equipment, the Group determines the fair value less costs to sell. The fair value is arrived at on the basis of expert appraisals prepared by certified appraisers.

Depreciation periods applicable to individual categories of property, plant and equipment and intangible assets are disclosed in Notes 3 (h) and 3 (i), respectively.

The Group determines the value in use of intangible assets by estimating discounted future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal.

The fair value of securities held to maturity and securities available for sale that fall within the scope of IAS 39 Financial instruments: Recognition and Measurement is determined on the basis of standard market parameters or valuation models as appropriate.

(i) Fair Value of Collateral

In the course of its lending business, the Group accepts movable and immovable assets and securities pledged as collateral. The Group also uses various forms of guarantee statements to collateralise its loan receivables. Movable and immovable assets pledged as collateral are carried off balance sheet and are initially valued on the basis of an expert appraisal (nominal value of collateral) which is reduced, based on the Group's experience, to the realisable (fair) value using the collateral discount coefficient which is derived from the type of collateral. Guarantees are valued at the nominal value reduced by the collateral coefficient which is derived from the guarantor's solvency. Subsequently, the Group regularly assesses the realisable value of collateral for impairment. This assessment is mostly conducted as part of the regular (at least annual) monitoring of loan receivables. With respect to a large amount of collateral of the same type, the Group uses portfolio models to determine if the realisable value of the collateral decreased. The Group takes into account the realisable value of collateral in calculating provisions for loan receivables. Details about the determination of the realisable (fair) value of collateral are provided in Note 44.1. Given the current economic environment, the actual realisable values of collateral may differ from those used in calculating provisions for loan receivables at the balance sheet date.

(j) Retirement Pension Provisions

Technical Provision for Retirement Pension Schemes

The level of the charged provision is determined on the basis of the present actuarial value of committed retirement benefits to be paid decreased to reflect the amount of funds recorded on behalf of pension recipients. For the purpose of calculating this provision, the key assumptions include the estimated future rate of return of the portfolio and the estimated survival rate of the retirement benefit policy holders to whom pensions were awarded.

5. COMPANIES INCLUDED IN CONSOLIDATION

The consolidated financial statements include the following subsidiaries:

Companies providing financial services:

Name of the company	Registered office	Principal activities	Group interest	
			2008	2007
Companies held via Česká spořitelna, a. s.				
Factoring České spořitelny, a. s.	Prague	Factoring	100.0%	100.0%
Penzijní fond České spořitelny, a. s.	Prague	Pension business	100.0%	100.0%
Pojišťovna České spořitelny, a. s.	Pardubice	Insurance	55.3% x)	55.3%
s Autoleasing, a. s.	Prague	Leasing	100.0%	100.0%
Stavební spořitelna České spořitelny, a. s.	Prague	Building savings bank	95.0%	95.0%
Companies held via s Autoleasing, a. s.				
s Autoúvěr, a. s.	Prague	Lending	100.0%	100.0%
Leasing České spořitelny, a. s.	Prague	Leasing	100.0%	100.0% xx)

x) Before the sale dated 15 September 2008
xx) In 2007 held via Česká spořitelna, a. s.

Investment and management companies:

Name of the company	Registered office	Principal activities	Group interest	
			2008	2007
Companies held via Česká spořitelna, a. s.				
brokerjet České spořitelny, a. s.	Prague	Investment services	51.0%	51.0%
CEE Property Development Portfolio B. V. ("CPDP B. V.")	Netherlands	Investing in real estate	100.0%	100.0%
CS Investment Limited	Guernsey	Investing and investment holding	100.0%	100.0%
CS Property Investment Limited ("CSPIL")	Cyprus	Investing and investment holding	100.0%	100.0%
Czech and Slovak Property Fund B. V. ("CSPF B. V.")	Netherlands	Investing and investment holding	66.7%	66.7%
Czech TOP Venture Fund B. V.	Netherlands	Management and corporate finance	84.3%	84.3%
Investiční společnost České spořitelny, a. s.	Prague	Investment management	100.0%	100.0%
REICO investiční společnost České spořitelny, a. s.	Prague	Investment management	100.0%	100.0%
Company held via CSPF B. V.				
CSPF Residential B. V.	Netherlands	Investing and investment holding	66.7%	66.7%

Real estate companies:

Name of the company	Registered office	Principal activities	Group interest	
			2008	2007
Companies held via CSPF B. V.				
Atrium Center s. r. o.	Slovakia	Investing in real estate	66.7%	66.7%
BECON s. r. o.	Prague	Investing in real estate	66.7%	66.7%
BGA Czech, s. r. o.	Prague	Investing in real estate	66.7%	66.7%
Nové Butovice Development s. r. o.	Prague	Investing in real estate	66.7%	66.7%
Smíchov Real Estate a. s.	Prague	Investing in real estate	66,7%	66.7%
Solitaire Real Estate a. s.	Prague	Investing in real estate	66.7%	66.7%
Stodůlky Real Estate s. r. o.	Prague	Investing in real estate	66.7%	66.7%
Jegeho Residential s. r. o.	Slovakia	Investing in real estate	66.7%	66.7%
Trenčín Retail Park a. s.	Slovakia	Investing in real estate	60.0%	60.0%
Trenčín Property a. s.	Slovakia	Investing in real estate	66.7%	66.7%
SATPO Jeseniova s. r. o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Královská vyhlídka, s. r. o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Na Malvazinkách, a. s.	Prague	Investing in real estate	33.3%	33.3%
SATPO Sacre Coeur s. r. o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Sacre Coeur II, s. r. o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Švédská s. r. o.	Prague	Investing in real estate	33.3%	33.3%
NHS CZECH s. r. o.	Prague	Investing in real estate	66.7%	66.7%
Zahradní čtvrť, a. s.	Prague	Investing in real estate	–	33.7%
Companies held via CPDP B. V.				
CP Praha s. r. o.	Prague	Investing in real estate	20.0%	20.0%
CPDP 2003 s. r. o.	Prague	Investing in real estate	100.0%	100.0%
CPDP IT Centrum s. r. o.	Prague	Investing in real estate	100.0%	100.0%
CPDP Jungmannova s. r. o.	Prague	Investing in real estate	100.0%	100.0%
CPDP Logistics Park Kladno I a. s.	Prague	Investing in real estate	100,0%	–
CPDP Logistics Park Kladno II a. s.	Prague	Investing in real estate	100,0%	–
CPDP Polygon, s. r. o.	Prague	Investing in real estate	100.0%	100.0%
CPDP Prievozska, a. s.	Slovakia	Investing in real estate	100.0%	100.0%
CPDP Shopping Mall Kladno, a. s.	Prague	Investing in real estate	100.0%	100.0%
Gallery MYŠÁK a. s.	Prague	Investing in real estate	100.0%	100.0%
TAVARESA a. s.	Prague	Investing in real estate	100.0%	100.0%
Companies held via CSPIL				
Office Center Stodůlky DELTA a. s.	Prague	Investing in real estate	40.0%	–
Office Center Stodůlky GAMA a. s.	Prague	Investing in real estate	40.0%	–

Companies providing other services:

Name of the company	Registered office	Principal activities	Group interest 2008	Group interest 2007
Companies held via Česká spořitelna, a. s.				
RAVEN EU Advisory, a. s.	Brno	Corporate advisory	100%	65.7%
Informatika České spořitelny, a. s.	Prague	IT services	100.0%	100.0%
Companies held via RAVEN EU Advisory, a. s.				
RAVEN Training, s. r. o.	Prague	Education	–	65.7%
Euro Dotácie, s. r. o.	Slovakia	Education	66.7%	43.8%

The Group owns less than 50 percent of the share capital of CP Praha s. r. o., SATPO Jeseniova s. r. o., SATPO Královská vyhlídka, s. r. o. and SATPO Sacre Coeur II, but has the ability to control the financial and operating policies of these entities. As such, these entities are treated as subsidiaries and are consolidated in full.

Investments in SATPO Na Malvazinkách, a. s., SATPO Sacre Coeur s. r. o. and SATPO Švédská s. r. o., Office Center Stodůlky DELTA a. s. and Office Center Stodůlky GAMA a. s. are classified as joint ventures.

(a) Penzijní fond České spořitelny, a. s.

Up to 10 percent of the profits from the pension fund can be distributed to the shareholders and no less than 5 percent of the profits is allocated to the reserve fund. The shareholders incur the entire loss, if any. All other profit is available for distribution to participants (customers).

(b) Pojišťovna České spořitelny, a. s.

In the year ended 31 December 2008, the Bank sold 50.25 percent of the issued share capital of Pojišťovna České spořitelny, a. s.

Following this transaction, the Bank owns only a 5 percent equity investment in Pojišťovna České spořitelny, a. s. For this reason, the entity was removed from the consolidation group and the equity investment was transferred to the available for sale securities portfolio.

(c) Companies Consolidated since 2008

For the year ended 31 December 2008, the consolidated financial statements have included, for the first time, the following entities acquired by real estate funds during 2008:

CZK mil. Name of the entity	Acquisition date	Owner	Voting power in %	Costs of acquisition	Profit/(loss) since the acquisition date	Profit/(loss) for 2008
CPDP Logistics Park Kladno I a. s.	30 June 2008	CEE Property Development Portfolio B. V.	100	86,839	(8,566)	(8,662)
CPDP Logistics Park Kladno II a. s.	30 June 2008	CEE Property Development Portfolio B. V.	100	71,556	(31,617)	(31,721)

The Bank fully consolidates the investments in the real estate funds in its consolidated financial statements. While the Bank holds 20 percent and 10 percent of the issued share capital of the funds, respectively, and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank receiving substantially all of the returns and bearing substantially all of the risks of the investment. The second shareholder bears minimal risks and receives minimal returns from its investment in the funds.

The acquisition cost of the above stated entities was equal to the fair value of net assets at the acquisition date.

(d) Unconsolidated Investments

The following subsidiary undertakings: Genesis Private Equity Fund B L.P., Consulting ČS, a. s., Realitní společnost ČS, a. s., Erste Corporate Finance, a. s., CF Danube Leasing, s. r. o., and RVG Czech s. r. o., are excluded from consolidation due to immateriality. The total unconsolidated assets of these unconsolidated investments amounted to CZK 484 million as of 31 December 2008 (31 December 2007: CZK 648 million).

The following associated undertakings: FNE B. V., NewsTin a. s., CBCB Czech Banking Credit Bureau, a. s., První certifikační autorita, a. s., s IT Solutions SK, spol. s r.o., and s IT Solutions CZ, s. r. o., are excluded from consolidation due to immateriality. The aggregate value of the Group's share of the equity of these unconsolidated investments was CZK 25 million as of 31 December 2008 (31 December 2007: CZK 11 million).

6. DISCONTINUED OPERATIONS

Erste Group Bank completed the sale of its insurance investments in Central and Eastern Europe to Vienna Insurance Group ('VIG'). The Bank also participated in this transaction by selling its subsidiary, Pojišťovna České spořitelny, a. s., in which it retained a 5 percent equity interest. Profit from the sale of Pojišťovna České spořitelny, a. s. and removal from consolidation and total net income from insurance services made from the beginning of 2008 through the date of the sale (15 September 2008) are reported in "Net profit from discontinued operations after taxes" in the amount of CZK 4,460 million. For the year ended 31 December 2007, this item includes the net insurance profit. Proceeds arising from the sale amount to CZK 4,945 million.

In addition to the sale of the insurance companies, Erste Group Bank and VIG entered into a contract for cooperation in distributing the other party's products via their distribution channels. The contract has been concluded for 15 years and serves as a basis for close cooperation.

The table presents the combined profit of the discontinued operations reflected in the profit and loss account. The information about the profit and cash flows from discontinued operations for the prior period was adjusted to reflect the operations treated as discontinued in the current period.

Analysis of the Profit from Discontinued Operations

CZK mil.	Period ended 31 December 2008	Period ended 31 December 2007
Net earned insurance	4,273	6,392
Costs of insurance claims	(2,708)	(3,742)
Change in technical provisions	(742)	(1,940)
Operating expenses	(668)	(598)
Other profit/(loss) from insurance transactions	47	83
Profit or loss of the technical account	**202**	**195**
Financial gains	40	456
Other income from the non-technical accounts	1	(2)
Total net income from insurance services	**243**	**649**
Profit from the sale and removal from consolidation	4,261	–
Profit from discontinued operations before tax	**4,504**	**649**
Income taxation	(44)	(120)
Profit from discontinued operations after tax	**4,460**	**529**

The gain on the sale and exclusion of operations from the consolidation consists of the following items:

CZK mil.	Period ended 31 December 2008
Proceeds from the sale	4,945
Carrying amount of the sold investment	(1,306)
Gain on the sale	**3,639**
Decrease in the share capital of the entity to cover losses in 1999	449
Share of retained earnings upon acquisition	297
Settlement of intragroup profits of prior periods	(124)
Gain on the exclusion of operations from consolidation	**622**
Gain on the sale and exclusion of operations from consolidation	**4,261**

Analysis of the major classes of assets and liabilities of discontinued operations as of the date of sale

CZK mil.	As at 15 September 2008
Cash and cash equivalents	(13)
Financial placements of insurance company	(17,190)
Other assets	(626)
Technical reserves on insurance company	15,932
Other liabilities	452
Net assets disposed of as a result of sale of a subsidiary undertaking	**(1,445)**

Analysis of the net cash flow from discontinued operations

CZK mil.	For the year ended 31 December 2008
Proceeds from the sale	(4,945)
Cash and cash equivalents	13
Cash flow from investing activities	**(4,932)**

7. CASH AND BALANCES WITH THE CNB

CZK mil.	2008	2007
Cash	18,651	14,699
Nostro accounts with the CNB	603	461
Minimum reserve deposits with the CNB	5,031	5,234
Total	**24,285**	**20,394**

Minimum reserve deposits represent mandatory deposits calculated in accordance with CNB regulations, and whose withdrawal is restricted. Minimum reserve deposits accrue interest at the Czech National Bank's two week repo rate. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulation. The nostro balances represent balances with the CNB relating to settlement activities and were available for withdrawal at the year end.

8. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

CZK mil.	2008	2007
Nostro accounts	2,230	592
Loans and advances to financial institutions	25,544	12,293
Placements with financial institutions	65,532	52,803
Total	**93,306**	**65,688**

As of 31 December 2008, the Group provided certain financial institutions with loans of CZK 13,670 million (2007: CZK 6,123 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 14,219 million (2007: CZK 6,842 million).

9. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of Loans and Advances to Customers by Type of Loan

CZK mil.	2008	2007
Corporate loans	133,101	124,770
Mortgage loans (both retail and corporate customers)	173,883	159,904
Retail loans	89,988	74,805
Public sector loans	12,435	15,040
Construction savings loans	42,803	33,437
Factoring	1,908	2,251
Finance lease	7,306	8,208
Total	**461,424**	**418,415**

As of 31 December 2008, the Group provided certain customers with loans of CZK 774 million (2007: CZK 4,203 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 835 million (2007: CZK 4,249 million).

(b) Analysis of Loans and Advances to Customers according to Credit Risk Assessment Policies

31 December 2008 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	7,054	8,373	15,427
Collectively impaired	14,159	9,966	24,125
Unimpaired	170,697	251,175	421,872
Total	**191,910**	**269,514**	**461,424**

31 December 2007 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	5,048	5,830	10,878
Collectively impaired	9,500	8,603	18,103
Unimpaired	167,192	222,242	389,434
Total	**181,740**	**236,675**	**418,415**

Individually significant loans represent corporate loans or retail loans where the Group's exposure exceeds CZK 5 million. Individually impaired loans are those loans where objective evidence demonstrates that the associated cash flow is at risk (loss event). The Group defines the loss event in accordance with BASEL II. This classification corresponds to the 'R' internal rating (default). Collectively impaired loans are loans that show an indication of impairment on a collective basis, which corresponds to the 7 – 8 internal rating. Unimpaired loans are loans with the 1–6 internal rating.

The Group uses various types of collateral in order to mitigate credit risk exposure. The list of collateral instruments is set out in an internal regulation which also outlines the guidance to be followed in determining the values of individual types of collateral. The Group establishes the nominal value of collateral based upon a market valuation which is subsequently used as a basis for arriving at the realisable value by applying a discount factor set for each type of collateral. Collateral that is valued at the realisable value is taken into account in provisioning (refer to Note 3 (b). Collateral valuation rules also set out when and how often the valuations of individual collateral instruments are updated.

(c) Finance Leases

Loans and advances to customers also include net investments in finance leases.

CZK mil.	2008	2007
Gross investment in finance leases	**8,001**	**9,030**
Of which:		
Less than 1 year	3,212	3,796
From 1 year to 5 years	4,616	5,064
Over 5 years	173	170
Deferred income	(695)	(822)
Subtotal	**7,306**	**8,208**
Provision	(280)	(354)
Net investment in finance leases	**7,026**	**7,854**
Of which:		
Less than 1 year	2,825	3,268
From 1 year to 5 years	4,049	4,449
Over 5 years	152	137

The principal assets held under lease arrangements include cars and other technical equipment.

10. PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

(a) Creation and use of provisions for losses on loans and advances

CZK mil.	2008	2007
At 1 January	**6,810**	**6,339**
Charge for provisions	6,233	4,811
Release of provisions	(2,639)	(2,565)
Net charge of provisions (refer to Note 36)	3,594	2,246
Unwinding of discount	(418)	(251)
Use of provisions for loans written off and assigned	(1,062)	(1,508)
Reclassifications and FX differences from provisions in foreign currency	5	(16)
At 31 December	**8,929**	**6,810**
Net change in provisions	**2,119**	**471**

The use of provisions for loans written off and assigned of CZK 1,062 million (2007: CZK 1,508 million) has a zero impact on the Group's profit.

(b) Provisions for losses on loans and advances by category

31 December 2008 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	2,260	4,514	6,774
Collectively impaired	1,050	687	1,737
Unwinding of discount	195	223	418
Total	**3,505**	**5,424**	**8,929**

31 December 2007 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	1,872	3,320	5,192
Collectively impaired	756	611	1,367
Unwinding of discount	112	139	251
Total	**2,740**	**4,070**	**6,810**

In 2007, the Group sold part of the non-performing loans portfolio of CZK 920 million to third parties. The Group made a profit of CZK 301 million on this transaction.

The unwinding of discount represents interest income on impaired loans on the basis of the effective interest rate in respect of the discounted value of loans.

11. SECURITIES HELD FOR TRADING

CZK mil.	2008	2007
Listed debt securities	36,393	26,121
Listed equity securities and other variable yield securities	316	2,315
Total	**36,709**	**28,436**

Debt securities comprise:

CZK mil.	2008	2007
Variable yield debt securities		
Issued in CZK	707	290
Issued in other currencies	–	–
Total	**707**	**290**
Fixed income debt securities		
Issued in CZK	35,502	23,979
Issued in other currencies	184	1,852
Total	**35,686**	**25,831**
Total debt securities	**36,393**	**26,121**

Equity securities and other variable yield securities comprise:

CZK mil.	2008	2007
Shares and share certificates		
Issued in CZK	47	1,804
Issued in other currencies	269	511
Total	**316**	**2,315**

Debt securities were issued by:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	35,377	23,297
Foreign state institutions	130	1,062
Financial institutions in the Czech Republic	40	832
Foreign financial institutions	54	149
Other entities in the Czech Republic	407	491
Other foreign entities	385	290
Total	**36,393**	**26,121**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil.	2008	2007
Shares and share certificates issued by		
Financial institutions in the Czech Republic	13	145
Foreign financial institutions	211	2,041
Other entities in the Czech Republic	10	24
Other foreign entities	82	105
Total	**316**	**2,315**

12. SECURITIES DESIGNATED UPON INITIAL RECOGNITION AS AT FAIR VALUE THROUGH PROFIT AND LOSS

CZK mil.	2008	2007
Debt securities		
Listed	13,575	17,735
Unlisted	–	–
Equity securities and other variable yield securities		
Listed	4,846	6,770
Unlisted	805	900
Total	**19,226**	**25,405**

This portfolio includes asset backed securities (‘ABS’) of CZK 1,721 million (2007: CZK 3,316 million). Given the actual economic and financial market environment an impairment of these securities was recognised and the Group incurred a loss on the revaluation of the ABSs in the amount of CZK 1,120 million (2007: CZK 284 million) which is reported in the profit and loss account line “Other net operating income/(expenses), net” (refer to Note 41).

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence. The fair value of these equity investments is not derived from the market price as these securities are not traded on an active market. The fair value was determined based on the estimate of cash flows.

Debt securities comprise:

CZK mil.	2008	2007
Variable yield debt securities		
Issued in CZK	87	10
Issued in other currencies	1,758	3,684
Total	**1,845**	**3,694**
Fixed income debt securities		
Issued in CZK	451	479
Issued in other currencies	11,279	13,562
Total	**11,730**	**14,041**
Total debt securities	**13,575**	**17,735**

Equity securities and other variable yield securities comprise:

CZK mil.	2008	2007
Shares and share certificates		
Issued in CZK	1,932	1,495
Issued in other currencies	3,719	6,175
Total	**5,651**	**7,670**

Debt securities were issued by the following issuers:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	406	282
Foreign state institutions	812	2,303
Financial institutions in the Czech Republic	848	225
Foreign financial institutions	11,067	14,274
Other entities in the Czech Republic	203	124
Other foreign entities	239	527
Total	**13,575**	**17,735**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2008	2007
Shares and share certificates issued by		
Financial institutions in the Czech Republic	4,937	4,537
Foreign financial institutions	714	3,133
Total	**5,651**	**7,670**

13. POSITIVE FAIR VALUE OF DERIVATIVE TRANSACTIONS

CZK mil.	2008	2007
Hedging		
Foreign currency	4	5
Interest rate	748	245
Total hedging	752	250
Non-hedging		
Foreign currency	10,948	10,522
Interest rate	14,987	6,667
Other	451	235
Total non-hedging	26,386	17,424
Total positive fair value of derivative transactions	**27,138**	**17,674**

14. SECURITIES AVAILABLE FOR SALE

CZK mil.	2008	2007
Debt securities		
Listed	32,220	32,884
Unlisted	–	–
Equity securities and other variable yield securities		
Listed	2,642	2,469
Unlisted	153	133
Total	**35,015**	**35,486**

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence.

In the year ended 31 December 2008, the Group transferred debt securities in the aggregate carrying amount of CZK 2,382 million from the held to maturity portfolio to the available for sale portfolio, as the Bank changed the intention to hold the debt securities to maturity as they are in liquidation/administration and intends to sell the securities. Concurrently, the Group recognised in “Other operating expense” (Refer to Note 41) an impairment loss on the debt securities amounting to CZK 2,230 million.

Debt securities comprise:

CZK mil.	2008	2007
Variable yield debt securities		
Issued in CZK	9,180	6,872
Issued in other currencies	3,188	4,617
Total	**12,368**	**11,489**
Fixed income debt securities		
Issued in CZK	19,576	19,752
Issued in other currencies	276	1,643
Total	**19,852**	**21,395**
Total debt securities	**32,220**	**32,884**

Equity securities and other variable yield securities comprise:

CZK mil.	2008	2007
Shares and share certificates		
Issued in CZK	757	1,104
Issued in other currencies	2,038	1,498
Total	**2,795**	**2,602**

Debt securities were issued by the following issuers:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	25,548	23,664
Foreign state institutions	275	1,643
Financial institutions in the Czech Republic	2,401	2,467
Foreign financial institutions	3,487	4,642
Other entities in the Czech Republic	49	109
Other foreign entities	460	359
Total	**32,220**	**32,884**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2008	2007
Shares and share certificates issued by		
Financial institutions in the Czech Republic	291	426
Foreign financial institutions	1,798	1,336
Other entities in the Czech Republic	305	332
Other foreign entities	401	508
Total	**2,795**	**2,602**

15. NON-CURRENT ASSETS HELD FOR SALE

CZK mil.	2008	2007
Cost		
At 1 January	161	617
Additions	602	9
Disposals	(560)	(465)
At 31 December	**203**	**161**
Accumulated depreciation including impairment		
At 1 January	(83)	(297)
Additions	(188)	(5)
Disposals	245	219
At 31 December	**(26)**	**(83)**
Net book value at 31 December	**177**	**78**

During the year ended 31 December 2008, the Group sold assets at a net book value of CZK 237 million (2007: CZK 106 million) which were carried as assets held for sale as of 31 December 2007.

All assets held for sale are presented in the 'Other activities' segment.

16. SECURITIES HELD TO MATURITY

CZK mil.	2008	2007
Debt securities		
Listed	118,938	137,176
Unlisted	–	310
Total	**118,938**	**137,486**

In the year ended 31 December 2007, the "Unlisted" category comprised credit linked notes issued by the parent company, Erste Group Bank.

Debt securities comprise:

CZK mil.	2008	2007
Variable yield debt securities		
Issued in CZK	13,715	22,206
Issued in other currencies	2,907	2,740
Total	**16,622**	**24,946**
Fixed income debt securities		
Issued in CZK	102,020	112,008
Issued in other currencies	296	532
Total	**102,316**	**112,540**
Total debt securities	**118,938**	**137,486**

Debt securities were issued by the following issuers:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	77,529	82,143
Foreign state institutions	900	–
Financial institutions in the Czech Republic	10,149	11,382
Foreign financial institutions	26,454	41,391
Other entities in the Czech Republic	1,766	2,071
Other foreign entities	2,140	499
Total	**118,938**	**137,486**

17. INVESTMENT PROPERTY

CZK mil.	2008	2007
At 1 January	13,626	8,772
Additions		
fair value at the date of acquisition under business combinations	35	3,642
reclassifications from Property under construction (refer to Note 18)	1,000	1,105
other additions	32	131
Net (loss)/gain from fair value revaluations	(869)	177
Other movements	(261)	(201)
At 31 December	**13,563**	**13,626**

Rental income arising from investment property amounted to CZK 668 million (2007: CZK 661 million). Operating expenses on this investment property amounted to CZK 141 million (2007: CZK 119 million).

18. PROPERTY UNDER CONSTRUCTION

CZK mil.	2008	2007
1 January	4,319	2,374
Additions from business combination	–	2,171
Construction	3,318	1,779
Impairment loss	(134)	(180)
Sale of completed buildings	(872)	(720)
Reclassification to investment property (refer to Note 17)	(1,000)	(1,105)
31 December	**5,631**	**4,319**

19. INTANGIBLE ASSETS

CZK mil.	Goodwill	Software	Other	Total
Cost				
1 January 2007	28	3,761	7,590	11,379
Additions	33	2,189	141	2,363
Disposals	–	(804)	(541)	(1,345)
31 December 2007	61	5,146	7,190	12,397
1 January 2008	61	5,146	7,190	12,397
Additions	–	70	673	743
Disposals	(18)	(174)	–	(192)
Transfers	–	1,010	(1,010)	–
31 December 2008	**43**	**6,052**	**6,853**	**12,948**
Accumulated amortisation including impairment and provisions				
1 January 2007	(17)	(2,350)	(4,433)	(6,800)
Additions	–	(957)	(903)	(1,860)
Disposals	–	510	244	754
31 December 2007	(17)	(2,797)	(5,092)	(7,906)
1 January 2008	(17)	(2,797)	(5,092)	(7,906)
Additions	–	(924)	(503)	(1,427)
Disposals	8	128	–	136
31 December 2008	**(9)**	**(3,593)**	**(5,595)**	**(9,197)**
Net book value				
31 December 2007	44	2,349	2,098	4,491
31 December 2008	**34**	**2,459**	**1,258**	**3,751**

The balances as of 31 December 2008 shown above include CZK 1,002 million (2007: CZK 1,520 million) in property under construction.

20. PROPERTY AND EQUIPMENT

CZK mil.	Land and buildings	Equipment, fixtures and fittings	Total
Cost			
1 January 2007	16,006	11,502	27,508
Additions	2,363	1,331	3,694
Disposals	(13)	(1,567)	(1,580)
31 December 2007	18,356	11,266	29,622
1 January 2008	18,356	11,266	29,622
Additions	1,376	543	1,919
Disposals	(967)	(723)	(1,690)
31 December 2008	**18,765**	**11,086**	**29,851**
Accumulated depreciation including impairment and provisions			
1 January 2007	(5,099)	(8,772)	(13,871)
Additions	(512)	(1,090)	(1,602)
Disposals	83	1,032	1,115
31 December 2007	(5,528)	(8,830)	(14,358)
1 January 2008	(5,528)	(8,830)	(14,358)
Additions	(484)	(870)	(1,354)
Provision against impairment	(2)	–	(2)
Disposals	219	1,045	1,264
31 December 2008	(5,795)	(8,655)	(14,450)
Net book value			
31 December 2007	12,828	2,436	15,264
31 December 2008	**12,970**	**2,431**	**15,401**

The balances as of 31 December 2008 shown above include CZK 3,394 million (2007: CZK 629 million) in property under construction.

In 2008, the Group recognised asset impairment of CZK 2 million (2007: CZK nil).

21. OTHER ASSETS

CZK mil.	2008	2007
Accrued income	5,018	5,011
Of which:		
Interest on loans and advances to financial institutions	789	383
Interest on loans and advances to customers	220	492
Coupons on bonds	3,893	4,053
Fees	113	83
Other	3	–
Deferred expenses	1,930	1,738
Deferred tax asset (refer to Note 29)	627	366
Receivables arising from due income taxes	468	96
Inventory	3	2
Various receivables	1,567	1,358
Estimated receivables	1,094	637
State subsidy	2,773	2,993
Other assets	284	1,391
Receivables from factoring transactions	1,569	848
Receivables from securities trading	655	3,447
Other assets from insurance services	–	104
Total	**15,988**	**17,991**

The state subsidy receivable involves claims in respect of the participants of the building savings scheme offered by Stavební spořitelna České spořitelny, a. s. The state subsidy is provided to the participants from the Finance Ministry of the Czech Republic (MF CR) based on the amount of customer deposits at the year end with a limit of CZK 4,500/CZK 3,000 (for contracts entered into subsequent to 1 January 2005) per participant (refer to Note 23).

22. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

CZK mil.	2008	2007
Loro accounts	1,524	737
Term deposits	17,521	22,668
Loans received	38,516	35,077
Total	**57,561**	**58,482**

As of 31 December 2008, the Group received from other financial institutions loans of CZK 17,167 million (2007: CZK 11,964 million) under repurchase transactions which were collateralised by securities amounting to CZK 17,145 million (2007: CZK 11,787 million).

23. AMOUNTS OWED TO CUSTOMERS

CZK mil.	2008	2007
Repayable on demand	367,993	366,852
Other deposits	274,511	221,674
Total	**642,504**	**588,526**

As of 31 December 2008, the Group received from customers loans of CZK 6,796 million (2007: CZK nil) under repurchase transactions which were collateralised by securities amounting to CZK 6,826 million (2007: CZK nil).

The fair value option has been applied in respect of part of amounts owed to customers (refer to Note 24).

Other deposits include a payable of CZK 2,773 million (2007: CZK 2,993 million) arising from state subsidy claims in respect of building savings programme participants (refer to Note 21).

Analysis of amounts owed to customers:

CZK mil.	2008	2007
Savings deposits	175,808	181,143
Other amounts owed to customers		
Public sector	61,692	51,049
Corporate clients	91,819	91,340
Retail clients	313,185	264,994
Total	**642,504**	**588,526**

24. LIABILITIES AT FAIR VALUE

CZK mil.	2008	2007
Payables to customers – deposits with the fair value option	3,443	3,080
Liabilities arising from issued securities at fair value	1,741	1,189
Payables arising from short sales – debt securities	2,424	3,167
Payables arising from short sales shares	88	173
Total	**7,696**	**7,609**

Liabilities arising from issued securities at fair value include issues of the ISIN CZ0003701237, CZ0003701278, CZ0003701351, CZ0003701518 and CZ0003701690 bonds (refer to Note 26).

Change in the fair value of debt securities:

CZK mil.	2008	2007
Change in the fair value unrelated to changes in market conditions		
Payables to customers – deposits with the fair value option	175	6
Liabilities arising from issued securities at fair value	41	14
Total	**216**	**20**
Difference between the carrying amount and the contractual agreed nominal value due at maturity		
Payables to customers – deposits with the fair value option	21	104
Liabilities arising from issued securities at fair value	63	35
Total	**84**	**139**

Short sales are short term trading liabilities which mature between one and three months. Changes in the fair value of these trading liabilities are not analysed since the liabilities are different at each balance sheet date.

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair value of the liabilities at the issue date and the balance sheet date.

25. NEGATIVE FAIR VALUE OF DERIVATIVE TRANSACTIONS

CZK mil.	2008	2007
Hedging		
Foreign currency	135	5
Interest rate	470	727
Total hedging	605	732
Non-hedging		
Foreign currency	9,295	3,857
Interest rate	14,689	6,004
Other	1,006	488
Total non-hedging	24,990	10,349
Total negative fair value of derivative transactions	**25,595**	**11,081**

26. BONDS IN ISSUE

	ISIN	Date of issue	Maturity	Interest rate	2008 CZK mil.	2007 CZK mil.
Mortgage bonds	CZ0002000235	March 2003	March 2008	5.20%	–	1,071
Mortgage bonds	CZ0002000276	August 2003	August 2008	4.50%	–	1,171
Mortgage bonds	CZ0002000342	April 2004	April 2009	3.50%	299	303
Mortgage bonds	CZ0002000409	August 2004	August 2009	3.60%	699	698
Mortgage bonds	CZ0002000524	May 2005	May 2010	4.50%	1,905	1,830
Mortgage bonds	CZ0002000573	June 2005	June 2010	4.05%	1,782	1,841
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	5,170	5,403
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,697	4,863
Mortgage bonds	CZ0002000771	December 2005	December 2008	4.45%	–	2,242
Mortgage bonds	CZ0002000896	October 2006	October 2011	floating	1,146	1,121
Mortgage bonds	CZ0002000904	October 2006	October 2014	3.65%	1,022	1,067
Mortgage bonds	CZ0002000920	October 2006	October 2011	3.00%	770	788
Mortgage bonds	CZ0002000995	May 2007	May 2012	5.90%	1,063	1,082
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	760	762
Mortgage bonds	CZ0002001084	July 2007	July 2014	floating	1,618	1,640
Mortgage bonds	CZ0002001126	August 2007	August 2012	3.70%	843	884
Mortgage bonds	CZ0002001274	November 2007	November 2014	floating	600	600
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,094	2,130
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	464	469
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,376	5,438
Mortgage bonds	CZ0002001613	December 2007	December 2022	floating	–	3,000
Mortgage bonds	CZ0002001639	December 2007	December 2012	3.70%	414	69
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	42	4
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	1,493	157
Bonds	CZ0003700759	February 2004	February 2008	1.00% x)	–	116
Bonds	CZ0003700767	February 2004	February 2014	3.51% x)	1,168	1,460
Bonds	CZ0003701013	May 2005	June 2008	x)	–	230
Bonds	CZ0003701047	July 2005	July 2012	2.72% xx)	584	682
Bonds	CZ0003701054	September 2005	September 2017	4.75% x)	219	211
Bonds	CZ0003701062	October 2005	October 2013	5.00% x)	259	–
Bonds	CZ0003701286	March 2007	March 2012	3.49%	970	948
Bonds	CZ0003701740	September 2008	September 2009	floating	293	–
Bonds	CZ0003701781	December 2008	December 2010	0.50%	11	–
Depository bills of exchange					2,434	4,995
Total					**38,195**	**47,275**

x) Bonds were issued with a combined yield.

xx) If the early repayments option is not exercised, the interest rate is increased to 3.55 percent.

Of the aggregate carrying value of the mortgage bonds, CZK 11,997 million (2007: CZK 14,180 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with applicable accounting policies, these mortgage bonds are remeasured at fair value.

The ISIN CZ0003700767 and CZ0003701047 issues of bonds carry early redemption options. In addition, these bonds are remeasured at fair value because they are hedged against interest rate risk.

Of the aggregate carrying value of the bonds, CZK 1,752 million (2007: CZK 2,042 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate.

The ISIN CZ0003701013, CZ0003701054 and CZ0003701062 issues were placed with a share index option which is recorded separately and is remeasured at fair value.

The ISIN CZ0002000342, CZ0002000409, CZ0002001126, CZ0002001613, CZ0002001639, CZ0002001647 and CZ0002001654 mortgage bonds issues and the ISIN CZ0003701013 bond are not traded on any regulated market. Other issues of mortgage bonds and bonds are traded on the Regulated market of the Prague Stock Exchange. The difference between the nominal values of the issued mortgage bonds and the carrying amounts of the relevant issues in the above table arises from the difference in valuation and from the elimination of bonds held by Group companies.

The Group has also placed the following bonds which are reported as "Liabilities at fair value" (refer to Note 24):

	ISIN	Date of issue	Maturity	Interest rate	2008 CZK mil.	2007 CZK mil.
Bonds	CZ0003701237	February 2007	April 2011	x)	282	273
Bonds	CZ0003701278	March 2007	March 2010	xx)	740	746
Bonds	CZ0003701351	September 2007	September 2011	x)	279	170
Bonds	CZ0003701518	April 2008	May 2011	x)	282	–
Bonds	CZ0003701690	July 2008	January 2012	x)	158	–
Total					1,741	1,189

x) Bonds bear no interest, the yield of bonds increases on a one off basis as of the final maturity date.
xx) The yield depends on the development of the EUR/PLN spot exchange rate.

The ISIN CZ0003701237, CZ0003701351, CZ0003701518 and CZ0003701690 issues were placed as structured bonds, the yield of which is determined as equal to the difference between the issue rate and 'another value' in accordance with the issue terms and conditions. The amount of the 'another value' will be based on a set of indexes and an equity bucket and will be payable as of the final maturity of the bonds. Similarly, the ISIN CZ0003701278 issue was placed as a structured bond, the yield of which is derived from the development of the EUR/PLN spot exchange rate.

The ISIN CZ0003701237, CZ0003701351, CZ0003701518 and CZ0003701690 issues are not traded on any regulated market. The ISIN CZ0003701278 issue is traded on the Regulated market of the Prague Stock Exchange.

27. PROVISIONS

(a) Structure of provisions

CZK mil.	2008	2007
Provision for legal disputes relating to credit transactions	1,457	1,986
Provision for off balance sheet credit risks	187	143
Other provisions	575	895
Total	**2,219**	**3,024**

Other provisions include the provisions for the Bonus programme, legal disputes, onerous contracts and other risks. The most significant provision for the Bonus programme is maintained to cover the cost of providing clients with awards for the use of payment cards in making cash free payments.

(b) Charge for and use of provisions

CZK mil.	2008	2007
Balance at 1 January	3,024	2,675
Charge for provisions	147	528
Use of provisions	(760)	(37)
Release of provisions	(192)	(142)
Balance at 31 December	**2,219**	**3,024**

(c) Provisions for other credit risks and off balance sheet credit exposures

Provisions for other credit risks and off balance sheet credit exposures are recorded to cover specific risks arising from pending legal disputes relating to loan transactions and to cover losses that result from off balance sheet and other exposures.

CZK mil.	2008	2007
Balance at 1 January	2,129	2,099
Charge for provisions	121	152
Use of provisions	(531)	(13)
Release of provisions	(76)	(109)
Balance at 31 December	**1,643**	**2,129**

28. OTHER LIABILITIES

CZK mil.	2008	2007
Accrued expenses	1,272	1,139
Of which:		
Interest on amounts owed to financial institutions	236	109
Interest on amounts owed customers	319	266
Interest on bonds in issue	645	704
Fees	15	55
Other	57	5
Deferred income	1,433	1,744
Various creditors	3,648	3,020
Payables from factoring transactions	394	223
Payables from securities trading	803	3,152
Payables from payment transactions	2,600	2,816
Estimated payables	4,299	3,219
Other payables	1,611	2,107
Income tax liability	43	631
Deferred income tax liability (refer to Note 29)	1,791	1,878
Total	**17,894**	**19,929**

Estimated payables largely comprise estimated payables for staff and management bonuses, unbilled supplies and contributions to the Deposit Insurance Fund. Deferred income principally includes deferred commissions and fees related to amounts due from customers in respect of the effective interest rate.

29. DEFERRED INCOME TAXES

Deferred income tax is calculated from all temporary differences under the liability method using a principal tax rate of 19 to 21 percent, depending on the year in which the relevant asset/liability will be realised/settled (2007: 19 to 21 percent, depending on the year in which the relevant asset/liability will be realised/settled), 5 percent for Penzijní fond České spořitelny, a. s. (2007: 5 percent) and 19 percent for companies based in Slovakia (2007: 19 percent).

Net deferred income tax assets (liabilities) are as follows:

CZK mil.	2008	2007
Balance at the beginning of the year	(1,512)	(1,467)
Movements arising from acquisitions and change in minority shareholders' holding	(82)	(842)
Movement for the year equity	234	102
Movement for the year income/(expense)	196	695
Net balance at the year end – asset/(liability)	**(1,164)**	**(1,512)**

Deferred income tax assets and liabilities are attributable to the following items:

CZK mil.	2008	2007
Deferred tax assets		
Tax losses carried forward	242	87
Non-tax deductible reserves and provisions	321	374
Change in the fair value of securities available for sale and hedging derivatives (refer to Note 33)	241	6
Other temporary differences	649	137
	1,453	**604**
Deferred tax asset adjustment (net of liabilities)	(826)	(238)
Total deferred tax asset (refer to Note 21)	**627**	**366**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(180)	(199)
Fair value of investment property	(1,704)	(1,660)
Other temporary differences	(733)	(257)
	(2,617)	(2,116)
Deferred tax liability adjustment (net of assets)	826	238
Total deferred tax liability (refer to Note 28)	**(1,791)**	**(1,878)**
Net deferred tax asset (liability)	**(1,164)**	**(1,512)**

The impact of deferred tax liabilities on equity arises from changes in the fair value of securities available for sale and hedging derivatives. The deferred tax (charge)/credit in the profit and loss account comprises the following temporary differences:

CZK mil.	2008	2007
Tax losses carried forward	155	40
Provisions and reserves	(53)	73
Accelerated depreciation	19	51
Fair value of investment property	(44)	535
Other temporary differences	115	(4)
Total (refer to Note 42)	**192**	**695**
Of which: impact of the change of rate	**(10)**	**355**

30. SUBORDINATED DEBT

Date of issue	Maturity of the issue	Interest rate	Nominal value CZK mil.	Carrying amount at 31 December 2008 CZK mil.	Carrying amount at 31 December 2007 CZK mil.
16 May 2005	16 May 2015	6M PRIBOR+0.46%	3,000	2,780	2,950
2 October 2006	2 October 2016	6M PRIBOR+0.45%	3,000	2,417	2,655
Total				**5,197**	**5,605**

Both issues of subordinated debt were made in certificate form and placed on the Regulated market of the Prague Stock Exchange. If the Group does not exercise its option for premature repayment of the debt after the lapse of five years, the interest rates attached to each issue shall increase to 6M PRIBOR plus margin plus 1.4 percent p.a. Interest is payable semi annually in arrears. The debt is unsecured and unconditional. On 5 May 2005 and 13 September 2006, the Czech National Bank issued certificates confirming that these issues of subordinated debt are compliant with all regulatory requirements and may be included in the additional capital of the Bank for the purposes of calculating the capital adequacy ratio.

31. MINORITY INTERESTS

CZK mil.	2008	2007
Balance at 1 January	1,633	1,268
Minority interest in the current year's profit	(42)	228
Sale of subsidiaries	(790)	–
Dividends paid to minority shareholders	(215)	(153)
Minority interests in the companies newly included in consolidation, increase in capital	1	320
Foreign exchange differences	(23)	(30)
Balance at 31 December	**564**	**1,633**

The line 'Sale of subsidiaries' includes interests of minority shareholders of Pojišťovna České spořitelny, a. s. in share capital of CZK 500 million, in reserve fund CZK 80 million and in profit for the year CZK 72 million and minority shareholders of Zahradní čtvrť, a. s. in the share premium of CZK 138 million.

32. SHARE CAPITAL

Authorised, called up and fully paid share capital was as follows:

	2008		2007	
	Number of shares	CZK mil.	Number of shares	CZK mil.
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Priority shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Preference shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, priority shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Priority shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Priority registered shares can be issued only to municipalities and local governments in the Czech Republic. The priority registered shares can be transferred to entities other than municipalities and local governments of the Czech Republic only subject to the approval of the Board of Directors.

33. REVALUATION GAINS OR LOSSES

CZK mil.	Securities available for sale		Hedging derivatives		Foreign exchange rate gains or losses		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
At 1 January								
Gain/(loss) on fair value changes	(98)	408	–	–	–	–	(98)	408
Deferred tax (asset)/liability	8	(94)	(1)	(1)	–	–	7	(95)
Foreign exchange differences arising upon consolidation (retranslation reserve)	–	–	–	–	(246)	(103)	(246)	(103)
Application of a hedge of a net investment in foreign operations	–	–	–	–	(65)	–	(65)	–
Cash flow hedge	**–**	**–**	**15**	**9**	**–**	**–**	**15**	**9**
Total at 1 January	**(90)**	**314**	**14**	**8**	**(311)**	**(103)**	**(387)**	**219**
Changes during the year								
Gain/(loss) on fair value changes	(2,076)	(506)	–	–	–	–	(2,076)	(506)
Deferred tax (liability)/asset	234	102	–	–	–	–	234	102
Foreign exchange differences arising upon consolidation (retranslation reserve)	–	–	–	–	131	(143)	131	(143)
Application of a hedge of a net investment in foreign operations	–	–	–	–	(56)	(65)	(56)	(65)
Cash flow hedge	–	–	(124)	6	–	–	(124)	6
At 31 December								
Gain on fair value changes	(2,174)	(98)	–	–	–	–	(2,174)	(98)
Deferred tax (liability)/asset	242	8	(1)	(1)	–	–	241	7
Foreign exchange differences arising upon consolidation (retranslation reserve)	–	–	–	–	(115)	(246)	(115)	(246)
Application of a hedge of a net investment in foreign operations	–	–	–	–	(121)	(65)	(121)	(65)
Cash flow hedge	–	–	(109)	15	–	–	(109)	15
Total at 31 December	(1,932)	(90)	(110)	14	(236)	(311)	(2,278)	(387)

34. INTEREST INCOME AND SIMILAR INCOME

CZK mil.	2008	2007
Loans and advances to financial institutions	5,629	3,377
Loans and advances to customers	29,151	22,353
Of which: unwinding of discount	418	251
Debt securities and other fixed income securities	7,453	7,668
of which:		
Securities designated upon initial recognition as at fair value through profit and loss	792	839
Securities available for sale	1,419	1,287
Securities held to maturity	5,242	5,542
Proceeds from shares and other variable yield securities	816	460
of which:		
Securities designated upon initial recognition as at fair value through profit and loss	667	372
Securities available for sale	141	61
Unconsolidated equity investments	8	27
Other	803	743
Total	**43,852**	**34,601**

The ‘Other’ category for the year ended 31 December 2008 includes rental proceeds of CZK 668 million (2007: CZK 661 million) arising from investment property.

35. INTEREST EXPENSE AND SIMILAR EXPENSE

CZK mil.	2008	2007
Amounts owed to financial institutions	2,401	2,023
Amounts owed to customers	9,201	6,415
Bonds in issue	1,708	1,134
Subordinated debt	248	197
Fair value of hedging derivatives	54	103
Other	1	2
Total	**13,613**	**9,874**

36. PROVISIONS FOR CREDIT RISKS

CZK mil.	2008	2007
Charge for reserves for the year (refer to Note 27)	(121)	(152)
Release of reserves for the year (refer to Note 27)	76	109
Net charge for reserves for the year	(45)	(43)
Charge for provisions for the year (refer to Note 10)	(6,233)	(4,811)
Release of provisions for the year (refer to Note 10)	2,639	2,565
Net charge for provisions for the year	(3,594)	(2,246)
Write offs of loans not covered by provisions	(59)	(16)
Recoveries	154	94
Total	**(3,544)**	**(2,211)**

37. FEE AND COMMISSION INCOME

CZK mil.	2008	2007
Lending activities	2,945	2,203
System of payment	7,045	6,126
Custody, trustee and administration of assets	783	847
Other securities transactions	631	498
Construction savings activities	1,082	908
Foreign exchange transactions	41	40
Other financial activities	733	421
Total	**13,260**	**11,043**

38. FEE AND COMMISSION EXPENSE

CZK mil.	2008	2007
Lending activities	739	320
System of payment	696	598
Securities transactions	192	64
Construction savings activities	412	162
Foreign exchange transactions	1	9
Other financial activities	200	251
Total	**2,240**	**1,404**

39. NET TRADING RESULT

CZK mil.	2008	2007
Realised and unrealised gains /(losses) on securities held for trading	837	(853)
Derivative instruments	(811)	399
Foreign exchange trading	1,249	1,851
Other	178	312
Total	**1,453**	**1,709**

With effect from 4 February 2008, the Bank transferred its financial markets trading to Erste Group Bank's newly implemented business model of Group Capital Markets. The market risk arising from the sales activities of the Financial Markets Division (i.e. transactions with retail and corporate clientele), with the exception of the equity risk and transactions for the Bank's liquidity management purposes (money market), was transferred to Erste Group Bank. Trading gains (i.e. from Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in the "Net trading result".

The basic principle underlying these rules involves Erste Group Bank absorbing potential losses in individual classes of assets in exchange for the risk premium derived from the VaR indicator. The Cost Income Ratio is reallocated to individual participants in the model based on the results from the sale of assets in individual asset groups.

The net trading result for 2008 includes the income from the market positions of Erste Group Bank structured as follows:

CZK mil.	2008	2007
Gains from foreign exchange transactions	354	–
Gain from fixed income securities	195	–
Total	**549**	**–**

40 GENERAL ADMINISTRATIVE EXPENSES

(a) Composition of general administrative expenses

CZK mil.	2008	2007
Staff costs		
Wages and salaries	6,268	6,003
Social security costs	1,829	2,035
Other staff costs	429	385
Total staff costs	**8,526**	**8,423**
Other administrative expenses		
Data processing expenses	2,775	2,026
Building maintenance and rent	1,524	1,428
Costs of business transactions	1,393	1,177
Advertising and marketing	1,089	952
Advisory and legal services	611	468
Other administrative expenses	769	603
Total other administrative expenses	**8,161**	**6,654**
Depreciation		
Amortisation of intangible assets (refer to Note 19)	1,423	1,736
Depreciation of property and equipment (refer to Notes 15 and 20)	1,431	1,536
Total depreciation and amortisation	**2,854**	**3,272**
Total	**19,541**	**18,349**

Advisory and legal services include the fee paid to the audit firm Deloitte Audit s. r. o. In the year ended 31 December 2008, the fees for the audit services amounted to CZK 44 million (2007: CZK 47 million) and the fees for other non-audit services amounted to CZK 4 million (2007: CZK 7 million).

(b) Board of Directors and Supervisory Board remuneration

CZK mil.	2008	2007
Remuneration	187	207
Total	**187**	**207**

The total amount includes the remuneration of the management and supervisory bodies of the Bank and other companies included in the consolidation.

(c) Average number of employees and Board members

	2008	2007
Board of Directors	7	7
Supervisory Board	10	11
Staff	10,911	10,897

Average number of Board members relates to the Bank only.

With a view to increasing the relation of staff, fostering loyalty of the Bank's key employees and attracting new key managers, the Supervisory Board of Erste Bank, resolved, based upon authorisation given by the General Meeting of Shareholders dated 8 May 2001, to implement an Employee Erste Bank Stock Ownership Programme ('ESOP') and a Management Erste Bank Stock Option Programme ('MSOP') within the Group.

All employees of the Bank and its subsidiaries were entitled to subscribe for shares under the Employee Stock Ownership Programme. Each employee was entitled to subscribe for a maximum of 200 shares (2007: 200 shares). The price of one share was established on the basis of the average rate in April 2008 decreased by a 20 percent discount. The 20 percent discount is conditional upon the shares being held for a period of one year. A total of 826 employees (2007: 878) participated in the programme and subscribed for 115,054 shares (2007: 108,027).

Under the Management Erste Bank Stock Option Plans 2002 and 2005, no tranches of options were granted in 2008, only the options acquired in past years were exercised. The options acquired under the Management Erste Bank Stock Option Plans 2005 entitle the holders to acquire Erste Group Bank's shares for the price of EUR 43 which was determined as the average price of the shares ruling in April 2005 plus a 10 percent mark up, rounded to EUR 0.5. For the options subscribed until 2004 under the Management Erste Bank Stock Option Plan 2002, the price of the share was EUR 16.50. In 2008, 1,550 options granted under the Management Erste Bank Stock Option Plan 2002 were exercised, for which 6,200 shares were purchased (2007: 56,800). No options granted under the Management Erste Bank Stock Option Plan 2005 were exercised in 2008 (the first exercise period in 2007: 12,000, 1,800 options in the second exercise period, and 880 options during the third exercise period).

The Management Erste Bank Stock Option Plan 2008 intended for managers and key employees announced in April 2008 was cancelled in November 2008 pursuant to the resolution of the Erste Group's Board of Directors due to the significant difference between the exercise value of the option (EUR 47) valid for MSOP 2008 and the market value of Erste Group Bank's share. No options were granted under this programme.

The aggregate amount of the discount in respect of both programmes was CZK 35 million (2007: CZK 37 million) and was reported within "General administrative expenses other staff costs".

41 OTHER OPERATING EXPENSES, NET

CZK mil.	2008	2007
Release of other reserves	116	33
Gain on the sale and revaluation of real estate	691	784
Income from other services	77	154
Received compensation for deficits and damage	148	47
Release of provisions against non-credit receivables	20	11
Income from the sale of goods including sale of completed property under construction	98	830
Negative goodwill	–	284
Other operating income	221	164
Total other operating income	**1,371**	**2,307**
Charges for other reserves	(27)	(374)
Contribution to the Deposit Insurance Fund	(525)	(480)
Profit share of customers of Penzijní fond České spořitelny, a. s.	(108)	(712)
Loss on the sale and impairment of real estate	(1,258)	(451)
Deficits and damage, fines and penalties	(207)	(66)
Charge for provisions against non-credit receivables	(88)	(29)
Sponsorship contributions	–	(40)
Costs of goods sold	(121)	(786)
Other operating charges	(179)	(188)
Other taxes	(57)	(51)
Total other operating expense	**(2,570)**	**(3,177)**
Gains on the sale of securities held to maturity	–	12
Losses from the revaluation/sale of securities at fair value through profit and loss that are not designed as for trading	(2,573)	(312)
(Losses)/gains from the sale of securities available for sale	(114)	489
Impairment of securities available for sale	(2,294)	–
Gains on the revaluation/sale of equity investments	629	106
Total other operating income/(expenses), net	**(5,551)**	**(575)**

The line “Losses from the revaluation/sale of securities at fair value through profit and loss” for the year ended 31 December 2007 includes the loss from the revaluation of asset backed securities of CZK 1,120 million (CZK 284 million) – refer to Note 12.

The line “Impairment of securities available for sale” includes impairment of the bonds issued by Lehman Brothers and Icelandic banks in the amount of CZK 2,245 million (refer to Note 14).

The line “Gains on the revaluation/sale of equity investments” for the year ended 31 December 2008 included gains from the sale of Burza cenných papírů Praha, a. s. of CZK 636 million and the sale of Consulting České spořitelny, a. s. of CZK 2 million. In the year ended 31 December 2007, the line “Gains on the revaluation/sale of equity investments” included gains from the sale of an equity investment in MasterCard Incorporated of CZK 51 million and from the sale of an equity investment in České nemovitosti, a. s. of CZK 39 million.

42 INCOME TAX EXPENSE

CZK mil.	2008	2007
Current tax expense	**(3,001)**	**(3,908)**
– Continuing operations	(2,957)	(3,791)
– Discontinued operations	(44)	(117)
Deferred tax income/(expense) (Note 29)	**192**	**695**
– Continuing operations	192	698
– Discontinued operations	–	(3)
Total	**(2,809)**	**(3,213)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the home country of the parent company as follows:

CZK mil.	2008	2007
Profit before tax	18,580	15,589
– Continuing operations	14,076	14,940
– Discontinued operations	4,504	649
Tax calculated at a tax rate of 21 percent (2007: 24 percent)	**3,902**	**3,741**
Income not subject to tax	(3,167)	(1,072)
Expenses not deductible for tax purposes	1,850	1,039
Tax allowances and credits, including the utilisation of tax losses	436	129
Income tax as per the final tax returns for prior period	(20)	71
Subtotal – current tax expense	**3,001**	**3,908**
Movement in deferred taxation (Note 29)	(192)	(695)
Total income tax expense	2,809	3,213
Effective tax rate	**15.12%**	**20.61%**

The year-on-year decrease in the tax rate in 2008 is attributable to the reduction of the generally valid tax rate in the Czech Republic from 24 percent to 21 percent and an increase in the non-taxable income in respect of the sale of Pojišťovna České spořitelny, a. s.

Further information about deferred income tax is presented in Note 29.

43 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the year as shown in the consolidated statements of cash flows are composed of the following balances:

CZK mil.	2008	2007
Cash (Note 7)	18,651	14,699
Nostro accounts with the CNB (Note 7)	603	461
Treasury bills with maturity of less than three months	12,091	7,917
Nostro accounts with financial institutions (Note 8)	2,230	592
Loro accounts with financial institutions (Note 22)	(1,524)	(737)
Total cash and cash equivalents	**32,051**	**22,932**

44. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

A financial instrument is any contract with the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

The Group classifies financial instruments into the trading and banking (investment) portfolios in accordance with BASEL II rules as per CNB Regulation No. 123/2007 as amended by Regulation 282/2008 Coll., on the rules of prudent business of banks, savings and lending associates and securities traders (henceforth 'Regulation 123/2007'). The Group uses various risk management techniques for the banking and trading books.

Financial instruments may result in certain risks to the Group. The most significant is the credit risk, i.e. the counterparty risk. In addition, the investment portfolio of the Group is exposed to the interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate and equity risks and other risks relating to trading with complex instruments. All transactions with financial instruments also carry operational risk.

In 2007, a division managed by the Chief Risk Officer was formed as part of the reorganisation of the Group's structure. This division, which is completely independent of the business divisions of the Group, centralises all departments tasked with risk management such as Legal and Compliance, Central Risk Management and Credit Risk Management, Credit Risk Controlling and Credit Portfolio Management. Central Risk Management is further divided into Financial Markets Risk Management, Operational Risks and Economic Capital.

Risk management activities in the Bank's subsidiaries are undertaken by persons independent of the business units. The Credit Risk Controlling and Loan Portfolio Management Department provides specialist guidance to and oversees the staff involved in managing credit risk in the subsidiaries and is responsible for monitoring the subsidiaries portfolio. Market risks within the Group are managed by the Bank.

In accordance with IAS 39: Financial Instruments: Recognition and measurement, the Group classifies financial instruments into the following categories:

- Loans and advances not intended for trading;
- Investments held to maturity;
- Financial assets at fair value through profit and loss;
- Financial assets available for sale;
- Financial liabilities measured at amortised value; and
- Financial liabilities at fair value through profit and loss.

The Group records the following categories of financial instruments:

- Cash and balances with CNB;
- Loans and advances to financial institutions;
- Loans and advances to customers – retail and corporate,
- Securities held for trading;
- Securities designated upon initial recognition as at fair value through profit and loss;
- Derivative instruments;
- Securities available for sale;
- Securities held to maturity;
- Financial placements of insurance companies (only in 2007)
- Other assets;
- Amounts owed to financial institutions;
- Amounts owed to customers;
- Liabilities at fair value;
- Bonds in issue;
- Other assets; and
- Subordinated debt.

The balances of financial instruments in individual categories are as follows:

The table shows the comparison between categories of financial assets and liabilities reported according to IFRS 7: Financial instruments – Disclosures and categories of financial assets and liabilities reported according to IAS 39: Financial instruments: Recognition and measurement.

At 31 December 2008	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities (measured at amortised value)	Financial liabilities at fair value
FINANCIAL ASSETS						
Cash and balances with CNB	24,285					
Loans and advances to financial institutions	93,306					
Loans and advances to customers	452,495					
Securities held for trading			36,709			
Securities designated upon initial recognition as at fair value through profit and loss			19,226			
Derivative instruments			27,138			
Securities available for sale				35,015		
Securities held to maturity		118,938				
Other assets	15,988					
FINANCIAL LIABILITIES						
Amounts owed to financial institutions					57,561	
Amounts owed to customers					642,504	
Liabilities at fair value						7,696
Derivative instruments						25,595
Bonds in issue					38,195	
Other liabilities					17,894	
Subordinated debt					5,197	

At 31 December 2007	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities (measured at amortised value)	Financial liabilities at fair value
FINANCIAL ASSETS						
Cash and balances with CNB	20,394					
Loans and advances to financial institutions	65,688					
Loans and advances to customers	411,605					
Securities held for trading			28,436			
Securities designated upon initial recognition as at fair value through profit and loss			25,405			
Derivative instruments			17,674			
Securities available for sale				35,486		
Securities held to maturity		137,486				
Financial placements of insurance companies	31	9,392	6,341			
Cash and balances with CNB	17,991					
FINANCIAL LIABILITIES						
Amounts owed to financial institutions					58,482	
Amounts owed to customers					588,526	
Liabilities at fair value						7,609
Derivative instruments						11,081
Bonds in issue					47,275	
Other liabilities					19,929	
Subordinated debt					5,605	

44.1 Credit Risk

In the course of its business, the Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Loan receivables are segmented into non-default (performing) loans where the principal and interest is not past due for more than 90 days and default (non-performing) loans. Within these loans, two large sub portfolios are defined – individually significant loans, which include corporate loans or receivables where the Group's loan exposure exceeds CZK 5 million, and individually insignificant loans. As part of these two sub portfolios, the Group additionally monitors five client portfolios for individually significant loans and 15 product portfolios for individually insignificant loans. The Group monitors risk parameters (PD – probability of default, LGD – loss given default, and CCF – credit conversion factors) in respect of these portfolios. PD is additionally monitored in individual internal rating grades.

The Group additionally splits its client and product portfolios according to individual internal rating grades; there are 13 plus 1 (default) internal rating grades. Additional details can be found in Note 44.1 h).

In accounting and provisioning terms, loans are segmented into individually impaired, where objective evidence demonstrates that a loss event occurred subsequent to their initial recognition which impacts future anticipated cash flows arising from these loans and these loans are therefore impaired on an individual basis, and collectively impaired loans where such circumstances were not demonstrated on an individual basis and unimpaired loans with no indication of impairment.

All non-performing loans are classified as individually impaired loans. Performing loans with the 1–6 internal rating are unimpaired loans; loans with the 7–8 internal rating are collectively impaired.

Restructured loans are those loans whose terms have been renegotiated because of a debtor's distress. Restructuring may proceed solely on the basis of a new contract. Restructured loans are initially assigned the internal rating of R. This rating can be upgraded no sooner than six months after the restructuring date.

Credit Risk Management Methodology

In managing credit risk, the Group applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy includes:

- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities;
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan;
- Principal methods for arriving at an internal rating of a borrower and its periodic review;
- Basic principles underlying the determination of the system of limits and the structure of approval authorities;
- Risk parameters calculation methodology;
- Rules of loan collateral management;
- Structure of basic product categories;
- Provision calculation methodology;
- Stress testing methodology; and
- Credit risk pricing methodology.

Breakdown of the Portfolio for Credit Risk Management Purposes

For credit risk management purposes, the Group's loan portfolio is broken down as follows:

- Retail receivables are receivables from individuals and small enterprises with the annual turnover of up to CZK 30 million. The portfolio of retail receivables is further divided by type of counterparty and product for the purpose of regular analyses, and it is further divided into smaller sub portfolios as part of ad hoc analyses. The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.
- Receivables from corporate counterparties include receivables from legal entities which do not comply with the 'small enterprise' definition. The portfolio of corporate receivables is further divided by counterparty type (large enterprises, mid size enterprises, project financing and municipalities) for the purposes of regular analyses.
  The methods of managing the credit risk of corporate receivables are based on statistical models (namely for the portfolio of receivables from mid size enterprises), great emphasis is also put on regular individual analysis of individual customers.

- Receivables arising from specific products provided by the subsidiaries represent specialised financial products that have their own risk management technique reflecting their specifics. These largely include factoring receivables, lease receivables, instalment sale, loans issued to finance the acquisition of securities and construction savings loans. The portfolios of these products are regularly monitored both on an individual basis (for individually significant exposures) and a portfolio basis.

With the exception of sporadic border line cases, the implemented breakdown of the portfolio corresponds to the asset classes defined in CNB Regulation 123/2007 which implements the BASEL II rules.

For the purpose of provisioning, monitoring and predicting losses, the Group differentiates between individually significant and individually insignificant exposures when managing credit risk. The credit risk attached to individually significant exposures is managed on an individual basis with the minor use of portfolio models. The Group aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis. The Group's category of individually significant exposures includes corporate loans, including small and medium sized enterprises (SME), and private sector loans. Individually insignificant exposures include retails loans to households, individuals, individuals – small entrepreneurs and small municipalities (MSE).

Individually significant loans predominantly include loans from Group's corporate portfolio. Corporate (individually significant) loans are additionally split into 6 portfolios: large corporate clients the exposure of which is managed using a unified method in the Erste Group Bank, large corporate customers administered and managed on the Bank level (turnover over CZK 1,000 million), small and medium sized enterprises (turnover from CZK 30 to 1,000 million), project funding and corporate mortgages, municipality loans and loans from the Workout department. Corporate loans additionally match the corporate class (segment) of assets under BASEL II or special funding.

Individually insignificant loans, including MSE loans, encompass the Group's retail loans and are additionally split into 15 product portfolios. The key portfolios include mortgage retail loans, credit card loans, overdraft loans and consumer loans. The Group's retail loans additionally match the 'individuals/households' assets class (segment) under BASEL II.

All loans are additionally segmented into default loans (non-performing) and non-default loans (performing). Default is defined using the BASEL II criteria.

Collection of Key Risk Management Information

In managing credit risk, the Group refers not only to its own portfolio information but also the portfolio information of other members of the Česká spořitelna Group. The Group additionally uses information obtained from external sources such as the Credit Bureau or ratings provided by reputable rating agencies. As part of the preparation for the application of Regulations 2006/48/EU and 2006/49/EU (BASEL II), the collected data were expanded and their quality markedly improved in the past. These data provide a basis for modelling credit risk and as a support during debt recovery, valuation of receivables and calculation of losses.

Internal Rating Tools

The internal rating of the Group reflects the ability of counterparties to meet with their financial liabilities. The degree of the risk is reflected in the internal rating as a probability of default of the debtor in the following twelve months. This degree of risk complies with the definition of new capital requirements set out in CNB Regulation 123/2007 (BASEL II).

The Group allocates internal ratings to all loan receivables from customers. In addition to the rating of individuals and households, the Group uses the 13 degree rating scale of non-default categories and one group for "R" default customers. The scale for individuals and households is 8 + R.

The definition of default of a debtor complies with the CNB Regulation referred to above and thus reflects the debt status of any portion of the receivable with the limit of 90 days and more past the due date, bankruptcy proceedings, insolvency or forced restructuring of a receivable.

Individual customer segments (classes) are, under BASEL II, subject to various rating instruments and all of them are currently the Erste Group wide standard.

Counterparties from the sovereign and banking segments are evaluated using a model which is unified for the whole Erste Group. The model places great emphasis on independent external ratings of reputable counterparties.

Counterparties under specialised financing and projects are also subject to the Group wide instrument, but the rating model reflects local specifics of the legislative and economic environment and the specifics of project financing and is primarily based on projected cash flow.

Corporate customers are evaluated on the basis of their financial strength, business information, business plan and credit history data. The primary source of information includes financial statements; less significant weight is given to soft factors.

The rating of the small enterprises segment is based on similar foundations as the rating of corporates, but the overall rating substantially takes into account the solvency of the enterprise owner or the entrepreneur himself.

Individuals/households are evaluated on the basis of socio demographic data, behavioural scoring and loan history, obtained primarily from external registers of debtors (Credit Bureau) and historical data of the Bank and the Group.

The Group uses its own model based on analysis of budgets in arriving at the internal ratings of its clients from among budget driven and subsidised organisations.

Ratings for corporate, small enterprises and individuals segments are prepared using a unified Erste Bank Group wide database designed to ensure a conceptual compliance with the Erste Bank Group standard, but the setting of the models reflects local economic and legislative conditions. This database tool uses outputs from individual rating tools and facilitates the combination of multiple sources of information into one rating, for example, for corporate clients, the outputs of financial analysis and soft factors or behavioural scoring and repayment ability.

The Group reviews ratings in respect of all segments on a regular basis. The rating of the banking, corporate and sovereign segments is analysed at least annually on an individual basis. The Group has developed 'behavioural rating' for retail customers where the Group updates the rating of a customer based on its activities and its delinquency on a monthly basis.

In addition to the internal ratings outlined above, the Group allocates risk profile groups to individual assets arising from the loan arrangement according to CNB Regulation 123/2007. In accordance with this Regulation, the Group maintains five groups of risk profiles, ranging from standard, watch, substandard, doubtful to loss receivables. Individual groups are differentiated according to the number of past due dates of any portion of a receivable, bankruptcy status of a customer, forced restructuring of a receivable and the internal anticipation with regard to the timely and full repayment of the whole receivable balance.

The Group also uses independent external ratings provided by reputable rating agencies. Based upon its historical experience, the Group has determined a transfer bridge between its own internal ratings and external ratings.

In compliance with the regulatory requirements arising from BASEL II, rating instruments are subject to regular annual validation by the Risk Management Department and independent specialists (Internal Audit). In addition, the rating instruments are periodically adjusted to reflect changing economic conditions and the Group's plans, based on validations (results consistency testing) and performance testing undertaken by the Credit Risk Controlling and Portfolio Management Department.

The application of internal rating tools is limited for certain specialised products provided by the subsidiaries, hence the internal rating tools are not used by all of the entities included in the Group, specifically Leasing České spořitelny a. s., s Autoleasing a. s. and brokerjet České spořitelny, a. s. The principal reason relates to the lack of appropriate input data used in arriving at the internal rating and monitoring receivables which the clients are obliged to provide to the Group. As such, these products require an increased level of loan collateral.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Group may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Group strives to protect its revenues and capital from risk concentration. Risk concentration is measured through the amount of the loss of twenty groups to which the Bank records the highest exposure and several other indicators for which limits have been established.

Structure of Approval Authorities

The structure of approval authorities is derived from the principle of the materiality of the impact of a potential loss from a provided loan on the Group's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Supervisory Board and the Credit Committee of the Board of Directors. Lower approval authorities are categorised taking account of the seniority of the staff of the Credit Risk Management Department and Credit Service Department.

Risk Parameters

The Group uses its own internal models in determining risk parameters such as the probability of default (PD), loss given default (LGD) and credit conversion factors (CCF). All of the models are developed according to BASEL II requirements and were subject to review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for quantitative management of the portfolio credit risk. The Bank currently uses risk parameters in monitoring portfolio risks, in default loans portfolio management, portfolio protection measurement and risk valuation. The active use of the risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments on both internal and external changes. The PD risk parameter is monitored for individual internal rating grades (see above) with the exception of non-performing loans (in default) where it is equal to 1. The LGD risk parameter is monitored in respect of homogenous 5 corporate product portfolios and 15 product retail portfolios in regard to non-performing loans (in default). The CCF risk parameter is monitored for guarantees, overdraft loans and credit card loans.

All models are back tested at least annually and validated by independent specialists.

Provisions for Loan Losses

The Group recognises provisions for incurred losses. These losses are determined and recognised in accordance with IAS 39 Financial Instruments: Recognition and Measurement. In determining the amount of the loss, the Group uses risk parameters estimated as part of the implementation of BASEL II rules.

Loan loss provisions are determined for all receivables. The impairment is based on an assessment of individual receivables in case of individually impaired loans. In case of other receivables (i. e. non-default receivables) the impairment is based on assessment of losses from portfolio of similar receivables.

Individual Losses Component

Individually impaired receivables are receivables in default (receivables with the 'R' internal rating) and the definition of default complies with BASEL II requirements (a receivable is past due by more than 90 days or its full repayment is assessed as being unlikely).

The individual losses component covers losses arising from receivables impaired on an individual basis. Impairment of a receivable is identified based on loss making events that can be ascertained individually.

Impairment of corporate receivables and retail receivables with a value exceeding CZK 5 million (individually significant exposures) is measured on an individual basis. The impairment represents the difference between the net present value of expected future cash flows arising from the receivable using the original effective interest rate and the carrying amount of the receivable.

The level of impairment of retail receivables (individually insignificant) is determined using the provisioning coefficients matrix. Provisioning coefficients are derived from the historical values of loss given default (LGD) in respect of individual portfolios of individually insignificant exposures. The coefficients additionally reflect durability of default.

All receivables are assessed by the Group on a monthly basis to determine whether a loss making event or other changes occurred.

The estimated loss on the impairment of individually significant exposures is reviewed at least on a quarterly basis for each exposure.

Given the current unstable economic conditions, the actual future cash flows may differ from the expected cash flows as of the balance sheet date.

Collective Losses Component

The collective losses component represents the loss on collective impairment of individually unimpaired exposures. Collective impairment corresponds to the anticipated loss from the portfolio of unimpaired exposures determined based on the experience with similar exposures. Collective impairment losses represent the Group's reasonable estimate made on the basis of historical experience with the risk profile of individual sub portfolios of individually unimpaired exposures. Given the current unstable economic conditions, also the actual future losses may differ from the estimated based on historical experience as of the balance sheet date.

The level of provisioning for these receivables is determined in accordance with the Group methodology reflecting the probability of default (PD), loss given default (LGD) and loss identification period (LIP). In determining the amount of incurred loss, the Group adopts the same method of calculating historical PDs and LGDs which are used as a basis for the calculation of risk weighted assets under BASEL II. The LIP parameter is set depending on the counterparty type – for corporate counterparties, it is anticipated that the default is identified within one year, the default on retail receivables is anticipated to be identified within four months at the latest. Given that the Group has a customer definition of the default in place, the LIP parameter is identical for all retail products.

Restructured receivables are marked with the 'R' internal rating. As part of the half year reviews of restructured receivables, the Group decides to improve the internal rating or to extend the monitoring period by another six months.

Subsidiaries that do not use internal ratings apply portfolio approaches derived from the durability of default and historical experience with portfolio losses.

Management of the Credit Risk in the Trading Portfolio

The credit risk inherent in the trading portfolio is managed through the imposition of limits approved for individual counterparties.

Collateral

Collateralisation of the Group's receivables represents the Group's prevention and protection as a creditor and an additional source of repayment. The selection and composition of individual collateral instruments depends on the Group's loan products, requirements and professional assessment by the Group's responsible employee and takes into account their easy realisation.

The value of collateral is determined by reference to the market price valuation (nominal value of collateral). The market price is taken to mean the arm's length price (selling) or the price determined using a different valuation technique in terms of Section 2 (1) and (3) of Property Valuation Act No. 151/1997 Coll.; however, always determined taking into account all the circumstances which have a pricing impact, namely defects. If more market prices of the collateral determined using various valuation techniques are available in a particular business transaction, the lower/lowest market price is used.

If the collateral instrument involves real estate, movable asset, business or its branch, trade mark, an asset declared as a historical monument, antiquities, paintings, jewels, manuscripts, etc., the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Group or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate must not be older than six months at the date when the loan contract is entered into. For real estate valuation purposes, a detailed special 'Methodology of Valuation of Real Estate for the Purpose of Advancing of a Loan, Including Mortgage Loans, at Česká spořitelna' is used.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. In determining the collateral coefficient/the realisable (fair) value of the collateral, it is necessary to assess individual instruments by their specific features, e. g. real estate by the character of its construction, etc. and always following a physical inspection. The expert appraisal/price estimate always has to be reviewed. Other conditions taken into account in determining the realisable value of the collateral are, among others, as follows:

- Comprehensive assessment of all available and, for the particular case, significant circumstances and background documentation;

- Insurance and pledge of a receivable arising from the insurance proceeds in favour of the Group;
- Possibilities of the realisation of collateral at a particular time and place and the amount of the costs of the realisation which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

In the event of doubt or any suspicion, the loan officer has to personally verify the actual physical and legal condition and nature of collateral prior to determining the coefficient of recoverability.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. The Collateral Catalogue also includes requirements for periodical revaluation of collateral. Typically, the collateral value is analysed and updated upon the regular monitoring/credit review of clients. With respect to credit product portfolios with a significant amount of collateral, the Group uses portfolio models of updating collateral realisable values.

In addition, the Group regularly monitors the loan to value ratio, mainly in respect of mortgage loans and project financing loans.

Credit Risk Pricing

The Group uses historical experience and available data regarding PD, LGD and CCF to arrive at a risk mark up for individual types of counterparties, levels of internal rating and products.

Stress Testing

The Group regularly undertakes the stress testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Group performs scenario analyses modelling the impact of the adverse development of the macroeconomic quantities (such as change in the economic growth rate, change in interest rates and change in inflation). The breakdown on credit risk by industries is shown in Note 44.1 f).

a) Analysis of Individually Impaired Loans

CZK mil.	Individually impaired		Fair value of collateral	
	2008	2007	2008	2007
Retail loans/loans to households				
Overdraft loans	347	257	–	–
Credit cards	217	248	–	–
Other loans	3,374	2,332	240	219
Mortgage loans	2,480	1,543	1,704	1,034
Construction savings scheme	643	456	187	83
Finance leases	35	39	20	20
Subtotal	**7,096**	**4,875**	**2,151**	**1,356**
MSE x)				
Overdraft loans	219	219	38	29
Other loans	1,000	603	406	291
Mortgage loans	656	417	493	258
Construction savings scheme	–	2	–	–
Municipal loans	20	14	2	–
Finance leases	283	291	164	113
Subtotal	**2,178**	**1,546**	**1,103**	**691**
Total retail loans	**9,274**	**6,421**	**3,254**	**2,047**
Corporate loans				
Corporate customers	1,830	907	258	308
Small and medium sized enterprises (SMEs) xx)	3,668	2,750	1,924	1,325
Corporate mortgage loans	574	800	360	523
Municipalities	17	–	14	–
Factoring	64	–	–	–
Total corporate loans	**6,153**	**4,457**	**2,556**	**2,156**
Total	**15,427**	**10,878**	**5,810**	**4,203**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

b) Restructuring of Loans

The Group has restructured the loans that would otherwise be in default or impaired in the aggregate amount of CZK 4,101 million (2007: CZK 970 million).

CZK mil.	2008	2007
Other loans	2,508	412
Construction savings scheme	92	37
Finance leases	–	33
Mortgage loans	1,501	488
Total	**4,101**	**970**

c) Loans Past their Due Dates

As of 31 December 2008 and 2007, the Group reports the following loans which are past their due dates, but not impaired:

CZK mil. At 31 December 2008	Past due date below 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans/loans to households					
Overdraft loans	85	58	31	174	–
Credit cards	506	57	19	582	–
Other loans	3,705	892	340	4,937	596
Mortgage loans	276	995	385	1,656	1,358
Construction savings scheme	822	215	66	1,103	543
Finance leases	32	8	1	41	49
Subtotal	**5,426**	**2,225**	**842**	**8,493**	**2,546**
MSE x)					
Overdraft loans	15	24	10	49	8
Other loans	967	246	149	1,362	763
Mortgage loans	145	324	111	580	486
Municipal loans	27	–	–	27	–
Finance leases	291	114	52	457	487
Subtotal	**1,445**	**708**	**322**	**2,475**	**1,744**
Total retail loans	**6,871**	**2,933**	**1,164**	**10,968**	**4,290**
Corporate loans					
Corporate customers	550	–	–	550	6
Small and medium sized enterprises (SMEs) xx)	2,168	251	197	2,616	1,578
Corporate mortgage loans	333	1,216	18	1,567	1,386
Municipalities	64	–	–	64	–
Total corporate loans	**3,115**	**1,467**	**215**	**4,797**	**2,970**
Total	**9,986**	**4,400**	**1,379**	**15,765**	**7,260**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

CZK mil. At 31 December 2007	Past due date below 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans/loans to households					
Overdraft loans	244	51	26	321	–
Credit cards	337	38	16	391	–
Other loans	2,519	563	209	3,291	484
Mortgage loans	415	687	289	1,391	1,012
Construction savings scheme	532	–	–	532	177
Finance leases	–	–	–	–	34
Subtotal	**4,047**	**1,339**	**540**	**5,926**	**1,707**
MSE x)					
Overdraft loans	28	20	10	58	10
Other loans	486	87	52	625	323
Mortgage loans	95	146	114	355	296
Municipal loans	10	–	–	10	6
Finance leases	279	–	–	279	–
Subtotal	**898**	**253**	**176**	**1,327**	**635**
Total retail loans	**4,945**	**1,592**	**716**	**7,253**	**2,342**
Corporate loans					
Corporate customers	1,829	60	–	1,889	412
Small and medium sized enterprises (SMEs) xx)	1,698	296	92	2,086	789
Corporate mortgage loans	350	203	–	553	182
Municipalities	–	–	167	167	67
Total corporate loans	**3,877**	**559**	**259**	**4,695**	**1,450**
Total	**8,822**	**2,151**	**975**	**11,948**	**3,792**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million

xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

d) Losses from Impairment by Individual Categories of Financial Assets

CZK mil. 2008	At 1 Jan	Provisioning	Write off of loans	Amounts recovered during the year	Unwinding of discounts x)	Foreign exchange rate gains or losses	At 31 Dec	Change in the balance
Retail loans/loans to households								
Overdraft loans	216	210	(36)	(67)	(10)	–	313	97
Credit cards	225	121	(88)	(58)	(12)	–	188	(37)
Other loans	1,882	1,716	(452)	(440)	(103)	–	2,603	721
Mortgage loans	721	518	(13)	(185)	(57)	–	984	263
Construction savings scheme	234	197	(47)	(75)	–	–	309	75
Finance leases	29	4	(2)	(5)	–	–	26	(3)
Subtotal	**3,307**	**2,766**	**(638)**	**(830)**	**(182)**	**–**	**4,423**	**1,116**
MSE xx)								
Overdraft loans	227	112	(78)	(40)	(1)	–	220	(7)
Other loans	458	397	(53)	(116)	(19)	–	667	209
Mortgage loans	153	192	(7)	(26)	(21)	–	291	138
Municipal loans	22	24	(9)	(6)	–	–	31	9
Finance leases	284	138	(63)	(143)	–	–	216	(68)
Subtotal	**1,144**	**863**	**(210)**	**(331)**	**(41)**	**–**	**1,425**	**281**
Corporate loans								
Corporate customers	474	481	(19)	(32)	(73)	5	836	362
Small and medium sized enterprises (SMEs) xxx)	1,646	1,006	(168)	(467)	(79)	–	1,938	292
Corporate mortgage loans	230	186	(26)	(56)	(43)	–	291	61
Municipalities	9	12	–	(5)	–	–	16	7
Subtotal	**2,359**	**1,685**	**(213)**	**(560)**	**(195)**	**5**	**3,081**	**722**
Total	**6,810**	**5,314**	**(1,061)**	**(1,721)**	**(418)**	**5**	**8,929**	**2,119**

x) Unwinding of discounts – interest income from impaired financial receivables
xx) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xxx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

CZK mil. 2007	At 1 Jan	Provisio-ning	Write off of loans	Amounts recovered during the year	Unwinding of discounts x)	Foreign exchange rate gains or losses	At 31 Dec	Change in the balance
Retail loans/loans to households								
Overdraft loans	183	171	(58)	(75)	(5)	–	216	33
Credit cards	145	237	(1)	(138)	(18)	–	225	80
Other loans	1,849	1,326	(570)	(641)	(82)	–	1,882	33
Mortgage loans	492	468	(1)	(226)	(12)	–	721	229
Construction savings scheme	194	59	(19)	–	–	–	234	40
Finance leases	35	3	(9)	–	–	–	29	(6)
Subtotal	**2,898**	**2,264**	**(658)**	**(1,080)**	**(117)**	**–**	**3,307**	**409**
MSE xx)								
Overdraft loans	219	137	(36)	(93)	–	–	227	8
Other loans	286	268	(27)	(57)	(12)	–	458	172
Mortgage loans	67	134		(37)	(11)	–	153	86
Municipal loans	27	19	(15)	(9)	–	–	22	(5)
Finance leases	881	(89)	(508)	–	–	–	284	(597)
Subtotal	**1,480**	**469**	**(586)**	**(196)**	**(23)**	**–**	**1,144**	**(336)**
Corporate loans								
Corporate customers	564	272	(140)	(161)	(46)	(15)	474	(90)
Small and medium sized enterprises (SMEs) xxx)	1,237	1,010	(124)	(424)	(53)	–	1,646	409
Corporate mortgage loans	160	108	–	(26)	(12)	–	230	70
Municipalities	–	9	–	–	–	–	9	9
Subtotal	**1,961**	**1,399**	**(264)**	**(611)**	**(111)**	**(15)**	**2,359**	**398**
Total	**6,339**	**4,132**	**(1,508)**	**(1,887)**	**(251)**	**(15)**	**6,810**	**471**

x) Unwinding of discounts – interest income from impaired financial receivables
xx) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xxx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

e) Structure of Credit Risk by On balance Sheet and Off balance Sheet Items

The Group is exposed to credit risk arising from the following items:

CZK mil.	2008	2007
Credit risk exposures relating to on balance sheet items		
Cash and balances with the Czech National Bank	5,634	5,695
Loans and advances to financial institutions	93,306	65,688
Loans and advances to customers, net of provisions	452,495	411,605
a) Retail loans	**236,596**	**209,925**
Overdraft loans	5,890	5,875
Credit cards	3,529	2,951
Other loans	68,805	55,531
Mortgage loans	115,121	110,839
Construction savings scheme	42,447	33,151
Finance leases	450	500
Loans for the purchase of securities	354	1,078
b) Retail loans – businessmen and small companies (MSE)	**50,705**	**43,433**
Overdraft loans	2,737	2,572
Other loans	17,296	14,086
Mortgage loans	20,953	17,477
Municipal loans	9,698	9,268
Construction savings scheme	21	30
c) Corporate loans	**165,194**	**158,247**
Large enterprises	57,177	60,021
Small and medium sized enterprises (SMEs)	52,774	45,993
Corporate mortgages	35,346	28,674
Municipalities	10,438	13,600
Factoring	1,908	2,251
Finance leases	7,551	7,708
Positive fair value of derivative transactions	27,138	17,674
Financial assets at fair value through profit and loss		
Debt securities held for trading	36,393	26,121
Debt securities designated upon initial recognition as at fair value through profit and loss	13,575	17,735
Debt securities available for sale	32,220	32,884
Debt securities held to maturity	118,938	137,486
Financial placements of insurance companies (amounts due from banks and debt securities)	–	13,313
Credit risk exposure relating to off balance sheet items		
Amounts owed from guarantees and letters of credit	17,913	21,848
Undrawn loan commitments	99,922	95,339
Total	**897,534**	**845,388**

The resulting credit exposure as of 31 December 2008 and 2007 represents a worst case scenario, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 61 percent of the total exposure is derived from loans and advances to financial institutions and customers (2007: 56 %); 22 percent represents investments in debt securities (2007: 28 %).

f) Credit Risk by Individual Sectors

Set out below is a summary of loans and advances to customers and financial institutions and debt securities by individual sectors in the distribution of the credit exposure of the Group:

CZK mil.		2008		2007
Financial institutions	171,247	23%	162,992	23%
Resident individuals	241,708	32%	213,362	30%
Trade	35,747	5%	31,983	5%
Energy sector	5,803	1%	7,536	1%
State institutions	140,038	18%	143,000	20%
Public sector	14,166	2%	18,382	3%
Construction industry	7,413	1%	7,722	1%
Hotels, public catering services	2,992	–	3,053	–
Real estate activities and other business activities	69,666	9%	44,386	6%
Manufacturing industry	45,650	6%	37,992	5%
Other	21,426	3%	41,234	6%
Total	**755,856**		**711,642**	

Given the allocation of credit risk of on balance and off balance sheet items presented in Table 44.1 e), this does not include “Cash and balances with the Czech National Bank“ and “Credit risk exposure relating to off balance sheet items“. In addition, loans and advances to customers are not decreased by provisions.

The geographical concentration of assets and liabilities is detailed in Note 46 (b).

g) Assessment of Asset Quality Using External Ratings by a Reputable Rating Agency

At 31 December 2008 CZK mil.	AAA	AA– to AA+	A– to A+	Lower than A	Unrated	Total
Securities held for trading	280	–	35,709	523	197	36,709
Securities at fair value through profit and loss	4,046	1,325	5,343	8,336	176	19,226
Securities available for sale	1,310	91	24,804	3,682	5,128	35,015
Securities held to maturity	11,488	498	89,636	17,058	258	118,938
Total	**17,124**	**1,914**	**155,492**	**29,599**	**5,759**	**209,888**

At 31 December 2007 CZK mil.	AAA	AA– to AA+	A– to A+	Lower than A	Unrated	Total
Securities held for trading	149	–	25,309	1,184	1,794	28,436
Securities at fair value through profit and loss	6,773	5,478	6,043	6,477	634	25,405
Securities available for sale	793	1,772	27,624	3,695	1,603	35,486
Securities held to maturity	4,161	11,962	113,349	8,014	–	137,486
Securities in the financial placements of insurance companies	518	50	12,399	1,014	1,753	15,733
Total	**12,394**	**19,262**	**184,723**	**20,384**	**5,784**	**242,545**

h) Assessment of Asset Quality Using Internal Ratings

31 December 2008 CZK mil.	Investment grade (1–4c)	Standard monitoring (5–6)	Special monitoring (7–8)	Sub standard (R)	Total
Retail loans/loans to households					
– Overdraft loans	4,533	931	392	347	6,203
– Credit cards	2,668	545	287	217	3,717
– Other loans	58,882	7,508	4,008	3,374	73,772
– Mortgage loans	102,489	7,776	3,360	2,480	116,105
– Construction savings scheme	38,239	3,012	886	643	42,780
– Leases	398	36	12	35	481
– Loans for purchase of securities	354	–	–	–	354
MSE x)					
– Overdraft loans	842	1,820	76	219	2,957
– Mortgage loans	7,679	12,277	632	656	21,244
– Other loans	6,192	10,181	589	1,000	17,962
– Construction savings scheme	2	20	1	–	23
– Leases	2,087	332	167	283	2,869
Corporate loans					
– Large enterprises	10,411	34,771	3,744	1,830	50,756
– Small and medium sized enterprises (SMEs) xx)	18,629	33,839	6,165	3,668	62,301
– Factoring	181	1,349	313	64	1,907
– Other	22,352	31,537	3,493	611	57,993
Total loans and advances to customers	**275,938**	**145,934**	**24,125**	**15,427**	**461,424**
Total loans and advances to financial institutions	**87,117**	**6,189**	**–**	**–**	**93,306**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million

xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

31 December 2007 CZK mil.	Investment grade (1–4c)	Standard monitoring (5–6)	Special monitoring (7–8)	Sub standard (R)	Total
Retail loans/loans to households					
– Overdraft loans	4,522	950	362	257	6,091
– Credit cards	2,233	465	230	248	3,176
– Other loans	44,988	7,166	2,941	2,332	57,427
– Mortgage loans	97,435	9,441	3,141	1,543	111,560
– Construction savings scheme	28,680	3,326	942	456	33,404
– Finance leases	361	81	19	39	500
– Loans for purchase of securities	1,078	–	–	–	1,078
MSE x)					
– Overdraft loans	866	1,631	83	219	2,799
– Mortgage loans	5,021	11,668	524	417	17,630
– Other loans	4,249	9,129	548	603	14,529
– Construction savings scheme	14	15	1	2	32
– Finance leases	384	2,052	408	291	3,135
Corporate loans					
– Large enterprises	20,885	30,287	3,578	907	55,657
– Small and medium sized enterprises (SMEs) xx)	11,269	34,613	4,194	2,750	52,826
– Factoring	–	2,251	–	–	2,251
– Other	25,016	29,358	1,132	814	56,320
Total loans and advances to customers	**247,001**	**142,433**	**18,103**	**10,878**	**418,415**
Total loans and advances to financial institutions	**59,434**	**6,254**	**–**	**–**	**65,688**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

44.2 Market Risk

The Group is exposed to the impacts of market risks. Market risks arise from open positions in interest rate, currency, equity and commodity financial instruments, the value of which changes subject to general and specific financial market movements. The Group is primarily exposed to the market risk arising from open positions in the trading book. A significant component of the market risk is also the interest rate risk associated with assets and liabilities included in the banking book.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Proprietary trading in the interbank, derivative and capital markets.

The Group trades with the following derivative financial instruments through the over the counter (OTC) market:

- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives (for gold and crude oil); and
- Credit derivatives.

In the area of exchange traded derivatives, the Group trades the following instruments:

- Bond futures;
- Interest rate futures;
- Commodity derivatives (for gold, crude oil, oil, rape and zinc); and
- Options in respect of bond futures.

The Group also trades, on behalf of its clients, with other less common currency options, such as digital, barrier or windowed options. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the banking book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (FX swaps and cross currency swaps).

During the 1st quarter of 2008, the Erste Group Bank Group revised its business model. The majority of open positions arising from client transactions in the Group's trading book are transferred to the Group portfolio through 'back to back' transactions. As such, the market risk arising from the Group's OTC transactions is managed on a consolidated basis within the Erste Group Bank portfolio. The Bank retains in the trading portfolio the money market risk due to liquidity management, equity risk, interest rate risk from trading with Czech Government bonds and partially a residual risk from previously closed transactions. This residual risk is hedged dynamically at a macro level in line with the Bank's limits set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Group uses the 'value at risk' methodology ('VaR') to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The Board of Directors establishes a VaR limit for the trading portfolio as the Group's maximum exposure of the trading portfolio to market risk that may be accepted.

VaR sub limits in respect of individual trading desks and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, equity prices, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is also calculated for the banking book using special models for current accounts and other liabilities without specified maturity. The VaR of the banking book is reported to the Assets and Liabilities Committee (ALCO) on a monthly basis. Similarly as for the trading book, the Board of Directors of the Bank approves the VaR limit for the banking book. The amount of the acceptable level of risk is based on the assessment of the capital available to cover risks based on the ICAAOP methodology. The overall VaR is subsequently allocated to individual sub portfolios of the banking book.

The VaR methodology includes all risk factors while reflecting their mutual diversification effect. As of 31 December 2008, the value of VaR for the trading book and the one day period on the 99 percent confidence level, i.e. the maximum loss during one day, was CZK 26 million (2007: CZK 25 million) which corresponds to a monthly VaR of CZK 121 million (2007: CZK 117 million). The average of daily VaR values for 2008 was CZK 14 million (2007: CZK 20) million. The monthly VaR for the banking book as of 31 December 2008, i.e. the maximum loss during one month, was CZK 2,074 million (2007: CZK 836 million). The average of monthly VaR values for 2008 was CZK 1,298 million (2007: CZK 769 million).

The VaR method is complemented with 'back testing' which is designed to review the model for correctness. Back testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading day. Back testing results have, to date, confirmed the correctness of the setting of the VaR calculation model.

In addition, the Group uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the trading book. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to the Assets and Liabilities Committee.

The current financial and economic crisis markedly affects the economy, principally in terms of the significant volatility of market prices of financial instruments, increased interest rates, decreased liquidity, and general uncertainty regarding future developments, fair market values of financial assets and their potential impairment. In view of these changes, the Group has intensified its efforts in monitoring events and developments that could impact its financial position. For this purpose, the Group has been monitoring, on an ongoing basis, financial intelligence sources, analysing the market, and developing possible scenarios that reflect these current economic developments.

44.2.1 Interest Rate Risk

a) Interest Rate Management

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group manages the interest rate risk of the banking book through the monitoring of the repricing dates of Group's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Group's net interest income.

In order to measure the interest rate risk exposure within the trading portfolio instruments, the Group uses the 'PVBP (present value of basis point) gap' defined as a matrix of sensitivity factors to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency. The limits are compared to the value that represents the greater of the sum of positive PVBP values or the sum of negative PVBP values in absolute terms for each period to maturity. By adopting this approach, the Group manages not only the risk attached to a parallel shift of the yield curve, but also any possible 'flip' of the yield curve. With regard to foreign currency options, the PVBP limits also include the Rho and Phi equivalents. In addition, the Group monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

The VaR methodology is also used for the calculation of the interest rate risk of both the trading and banking books. The VaR value for the interest rate risk of the trading book for one day and 99 percent confidence level as of 31 December 2008 was CZK 17 million (2007: CZK 20 million.) which corresponds to a VaR value for one month of CZK 80 million (2007: CZK 94 million.) The average of daily VaR values for the interest rate risk for 2008 was CZK 10 million (CZK 15 million). The monthly VaR for the interest rate of the banking book as of 31 December 2008 was CZK 2,070 million (CZK 792 million).

The average of monthly VaR values for the interest rate risk for 2008 was CZK 1,238 million (2007: CZK 727 million).

For monitoring and measuring the banking book interest rate exposures, the Group uses a simulation model focused on monitoring potential impacts of market interest rate movements on the net interest income. Simulations are performed over the period of 36 months. A basic analysis focuses on the sensitivity of the net interest income to a one off change(s) of market interest rates (rate shock). In addition, the Group undertakes probability modelling of its net interest income (stochastic simulation) and the traditional gap analysis. The analyses noted above are undertaken on a monthly basis. Current level of the interest rate exposure is assessed by the Assets and Liabilities Committee on a monthly basis in the context of the overall development of financial markets, Czech banking sector, as well as the structural changes in the Group's balance sheet.

The following sensitivity analysis is based on the exposure of the Group to interest rates for derivative and non-derivative instruments as of the balance sheet date and the determined changes which occurred at the beginning of the year and are constant during the reported period for the instruments with a variable interest rate, i. e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re invested in assets and liabilities with the same interest rate sensitivity. As such, the model assumes the fixed structure of the balance sheet according to interest rate sensitivity.

If the CZK interest rates increased/decreased by 100 points during the year and other variable interest rates remain unchanged:

- The profit for 2008 would increase by CZK 460 million/decrease by CZK 460 million (2007: an increase of CZK 470 million /decrease of CZK 550 million); and
- The gains/losses from revaluation would increase by CZK 71/+73 million (2007: CZK 131/+137 million), namely as a result of the changes in the fair value of securities with a fixed interest rate in the available for sale portfolio.

The Bank monitors the impact of stress scenarios of the shifts of yield curves on the market value of the banking book.

These stress scenarios are determined in accordance with the regulatory rules as 1 percent or 99 percent quantiles of the year on year changes in interest rates based on the five year history of time series of individual maturities of yield curves in all currencies. As of 31 December 2008, this stress scenario would trigger a loss in the market value of the banking book of 1.1 percent of the Bank's capital (a total of the original and additional capital; 2007: 1.5 percent).

The Bank additionally monitors interest rate exposures and simulates the impact of changes in interest rates on the profit/(loss) of selected subsidiaries, principally Stavební spořitelna České spořitelny, a. s. and Penzijní fond České spořitelny.

Other subsidiaries exposed to interest rate risk such as Leasing České spořitelny, a. s., Factoring České spořitelny, a. s., s Autoleasing, a. s. and s Autoúvěr a. s. principally use 'inherent' hedging by opting for the appropriate refinancing of the active portfolios and regularly adjusting this refinancing (at least on an annual basis).

b) Interest Rate Repricing Analysis

The following tables present the distribution of assets and liabilities according to the interest rate repricing dates. They include significant financial assets and liabilities in CZK, EUR and USD as of 31 December 2008 and 2007. Variable yield assets and liabilities have been reported according to their next rate repricing date. Fixed income assets and liabilities have been reported according to their remaining maturity.

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	5,615	–	–	–	–	5,615
Loans and advances to financial institutions	61,748	17,448	12,794	4	–	91,994
Loans and advances to customers, net of provisions	69,630	105,029	77,585	158,322	40,627	451,193
Securities at fair value through profit and loss	2,259	6,622	12,131	21,362	7,391	49,765
Securities available for sale	2,415	3,990	5,574	11,998	7,225	31,202
Securities held to maturity	4,877	19,236	9,013	54,635	31,177	118,938
Total selected assets	**146,544**	**152,325**	**117,097**	**246,321**	**86,420**	**748,707**
Selected liabilities						
Amounts owed to financial institutions	30,272	7,917	4,245	12,437	2,076	56,947
Amounts owed to customers	95,771	172,453	119,348	248,692	2,828	639,092
Bonds in issue	5,434	4,382	9,462	8,068	10,849	38,195
Subordinated debt	–	–	5,197	–	–	5,197
Total selected liabilities	**131,477**	**184,752**	**138,252**	**269,197**	**15,753**	**739,431**
Current gap	**15,067**	**(32,427)**	**(21,155)**	**(22,876)**	**70,667**	**9,276**
Cumulative gap	**15,067**	**(17,360)**	**(38,515)**	**(61,391)**	**9,276**	

At 31 December 2007 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	5,668	–	–	–	–	5,668
Loans and advances to financial institutions	42,577	2,708	15,136	4,645	218	65,284
Loans and advances to customers, net of provisions	82,026	76,695	81,508	141,677	34,649	416,555
Securities at fair value through profit and loss	2,129	1,913	7,715	19,945	11,821	43,523
Securities available for sale	947	9,671	5,236	11,529	5,501	32,884
Securities held to maturity	9,267	18,753	15,640	58,331	35,496	137,487
Financial placements of insurance companies	2	1,356	742	5,704	5,509	13,313
Total selected assets	**142,616**	**111,096**	**125,977**	**241,831**	**93,194**	**714,714**
Selected liabilities						
Amounts owed to financial institutions	24,584	3,742	4,219	11,020	14,853	58,418
Amounts owed to customers	87,660	151,661	132,458	210,065	2,241	584,085
Bonds in issue	7,447	2,751	3,983	10,769	22,325	47,275
Subordinated debt	–	–	5,605	–	–	5,605
Total selected liabilities	**119,691**	**158,154**	**146,265**	**231,854**	**39,419**	**695,383**
Current gap	**22,925**	**(47,058)**	**(20,288)**	**9,977**	**53,775**	**19,331**
Cumulative gap	**22,925**	**(24,133)**	**(44,421)**	**(34,444)**	**19,331**	

In addition, the Group enters into interest rate swaps to manage its interest rate risk exposure.

c) Effective Yield Information

The effective yields of significant financial assets and liabilities by major currencies of the banking segment as of 31 December 2008 and 2007 are as follows:

At 31 December 2008	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	1.99%	–	–	1.99%
Loans and advances to financial institutions	3.21%	3.59%	1.28%	3.19%
Loans and advances to customers, net of provisions	6.61%	5.00%	3.01%	6.52%
Securities at fair value through profit and loss	1.33%	4.03%	6.71%	2.14%
Securities available for sale	3.73%	7.99%	10.56%	4.18%
Securities held to maturity	4.32%	4.92%	–	4.34%
Selected liabilities				
Amounts owed to financial institutions	3.14%	3.85%	1.80%	3.21%
Amounts owed to customers	1.24%	1.44%	0.65%	1.25%
Bonds in issue	3.70%	2.65%	–	3.69%
Subordinated debt	4.63%	–	–	4.63%

At 31 December 2007	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	3.17%	4.00%	–	3.02%
Loans and advances to financial institutions	3.63%	3.92%	5.61%	3.89%
Loans and advances to customers, net of provisions	6.16%	5.91%	5.62%	6,15%
Securities at fair value through profit and loss	4.00%	4.59%	3.42%	4.15%
Securities available for sale	3.43%	4.87%	5.08%	3.69%
Securities held to maturity	4.09%	5.66%	–	4.13%
Financial placements of insurance companies	4.59%	3.79%	–	4.57%
Selected liabilities				
Amounts owed to financial institutions	3.35%	3.80%	5.02%	3.66%
Amounts owed to customers	1.21%	1.78%	2.59%	1.23%
Bonds in issue	3.59%	3.97%	–	3.59%
Subordinated debt	4.19%	–	–	4.19%

44.2.2 Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments in both the trading and bank book will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Group monitors special sensitivity limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract fair value sensitivity to the exchange rate volatility in the form of the vega equivalent. In addition, the Group monitors the fair value sensitivity of options to the period to maturity (theta) and interest rate sensitivity (rho, phi) which is measured, together with other interest rate instruments, in the form of the PVBP (Present Value of a Basis Point). Foreign currency risk of all financial instruments is transferred in the Trading Department's positions which manages these currency positions in accordance with the set currency sensitivity limits. In addition to the monitoring of limits, the Group uses the VaR ("value at risk") concept for measuring the risk arising from open positions from all currency instruments.

The value of currency risk in the form of VaR for one day and 99 percent confidence level was CZK 21 million (2007: CZK 19 million) as of 31 December 2008. The average of daily VaR values for foreign currency risk was CZK 8 million (CZK 13 million). The VaR value for the currency volatility of the trading book was CZK 5 million (2007: CZK 4 million). The average of daily VaR values for the foreign currency volatility for 2008 was CZK 4 million (2007: CZK 5 million).

Foreign currency exposures are primarily carried by the parent bank and real estate companies within the Group as they generate the bulk of rental income in EUR. The foreign currency risk of other Group entities is limited. With regard to real estate companies, the Group uses 'inherent' hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

Due to the conversion of SKK to EUR as of 1 January 2009, the foreign currency risk of assets and liabilities denominated in SKK or EUR may be considered identical as of the balance sheet date.

Net Foreign Exchange Position

The net foreign exchange positions of the Group as of 31 December 2008 and 2007 were as follows:

At 31 December 2008 CZK mil.	CZK	EUR	USD	GBP	SKK	HUF	PLN	Other	Total
Assets									
Cash and balances with the CNB	22,084	1,337	254	65	209	31	19	286	24,285
Loans and advances to financial institutions	65,980	21,358	5,024	286	101	15	62	480	93,306
Loans and advances to customers, net of provisions	431,967	18,886	993	33	254	25	113	224	452,495
Securities at fair value through profit and loss	38,727	11,879	2,050	–	130	3,004	72	73	55,935
Positive fair value of derivative transactions	24,716	1,819	449	–	69	54	26	5	27,138
Securities available for sale	29,515	3,949	1,030	70	–	158	250	43	35,015
Securities held to maturity	115,734	3,204	–	–	–	–	–	–	118,938
Other assets	47,270	5,500	212	2	1,832	235	33	34	55,118
	775,993	**67,932**	**10,012**	**456**	**2,595**	**3,522**	**575**	**1,145**	**862,230**
Liabilities									
Amounts owed to financial institutions	37,551	15,586	2,664	18	904	21	39	778	57,561
Amounts owed to customers	617,365	18,630	3,161	366	458	2,082	111	331	642,504
Liabilities at fair value	7,680	12	4	–	–	–	–	–	7,696
Negative fair value of derivative transactions	22,111	2,576	528	–	80	268	32	–	25,595
Bonds in issue	38,008	187	–	–	–	–	–	–	38,195
Other liabilities	22,604	2,003	262	8	346	1	70	16	25,310
	745,319	**38,994**	**6,619**	**392**	**1,788**	**2,372**	**252**	**1,125**	**796,861**
Net foreign exchange position – on balance sheet	**30,674**	**28,938**	**3,393**	**64**	**807**	**1,150**	**323**	**20**	**65,369**
Net foreign exchange position – off balance sheet	**2,603**	**(1,437)**	**(1,246)**	**(57)**	**–**	**–**	**–**	**–**	**(137)**

The line ‘Other assets’ includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction unconsolidated equity investments and equity investments in associates. The line ‘Other liabilities’ includes other liabilities, provisions, and subordinated debt.

At 31 December 2007 CZK mil.	CZK	EUR	USD	GBP	SKK	HUF	PLN	Other	Total
Assets									
Cash and balances with the CNB	18,667	999	240	112	114	19	25	218	20,394
Loans and advances to financial institutions	44,763	12,408	6,801	558	85	19	341	713	65,688
Loans and advances to customers, net of provisions	394,789	14,978	1,105	123	312	–	88	210	411,605
Securities at fair value through profit and loss	28,033	16,693	3,110	–	873	3,102	1,912	118	53,841
Positive fair value of derivative transactions	16,687	610	230	–	69	54	17	7	17,674
Securities available for sale	27,728	6,088	1,044	122	–	125	319	60	35,486
Securities held to maturity	134,214	3,272	–	–	–	–	–	–	137,486
Financial placements of insurance companies	14,659	497	477	41	–	39	84	11	15,808
Other assets	52,631	1,656	434	8	996	4	91	323	56,143
	732,171	**57,201**	**13,441**	**964**	**2,449**	**3,362**	**2,877**	**1,660**	**814,125**
Liabilities									
Amounts owed to financial institutions	30,980	19,707	5,099	2	118	787	693	1,096	58,482
Amounts owed to customers	567,911	13,777	3,119	431	234	2,552	226	276	588,526
Liabilities at fair value	7,488	72	49	–	–	–	–	–	7,609
Negative fair value of derivative transactions	10,000	788	208	–	53	11	20	1	11,081
Bonds in issue	47,025	250	–	–	–	–	–	–	47,275
Other liabilities	41,424	1,711	336	8	145	4	51	264	43,943
	704,828	**36,305**	**8,811**	**441**	**550**	**3,354**	**990**	**1,637**	**756,916**
Net foreign exchange position – on balance sheet	**27,343**	**20,896**	**4,630**	**523**	**1,899**	**8**	**1,887**	**23**	**57,209**
Net foreign exchange position – off balance sheet	**39,192**	**32**	**39,160**	**(28,515)**	**(56)**	**(28,459)**	**(3,079)**	**23**	**18,298**

The line ‘Other assets’ includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction unconsolidated equity investments and equity investments in associates. The line ‘Other liabilities’ includes other liabilities, provisions, and subordinated debt.

44.2.3 Equity Risk

To monitor and manage the equity risk inherent in the trading and banking books, the Group uses the VaR method and sensitivity analysis which is based on the exposure to the risk of change in the rate of shares as of the balance sheet date. With respect to the increased volatility of share prices, the equity risk represents a significant component of risks despite smaller volumes of share positions.

As of 31 December 2008, the VaR value of the equity risk of the trading portfolio was CZK nil (2007: CZK 7 million) for one day and 99 percent confidence level which corresponds to the VaR value for one month of CZK 1 million (2007: CZK 30 million). The average of daily VaR values for the equity risk for 2008 was CZK 1 million (2007: CZK 4 million). The VaR value for equity risk of the banking book for one month as of 31 December 2008 and at the same confidence level was CZK 4 million (2007: CZK 78 million). The average of monthly VaR values for the equity risk for 2008 was CZK 118 million (2007: CZK 74 million).

44.2.4 Fair Value

Fair Value of Derivative Financial Instruments

The Group maintains strict control limits on net open derivative positions, i.e. the difference between the fair values of purchase and sale contracts. At any one time the amount subject to credit risk is limited to the positive fair value of derivative financial instruments, which is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers. Limits are established reflecting the risk of fair value fluctuations arising from market movements. Collateral or other security is not usually obtained for credit risk exposures on the derivative financial instruments, except where the Group requires deposits from counterparties.

All derivatives are stated at fair value on the balance sheet as of 31 December 2008 and 2007 (refer to Notes 13 and 25).

Foreign Currency Contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes.

Interest Rate Swaps

Interest rate swap contracts obligate two parties to exchange one or more payments calculated by reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Group's interest rate swaps were principally transacted for propriety trading purposes, to hedge customer oriented transactions or to hedge against interest rate risk.

The Group has applied hedge accounting in respect of the interest rate exposure arising from its own issue of mortgage bonds. The mortgage bonds issued with a fixed interest rate were linked to a floating market rate through interest rate swaps.

Option Contracts

Option contracts represent the formal reservation of the right to buy or sell an asset at the specified quantity, within a given time in the future and at a certain price. The buyer of the option has the right, but not the obligation, to exercise the right to buy or sell an asset and the seller has the obligation to sell or purchase the asset at the specified quantity and at the price defined in the option contract.

Forward Rate Agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in market interest rates. In principle, the Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. All of the Group's forward rate agreements were entered into for trading purposes.

Swap and Forward Contracts with Securities

Swap and forward contracts with securities are agreements to purchase or sell the securities for a specific amount at a future date. The swap and forward contracts with securities are used by the Group for trading purposes.

Cross Currency Swaps and Forwards

Cross currency swaps are combinations of interest rate swaps and foreign currency contracts. As with interest rate swaps, the Group agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, and are settled on a gross basis. Unlike interest rate swaps, the notional balances of the different currencies are typically exchanged at the beginning and re exchanged at the end of the contract period.

Futures

Futures contracts represent the obligation to sell or purchase a financial instrument in the organised market at a certain price at a certain agreed date in the future. The Group entered into futures contracts in respect of debt securities and equities for trading purposes.

Commodity Swaps

Commodity swaps are agreements to exchange future payments depending upon the prices of a certain commodity. One element of the transaction (the fixed arm) always represents a fixed, predetermined amount while the other element (the floating arm) is determined based on the average prices of the relevant commodity for a period. In certain cases, an option is embedded in the floating arm, restricting its overall payment. Each client commodity swap is offset by a mirror transaction with Erste Group Bank, hence the Group carries no market risk.

a) Nominal and Fair Values of Derivative Instruments

At 31 December 2008 CZK mil.	Nominal value Positive	Nominal value Negative	Fair value Positive	Fair value Negative
Hedging instruments				
Interest rate option contracts	601	601	–	–
Interest rate swaps	13,585	13,585	748	166
Foreign currency interest rate swaps	5,450	4,911	–	302
Total hedging instruments	**19,636**	**19,097**	**748**	**468**
Trading instruments				
Spot contracts				
– interest rate	3	3	–	–
– currency	728	729	–	–
Option contracts:				
– interest rate	19,627	19,627	82	39
– currency	119,681	117,935	3,018	2,260
– equity	1,355	1,355	–	68
– commodity	1,071	1,071	182	185
Forward contracts:				
– interest rate	127,306	127,306	184	207
– foreign currency interest rate	61,001	61,148	2,612	2,595
– equity	2,787	3,004	–	222
– commodity	39	40	9	8
Swaps:				
– interest rate	694,267	694,267	14,721	14,349
– foreign currency interest rate	127,511	127,384	5,322	4,489
– equity	5,610	5,610	27	279
– commodity	2,038	2,038	232	243
Other derivatives	1,766	1,766	1	183
Futures	2	2	–	–
Total trading instruments	**1,164,792**	**1,163,285**	**26,390**	**25,127**
Total	**1,184,428**	**1,182,382**	**27,138**	**25,595**

At 31 December 2007 CZK mil.	Nominal value		Fair value	
	Positive	Negative	Positive	Negative
Hedging instruments				
Interest rate option contracts	684	684	–	16
Interest rate swaps	16,001	16,001	239	706
Total hedging instruments	**16,685**	**16,685**	**239**	**722**
Trading instruments				
Spot contracts	5,229	5,227	–	–
Option contracts:				
– interest rate	21,273	21,273	75	74
– currency	94,359	96,308	679	1,309
– equity	2,208	2,208	24	355
– commodity	400	400	73	9
Forward contracts:				
– interest rate	214,180	214,180	158	176
– foreign currency interest rate	38,901	39,528	372	1,040
– equity	8	8	–	–
– commodity	9	9	–	–
Swaps:				
– interest rate	636,333	636,333	6,441	5,758
– foreign currency interest rate	160,281	152,560	9,412	1,515
– equity	5,125	5,125	122	168
– commodity	1,094	1,094	15	20
Other derivatives (credit)	311	311	1	–
Futures	5,800	5,800	63	–
Total trading instruments	**1,185,511**	**1,180,364**	**17,435**	**10,424**
Hedging instrument to equity investments denominated in EUR	–	–	–	(65)
Total	**1,202,196**	**1,197,049**	**17,674**	**11,081**

b) Remaining Maturity of Derivative Instruments

At 31 December 2008 Fair value in CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate swaps	–	–	(4)	28	558
Interest rate option contracts	–	–	–	–	(302)
Total hedging instruments	**–**	**–**	**(4)**	**28**	**256**
Trading instruments					
Spot contracts					
– interest rate	–	–	–	–	–
– currency	–	–	–	–	–
Option contracts:					
– interest rate	–	–	–	27	17
– currency	12	(206)	202	719	30
– equity	(3)	(13)	(50)	(1)	(1)
–commodity	–	–	(3)	–	–
Forward contracts:					
– interest rate	46	(34)	(12)	(23)	–
– foreign currency interest rate	(13)	11	9	5	5
– equity	(222)	–	–	–	–
– commodity	1	–	–	–	–
Swaps:					
– interest rate	(13)	(57)	83	(33)	392
– foreign currency interest rate	(525)	491	36	590	241
– equity	(1)	12	7	(196)	(74)
– commodity	–	–	–	(11)	–
Other derivatives	–	1	–	(120)	(63)
Futures	–	–	–	–	–
Total trading instruments	**(718)**	**205**	**272**	**957**	**547**
Total	**(718)**	**205**	**268**	**985**	**803**

At 31 December 2007 Fair value in CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate option contracts	–	–	–	(16)	–
Interest rate swaps	–	–	–	(45)	(422)
Total hedging instruments	**–**	**–**	**–**	**(61)**	**(422)**
Trading instruments					
Spot contracts	2	–	–	–	–
Option contracts:					
– interest rate	–	–	(8)	2	7
– currency	1	(53)	(281)	(297)	–
– equity	24	(220)	(30)	(105)	–
– commodity	–	–	–	(9)	73
Forward contracts:					
– interest rate	3	(2)	(26)	7	–
– foreign currency interest rate	(87)	(39)	(220)	(313)	(9)
– equity	–	–	–	–	–
– commodity	–	–	–	–	–
Swaps:					
– interest rate	(118)	5	54	100	641
– foreign currency interest rate	323	522	409	1,205	5,438
– equity	–	49	46	(94)	(47)
– commodity	–	–	1	(6)	–
Other derivatives	1	–	–	–	–
Futures	–	–	–	–	62
Total trading instruments	**149**	**262**	**(55)**	**490**	**6,165**
Hedging instrument to equity investments denominated in EUR	–	–	–	–	65
Total	**149**	**262**	**(55)**	**429**	**5,808**

c) Average Weighted Interest Rate of Derivatives

At 31 December 2008	Accepted interest rate			Paid interest rate		
	Less than 1 year	1 to 5 years	Over 5 years	Less than 1 year	1 to 5 years	Over 5 years
Hedging instruments						
Interest rate option contracts	0.10%	–	–	0.10%	–	–
Interest rate swaps	3.16%	3.14%	3.72%	3.16%	3.14%	3.72%
Foreign exchange interest rate swaps	–	–	2.08%	–	–	2.08%
Trading instruments						
Interest rate option contracts	1.20%	4.24%	2.68%	1.20%	4.24%	2.68%
Forward contracts:						
– interest rate	3.75%	4.04%	–	3.75%	4.04%	–
Swaps:						
– interest rate	3.75%	3.74%	3.62%	3.75%	3.74%	3.62%
– foreign currency interest rate	4.07%	2.66%	3.56%	4.08%	2.68%	3.63%

At 31 December 2007	Accepted interest rate			Paid interest rate		
	Less than 1 year	1 to 5 years	Over 5 years	Less than 1 year	1 to 5 years	Over 5 years
Hedging instruments						
Interest rate option contracts	–	0.10%	–	–	–	–
Interest rate swaps	–	3.43%	3.47%	0.00%	3.46%	3.71%
Trading instruments						
Option interest rate contracts	3.90%	4.40%	2.72%	3.89%	4.41%	2.73%
Forward contracts:						
– interest rate	3.58%	4.49%	–	3.45%	4.19%	–
Swaps:						
– interest rate	3.06%	3.26%	2.68%	3.55%	3.53%	3.33%
– foreign currency interest rate	4.10%	3.93%	4.01%	4.15%	3.96%	4.00%

Fair Value of Other Financial Instruments Except for Derivatives

Fair value estimates are made based on relevant market data and information about the financial instruments. Because no readily available market prices exist for a significant portion of the Group's financial instruments, fair value estimates for these instruments are based on judgements regarding current economic conditions, currency and interest rate characteristics and other factors.

Many of these estimates involve uncertainties and matters of significant judgement and cannot be determined with precision. Therefore, the calculated fair value estimates cannot always be substantiated by comparison to market values and, in many cases, may not be realised in the current sale of the financial instrument. Changes in underlying assumptions used to determine fair value could significantly affect the determined fair value.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value.

CZK mil.	2008		2007	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets				
Loans and advances to financial institutions	93,306	94,718	65,688	65,620
Loans and advances to customers, net of provisions	452,495	447,590	411,605	409,153
Securities held to maturity	118,938	120,495	137,486	136,835
Financial placements of insurance companies	–	–	15,808	15,692
Financial liabilities				
Amounts owed to financial institutions	57,561	54,686	58,482	57,872
Amounts owed to customers	642,504	642,168	588,526	588,138
Bonds in issue	38,195	39,611	47,275	47,334
Subordinated debt	5,197	4,837	5,605	5,611

a) Loans and Advances to Financial Institutions
The fair value of loans and advances to financial institutions is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by the banks in the Group.

b) Loans and Advances to Customers
Loans and advances to customers are carried net of provisions. The fair value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by the banks in the Group.

c) Securities and Other Assets Held to Maturity
The fair value of securities held to maturity is based on market prices or price quotations obtained from brokers or dealers. If this information is not available, the fair value is estimated using quoted market values for securities with similar credit risk characteristics, maturity or yield rate or, as and when appropriate, according to the recoverability of the net asset value of these securities.

d) Amounts Owed to Financial Institutions and Customers
The estimated fair value of amounts owed to financial institutions and customers with no stated maturity which include no interest earning deposits, is equal to the amount payable on demand. The fair value of fixed income deposits and other liabilities with no stated market value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar maturities. The fair value of products with no contractually stated maturity (such as sight deposits, passbooks, overdraft facilities) is considered equal to their carrying value.

e) Bonds in Issue

The aggregated fair value is based on quoted market prices. The fair value of securities where no market price is available is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar remaining maturities.

f) Subordinated Debt

Issued subordinated debt is traded on the free market of the Prague Stock Exchange. Its fair value is based on quoted market price.

44.3 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to satisfy its financial liabilities when they mature or in financing its assets. The Group's short term liquidity position is monitored and managed based on expected cash flows and adjusting the structure of interbank deposits and placements accordingly and/or taking other decisions aimed at adjusting the short term liquidity position of the Group, for example, taking a decision to balance the short term liquidity position in individual currencies.

The mid term and long term liquidity is monitored on a monthly basis through the Traffic Light System (TLS) simulation model which takes into account the anticipated possibility of renewal, preliminary repayment or sale of the Group's individual positions. The results are presented and discussed in the Operating Liquidity Committee (OLC) and the Assets and Liabilities Committee (ALCO) which decide on the need to take measures with respect to the liquidity risk exposure.

Given the current financial and economic crisis, the Czech National Bank has strengthened its supervision over the current liquidity of individual banks on the market. The banks are required to report each day on the volume of highly liquid assets, the development of primary deposits and loans, the expected forecast for the nearest future and the anticipated changes that would have a materially adverse impact on their overall standing.

a) Maturity Analysis

The table below analyses assets and liabilities of the Group into relevant maturity groupings as of 31 December 2008, based on the remaining period at the balance sheet date to the contractual maturity date (remaining maturity). In this analysis, derivatives are reported at their fair values as of the balance sheet date.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	20,720	–	–	–	–	3,565	24,285
Loans and advances to financial institutions	59,041	2,757	16,136	5,027	10,345	–	93,306
Loans and advances to customers, net of provisions	59,731	18,798	55,662	153,884	173,349	(8,929)	452,495
Securities at fair value through profit and loss	1,434	5,812	11,896	21,763	14,225	805	55,935
Positive fair value of derivative transactions	1,021	1,725	5,106	11,273	8,013	–	27,138
Securities available for sale	1,299	933	4,983	14,462	13,186	152	35,015
Securities held to maturity	250	11,142	12,014	63,762	31,770	–	118,938
Other assets	1,695	1,980	7,882	3,829	492	39,240	55,118
Total	**145,191**	**43,147**	**113,679**	**274,000**	**251,380**	**34,833**	**862,230**
Liabilities							
Amounts owed to financial institutions	23,430	2,046	3,014	21,519	7,552	–	57,561
Amounts owed to customers	436,193	115,621	21,544	66,318	2,828	–	642,504
Liabilities at fair value	159	279	885	4,801	1,484	88	7,696
Negative fair value of derivative transactions	1,739	1,520	4,838	10,288	7,210	–	25,595
Bonds in issue	1,818	216	1,641	9,798	24,722	–	38,195
Subordinated debt	–	–	–	–	5,197	–	5,197
Other liabilities	2,760	2,045	900	535	904	12,969	20,113
Total	**466,099**	**121,727**	**32,822**	**113,259**	**49,897**	**13,057**	**796,861**
Current gap	**(320,908)**	**(75,580)**	**80,857**	**160,741**	**201,483**	**21,776**	**65,369**
Cumulative gap	**(320,908)**	**(399,488)**	**(318,631)**	**(157,890)**	**43,593**	**65,369**	

The line ‘Other assets’ includes other assets, property and equipment, intangible assets, non–current assets held for sale, property investment, assets under construction unconsolidated equity investments and equity investments in associates. The line ‘Other liabilities’ includes other liabilities and provisions.

The table below analyses assets and liabilities of the Group into relevant maturity groupings as of 31 December 2007, based on the remaining maturity.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	15,120	–	40	–	–	5,234	20,394
Loans and advances to financial institutions	42,958	2,694	15,171	4,647	218	–	65,688
Loans and advances to customers, net of provisions	32,121	13,369	84,358	136,195	152,372	6,810	411,605
Securities at fair value through profit and loss	538	296	7,923	20,344	13,854	10,886	53,841
Positive fair value of derivative transactions	904	1,264	1,869	5,572	8,065	–	17,674
Securities available for sale	249	5,418	4,300	14,754	8,163	2,602	35,486
Securities held to maturity	3,495	5,880	19,489	72,354	36,268	–	137,486
Financial placements of insurance companies	24	658	462	6,399	8,190	75	15,808
Other assets	**5,005**	**4,877**	**6,127**	**689**	**2**	**39,443**	**56,143**
Total	**100,414**	**34,456**	**139,739**	**260,954**	**227,132**	**51,430**	**814,125**
Liabilities							
Amounts owed to financial institutions	25,360	3,734	3,486	11,638	14,264	–	58,482
Amounts owed to customers	390,230	97,420	42,542	56,078	2,256	–	588,526
Liabilities at fair value	16	–	3,124	3,926	543	–	7,609
Negative fair value of derivative transactions	661	1,001	1,900	5,143	2,376	–	11,081
Bonds in issue	–	6,069	3,657	10,188	27,361	–	47,275
Subordinated debt	–	–	–	–	5,605	–	5,605
Other liabilities	5,077	1,379	1,656	153	19	30,054	38,338
Total	**421,344**	**109,603**	**56,365**	**87,126**	**52,424**	**30,054**	**756,916**
Current gap	**(320,930)**	**(75,147)**	**83,374**	**173,828**	**174,708**	**21,376**	**57,209**
Cumulative gap	**(320,930)**	**(396,077)**	**(312,703)**	**(138,875)**	**35,833**	**57,209**	

The line ‘Other assets’ includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction unconsolidated equity investments and equity investments in associates. The line ‘Other liabilities’ includes other liabilities, actuarial provisions and provisions.

b) Interest Rate Payments

The following tables present expected cash flows from received/paid interest on selected assets and liabilities according to individual time buckets:

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	5	–	–	–	–	5
Loans and advances to financial institutions	164	118	159	–	–	441
Loans and advances to customers, net of provisions	2,383	3,739	12,332	34,124	15,751	68,329
Securities at fair value through profit and loss	68	89	324	763	163	1,407
Securities available for sale	103	177	619	1,992	1,382	4,273
Securities held to maturity	422	755	2,937	10,160	6,792	21,066
	3,145	**4,878**	**16,371**	**47,039**	**24,088**	**95,521**
Selected liabilities						
Amounts owed to financial institutions	110	118	378	859	–	1,465
Amounts owed to customers	613	972	3,176	8,456	3,247	16,464
Bonds in issue	153	274	1,032	3,861	3,671	8,991
Subordinated debt	20	40	90	–	–	150
	896	**1,404**	**4,676**	**13,176**	**6,918**	**27,070**
Current gap	**2,249**	**3,474**	**11,695**	**33,863**	**17,170**	**68,451**
Cumulative gap	**2,249**	**5,723**	**17,418**	**51,281**	**68,451**	

At 31 December 2007 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	7	–	–	–	–	7
Loans and advances to financial institutions	136	110	211	1	–	458
Loans and advances to customers, net of provisions	1,858	2,916	9,558	24,715	10,111	49,158
Securities at fair value through profit and loss	108	121	440	1,169	491	2,329
Securities available for sale	100	164	515	1,556	928	3,263
Securities held to maturity	459	817	3,105	10,479	7,173	22,033
Financial placements of insurance companies	51	96	398	1,530	1,260	3,335
	2,719	**4,224**	**14,227**	**39,450**	**19,963**	**80,583**
Selected liabilities						
Amounts owed to financial institutions	82	47	51	11	–	191
Amounts owed to customers	561	869	2,674	7,095	2,805	14,004
Bonds in issue	162	269	992	3,732	3,624	8,779
Subordinated debt	20	39	88	–	–	147
	825	**1,224**	**3,805**	**10,838**	**6,429**	**23,121**
Current gap	**1,894**	**3,000**	**10,422**	**28,612**	**13,534**	**57,462**
Cumulative gap	**1,894**	**4,894**	**15,316**	**43,928**	**57,462**	

44.4 Operational Risk

In accordance with CNB Regulation 123/2007, the Group defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events, including loss due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Group put in place a standardised categorisation of operational risks. This classification became the basis of the ‘Book of Risks of Česká spořitelna’, developed in cooperation with the Risk Management and Internal Audit Departments. The Book of Risks is a tool used to achieve unification of risk identification procedures on a group wide level and unification of risk categorisation in order to ensure consistency of risk monitoring and evaluation.

The Group has cooperated with an external supplier in developing a specialised software application to collect data about operational risk which conforms to the data collection requirements set out in BASEL II. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. In addition to monitoring actual occurrence of operational risk, the Group also pays attention to how the operational risk is perceived by the management. This expert risk analysis is assessed annually.

A tool of importance in mitigating losses arising from operational risks is the Group’s insurance programme put in place in 2002. This insurance programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank and its subsidiaries have joined the Erste Group Bank insurance programme which expands the Group’s insurance protection specifically with regard to damage that may materially impact its profit or loss.

44.5 Capital Risk

As part of the Internal Capital Adequacy Assessment Process (ICAAP), the Group has identified the following risks which should be covered entirely or partially by capital: market risks, interest rate risk of the banking book, credit risk and concentration risk, liquidity risk, operational risk, reputation risk, strategic risk, business risk and residual risk of securitisation.

The principal objectives of the Group in managing capital risks are as follows:

- Quantification of risks in the form of economic capital which is needed to cover potential losses arising from these risks;
- Comparison of capital requirements with capital resources;
- Management of capital resources with respect to current and future risks;
- Determination of the maximum acceptable degree of risks with respect to available capital resources;
- Monitoring and management of the performance of business activities with respect to the risk or the capital requirements; and
- Strategic planning with respect to the risk, allocated capital resources and capital efficiency of individual business activities of the Bank and the financial group.

To calculate the economic capital for the market, credit, interest rate, securitisation and operational risks, the Group uses the Value at Risk (VaR) methodology for a one year period on the confidence level of 99.9 percent which corresponds approximately to the Bank's rating (A-) and the relevant probability of default of the customer. To calculate other risks, the Group uses an estimate of the impact of risk scenarios modelled on an identical confidence level (liquidity risk) or an expert estimate of the unexpected loss (business, reputation, strategic risks) based on the experience of the Bank's managers and historical data.

The aggregate value of the economic capital or capital requirements is determined as the sum of economic capital for individual risks (for the purpose of allocating capital to individual business departments) or as aggregate economic capital (for the purpose of comparison with available capital resources to cover risks). The resulting aggregate risk capital is compared to capital resources determined in accordance with the regulatory rules as the sum of basic and additional capital and the profit for the current year taking into account the anticipated payment of dividends. This comparison of the risk and capital resources (risk capacity) is submitted to the Assets and Liabilities Committee (ALCO) on a quarterly basis.

45. CONTINGENT ASSETS AND LIABILITIES

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off balance sheet financial instruments. The following represent notional amounts of these off balance sheet financial instruments, unless stated otherwise.

Legal Disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Group is named are resolved.

The Group is involved in various claims and legal proceedings of a special nature. The Group also acts as a defendant in a number of legal disputes filed with the arbitration court. The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Group believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

Assets Pledged

Assets are pledged as collateral under repurchase agreements with other banks and customers in the amount of CZK 33,775 million (2007: CZK 13,958 million). Mandatory reserve deposits are also held with the local central bank in accordance with statutory requirements (refer to Note 7). These deposits are not available to finance the Group's day to day operations.

The Group has received loans to finance investment property for which it has pledged real estate of CZK 10,404 million (2007: CZK 10,026 million) as collateral.

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached the commitments to extend credit represents a potential loss for the Group. The Group estimates the potential loss on the basis of historical developments of credit conversion factors, probability of default and loss given default. Credit conversion factors indicate the likelihood of the Group paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Group believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments is minimal.

In 2008, the Group recorded provisions for off balance sheet risks to cover potential losses that may be incurred in connection with these off balance sheet transactions. As of 31 December 2008, the aggregate balance of these provisions was CZK 187 million (2007: CZK 143 million). Refer to Note 27.

CZK mil.	2008	2007
Guarantees and letters of credit	17,913	21,848
Undrawn loan commitments	**99,922**	**95,339**

46. SEGMENT REPORTING

(a) Industry segments

For management purposes, the Group is organised into the following major operating divisions:

- Retail banking (accepting deposits from the public, providing loans to retail clients, services related to credit and debit cards);
- Commercial banking (providing loans to corporate clients and municipalities, issuance of guarantees, opening of letters of credit);
- Investment banking (securities investments, proprietary trading and trading on behalf of the client with securities, foreign exchange assets, entering into futures and options including foreign currency and interest rate transactions, financial brokerage, custodian services, participation in issuance of stock, management, safe keeping and administration of securities or other assets);
- Other operations (leasing, insurance, management of investment and mutual funds, investment construction and advisory services). These operations are aggregated in one segment "Other activities" as they are less material than the remaining activities; and
- Discontinued operations – insurance services.

2008 CZK mil.	Retail	Commercial	Banking Investment	Other activities	Elimina-tions	Discon-tinued operations	Total
REVENUE							
Segment revenue	**31,306**	**4,792**	**2,837**	**7,250**	**(1,314)**	**4,504**	**49,375**
PROFIT							
Segment profit	**15,716**	**2,050**	**(2,509)**	**2,361**	**(889)**	**4,504**	**21,233**
Unallocated costs							(2,653)
Profit before tax							18,580
Income tax							(2,809)
Minority interest							42
Total profit							**15,813**
OTHER INFORMATION							
Asset acquisition	1,604	16	188	854	–	–	2,662
Write offs and depreciation	934	–	41	1,805	73	–	2,853
Impairment loss/(reversal of impairment loss)	2	–	–	–	–	–	2
BALANCE SHEET							
Assets							
Segment assets	368,864	167,900	262,765	96,934	(36,145)	–	860,318
Investments in associates							235
Unallocated assets							1,677
Total consolidated assets							**862,230**
Liabilities							
Segment liabilities	501,741	69,857	179,785	71,277	(35,055)	–	787,605
Unallocated liabilities							9,256
Total consolidated liabilities							**796,861**

Total income is composed of 'Net interest income', 'Net fee and commission income', 'Net trading result', 'Total other operating income' and 'Income from the revaluation/sale of securities, derivatives and equity investments' (refer to Note 41), income from discontinued operations includes 'Net insurance income' till the date of the sale and profit from the sale and removal from consolidation.

2007 CZK mil.	Retail	Commercial	Banking Investment	Other activities	Eliminations	Discontinued operations	Total
REVENUE							
Segment revenue	**26,029**	**4,044**	**2,406**	**8,194**	**(1,685)**	**649**	**39,637**
PROFIT							
Segment profit	**12,164**	**1,763**	**1,566**	**3,885**	**(1,855)**	**649**	**18,172**
Unallocated costs							(2,583)
Profit before tax							15,589
Income tax							(3,213)
Minority interest							(228)
Total profit							**12,148**
OTHER INFORMATION							
Asset acquisition	1,471	23	127	4,390	–	46	6,057
Write offs and depreciation	1,047	–	90	2,080	19	35	3,271
BALANCE SHEET							
Assets							
Segment assets	338,579	148,052	251,258	85,040	(28,356)	17,603	812,176
Investments in associates							1
Unallocated assets							1,948
Total consolidated assets							**814,125**
Liabilities							
Segment liabilities	476,089	58,038	159,016	63,525	(27,884)	15,964	744,748
Unallocated liabilities							12,168
Total consolidated liabilities							**756,916**

Total income is composed of 'Net interest income', 'Net fee and commission income', 'Net trading result', 'Total other operating income' and 'Income from the revaluation/sale of securities, derivatives and equity investments' (refer to Note 41), income from discontinued operations includes 'Net insurance income'.

(b) Geographical segments

The Group operates predominantly within the Czech Republic and has no significant cross border operations.

The geographical concentration of assets and liabilities as of 31 December 2008 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	22,117	1,650	221	297	24,285
Loans and advances to financial institutions	33,606	55,355	1,414	2,931	93,306
Loans and advances to customers, net of provisions	442,728	7,876	1,036	855	452,495
Securities at fair value through profit and loss	42,241	12,629	250	815	55,935
Positive fair value of derivative transactions	9,311	17,787	3	37	27,138
Securities available for sale	28,594	5,190	232	999	35,015
Securities held to maturity	89,444	25,184	1,000	3,310	118,938
Other assets	51,306	3,606	109	97	55,118
Total assets	**719,347**	**129,277**	**4,265**	**9,341**	**862,230**
Liabilities					
Amounts owed to financial institutions	34,777	22,300	67	417	57,561
Amounts owed to customers	636,654	3,572	1,372	906	642,504
Liabilities at fair value	7,634	48	13	1	7,696
Negative fair value of derivative transactions	5,401	20,043	–	151	25,595
Bonds in issue	37,829	360	6	–	38,195
Subordinated debt	4,661	536	–	–	5,197
Other liabilities	19,138	888	28	59	20,113
Total liabilities	**746,094**	**47,747**	**1,486**	**1,534**	**796,861**
Net position	**(26,747)**	**81,530**	**2,779**	**7,807**	**65,369**

The line ‘Other assets’ includes other assets, property and equipment, intangible assets, non-current assets held for sale, investment property, assets under construction, unconsolidated equity investments and equity investments in associates. The line ‘Other liabilities’ includes other liabilities and provisions.

The geographical concentration of assets and liabilities as of 31 December 2007 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	18,628	1,291	152	323	20,394
Loans and advances to financial institutions	36,047	26,651	1,545	1,445	65,688
Loans and advances to customers, net of provisions	403,475	7,029	535	566	411,605
Securities at fair value through profit and loss	29,957	21,366	236	2,282	53,841
Positive fair value of derivative transactions	3,509	14,035	37	93	17,674
Securities available for sale	26,994	7,744	83	665	35,486
Securities held to maturity	95,595	33,345	3,799	4,747	137,486
Financial placements of insurance companies	11,177	4,022	12	597	15,808
Other assets	52,199	3,188	80	676	56,143
Total assets	**677,581**	**118,671**	**6,479**	**11,394**	**814,125**
Liabilities					
Amounts owed to financial institutions	33,333	24,910	190	49	58,482
Amounts owed to customers	582,843	3,699	1,111	873	588,526
Liabilities at fair value	7,395	214	–	–	7,609
Negative fair value of derivative transactions	4,076	6,824	22	159	11,081
Bonds in issue	46,985	284	6	–	47,275
Subordinated debt	4,751	829	25	–	5,605
Other liabilities	37,563	424	13	338	38,338
Total liabilities	**716,946**	**37,184**	**1,367**	**1,419**	**756,916**
Net position	**(39,365)**	**81,487**	**5,112**	**9,975**	**57,209**

The line 'Other assets' includes other assets, property and equipment, intangible assets, non-current assets held for sale, investment property, assets under construction, unconsolidated equity investments and equity investments in associates. The line 'Other liabilities' includes other liabilities and actuarial provisions and provisions.

47. TRADING ON BEHALF OF CLIENTS

a) Assets under Administration

The Group provides custody, trustee, investment management and advisory services to third parties which involve the Group making purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group administered CZK 166,106 million (2007: CZK 188,299 million) of assets as of 31 December 2008 representing certificate securities and other assets received from customers into its custody for administration and safe keeping split as follows:

CZK mil.	2008	2007
Customer securities in custody	15,331	14,814
Customer securities under administration	142,095	168,064
Customer securities for safe keeping	33	74
Assets received for management	8,647	5,347
Total	**166,106**	**188,299**

In addition to customer assets arising from the provision of investment services (refer to Note 47 b), the total balance includes bills of exchange and other securities collateralising loans and other assets that do not relate to the provision of investment services.

The Group also acts as a depositary for several mutual, investment and pension funds, whose assets amounted to CZK 81,956 million as of 31 December 2008 (2007: CZK 106,854 million).

b) Payables arising from the Provision of Investment Services

Investment services involve receiving and providing instructions related to investment instruments, performing instructions relating to investment instruments to a third party account, proprietary trading with investment instruments, management of customer assets under a contractual arrangement with the client if these assets include an investment instrument, and investment instruments underwriting or placement.

Additional investment services involve administration and custody of investment instruments, issuing loans to the client for the purpose of trading with investment instruments if the issuer of the loan takes part in the transaction, advisory services relating to capital structuring, industrial strategy, investments in investment instruments, provision of advice and services related to mergers and acquisitions, implementation of foreign exchange transactions relating to the provision of investment services, services related to the underwriting of investment instrument issues and rent of safe deposit boxes.

In connection with the provision of these services, the Group received cash and investment instruments from clients or obtained cash or investment instruments for its clients (‘customer assets’) in exchange for these values, which amounted to CZK 148,598 million as of 31 December 2008 (2007: CZK 172,039 million).

48. RELATED PARTY TRANSACTIONS

Related parties involve connected entities or parties that have a special relation to the Group.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Erste Group Bank AG. Erste Stiftung exercises significant influence over Erste Group Bank AG and the remaining investment is held by minority shareholders and institutional investors via freely traded shares on the stock exchanges in Vienna, Prague and Bucharest.

The parties that have a special relation to the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management, and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the Czech National Bank's Banking Board, and legal entities which the Group controls.

Pursuant to the definitions outlined above, the category of the Group's related parties principally comprises its subsidiary and associated undertakings, members of its Board of Directors and Supervisory Board, and other entities, namely Erste Group Bank, its subsidiary and associated undertakings.

The Group has the following amounts due from/to Erste Group Bank and other related parties as of 31 December 2008 and 2007:

CZK mil.	2008		2007	
	Erste Group Bank	Other	Erste Group Bank	Other
Assets				
Loans and advances to financial institutions	26,654	2,168	4,590	249
Loans and advances to customers	–	1,929	–	1,753
Securities at fair value through profit and loss	73	604	–	213
Securities held to maturity	–	594	310	–
Positive fair value of derivative transactions	10,189	9	7,930	–
Other assets	260	58	73	165
Total assets	**37,176**	**5,362**	**12,903**	**2,380**
Liabilities				
Amounts owed to financial institutions	10,824	1,086	11,389	1,974
Amounts owed to customers	–	336	–	797
Negative fair value of derivative transactions	12,999	18	1,920	93
Bonds in issue	87	–	82	1,700
Subordinated debt	107	300	329	300
Other liabilities	111	337	53	363
Total liabilities	**24,128**	**2,077**	**13,773**	**5,227**
Off balance sheet				
Undrawn loans	166	266	200	207
Issued guarantees	9	2	18	39
Received guarantees	1,174	2	–	1
Nominal value of underlying assets of derivatives	489,428	763	192,518	3,836
Negative nominal value of derivatives	(492,377)	(775)	(187,029)	(3,896)
Income				
Interest income	636	129	125	157
Fee and commission income	23	248	9	250
Net trading result	(4,668)	49	(263)	4
Other operating income	797	16	57	25
Total income	**(3,212)**	**442**	**(72)**	**436**
Expenses				
Interest expense	490	193	369	133
Fee and commission expense	1	68	–	66
General administrative expenses	197	1,085	37	848
Other operating expenses	–	3	–	–
Total expenses	**688**	**1,349**	**406**	**1,047**

(a) Members of the Board of Directors and Supervisory Board

Loans and advances granted to members of the Board of Directors and Supervisory Board amounted to CZK 10 million (in nominal values) as of 31 December 2008 (2007: CZK 20 million).

Members of the Board of Directors and Supervisory Board held no shares of the Bank. Under the Employee Stock Option Plan (refer to Note 40), members of the Board of Directors subscribed for 41,019 shares (2007: 50,432 shares) of the parent company, Erste Group Bank. Under the Management Stock Option Plan (refer to Note 40), members of the Board of Directors hold 24,000 options (2007: 36,000 options) for subscription of shares of the parent company, Erste Group Bank.

(b) Related parties

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis.

49. DIVIDENDS

Management of the Bank has proposed that total dividends of CZK 15,504 million be declared in respect of the profit for the year ended 31 December 2008, which represents CZK 102 per both ordinary and priority share (2007: CZK 4,560 million, that is, CZK 30 per both ordinary and priority share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15 percent or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an EU member country and whose interest in a subsidiary's share capital is no less than 10 percent and that hold the entity's shares for at least one year are not subject to a withholding tax.

50. POST BALANCE SHEET EVENTS

No significant events that would have a material impact on the financial statements for the year ended 31 December 2008 occurred subsequent to the balance sheet date.

Unconsolidated Financial Statements

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union for the Years Ended 31 December 2008 and 2007

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Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

Having its registered office at: Olbrachtova 1929/62, 140 00 Prague 4
Identification number: 45244782
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying separate financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 31st December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of Česká spořitelna, a. s. as of 31st December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 24th February 2009
Audit firm:
Deloitte Audit s. r. o., Certificate no. 79

Represented by:
Michal Petrman, statutory executive

Statutory auditor:
Michal Petrman, Certificate no. 1105

Audit. Tax. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Unconsolidated Balance Sheets

as of 31 December 2008 and 2007

CZK mil.	Note	31 December 2008	31 December 2007
ASSETS			
1. Cash and balances with the CNB	5	23,206	19,683
2. Loans and advances to financial institutions	6	78,713	55,520
3. Loans and advances to customers	7	412,472	376,500
4. Provisions for losses on loans and advances	8	(8,182)	(6,105)
5. Securities at fair value through profit and loss		54,993	52,844
(a) Securities held for trading	9	36,512	28,436
(b) Securities designated upon initial recognition as at fair value through profit and loss	10	18,481	24,408
6. Positive fair value of financial derivative transactions	11	27,216	17,572
7. Securities available for sale	12	8,324	10,729
8. Securities held to maturity	13	97,117	101,582
9. Equity investments in subsidiary and associated undertakings	14	9,971	9,221
10. Intangible fixed assets	15	3,594	4,314
11. Property and equipment	16	13,211	12,906
12. Other assets	17	8,164	10,280
Total assets		**728,799**	**665,046**
LIABILITIES AND SHAREHOLDERS' EQUITY			
1. Amounts owed to financial institutions	18	41,452	38,912
2. Amounts owed to customers	19	521,571	474,405
3. Liabilities at fair value	20	7,696	7,609
4. Negative fair value of financial derivative transactions	21	25,460	11,066
5. Bonds in issue	22	50,587	58,858
6. Provisions for liabilities and other reserves	23	2,192	3,011
7. Other liabilities	24	12,972	13,731
8. Subordinated debt	26	5,197	5,605
9. Shareholders' equity	27, 28	61,672	51,849
Total liabilities and shareholders' equity		**728,799**	**665,046**

The accompanying notes are an integral part of these financial statements.

These financial statements were prepared by the Bank and approved by the Board of Directors on 24 February2009.

Gernot Mittendorfer
Chairman of the Board and
Chief Executive Officer

Dušan Baran
Vice Chairman of the Board
1st Deputy Chief Executive Officer

Unconsolidated Profit and Loss Accounts

for the Years Ended 31 December 2008 and 2007

CZK mil.	Note	Year ended 31 December 2008	Year ended 31 December 2007
1. Interest income and similar income	29	38,694	29,769
2. Interest expense and similar expense	30	(11,260)	(7,305)
Net interest income		**27,434**	**22,464**
3. Provisions for credit risks	31	(3,288)	(2,116)
Net interest income after provisions for credit risks		**24,146**	**20,348**
4. Fee and commission income	32	12,395	10,455
5. Fee and commission expense	33	(1,800)	(1,224)
Net fee and commission income		**10,595**	**9,231**
6. Net trading result	34	1,607	1,694
7. General administrative expenses	35	(18,235)	(16,991)
8. Other operating income/(expenses), net	36	(4,884)	(680)
9. Gains on the sale of equity investments in subsidiary and associated undertakings	37	4,277	90
Profit before taxes		**17,506**	**13,692**
10. Income tax expense	38	(2,524)	(3,076)
Net profit for the year attributable to the Bank's shareholders		**14,982**	**10,616**

The accompanying notes are an integral part of these financial statements.

Unconsolidated Statements of Changes in Shareholders' Equity for the Years Ended 31 December 2008 and 2007

CZK mil.	Net profit for the year	Valuation gains or losses	Total recognised income and expense for the year	Retained earnings	Statutory reserve fund	Share premium	Share capital	Total
At 1 January 2007	**8,940**	**296**	**9,236**	**19,397**	**2,192**	**2**	**15,200**	**46,027**
Dividends	(4,560)	–	(4,560)	–	–	–	–	(4,560)
Transfer to reserve funds	(447)	–	(447)	–	447	–	–	–
Revaluation gains or losses	–	(234)	(234)	–	–	–	–	(234)
Transfer to retained earnings	(3,933)	–	(3,933)	3,933	–	–	–	–
Net profit for the year	10,616	–	10,616	–	–	–	–	10,616
At 31 December 2007	**10,616**	**62**	**10,678**	**23,330**	**2,639**	**2**	**15,200**	**51,849**
At 1 January 2008	**10,616**	**62**	**10,678**	**23,330**	**2,639**	**2**	**15,200**	**51,849**
Dividends	(4,560)	–	(4,560)	–	–	–	–	(4,560)
Transfer to reserve funds	(401)	–	(401)	–	401	–	–	–
Revaluation gains or losses	–	(609)	(609)	–	–	–	–	(609)
Treasury and Group share transactions	–	–	–	–	–	10	–	10
Transfer to retained earnings	(5,655)	–	(5,655)	5,655	–	–	–	–
Net profit for the year	14,982	–	14,982	–	–	–	–	14,982
At 31 December 2008	**14,982**	**(547)**	**14,435**	**28,985**	**3,040**	**12**	**15,200**	**61,672**

The accompanying notes are an integral part of these financial statements.

Unconsolidated Statements of Cash Flows

for the Years Ended 31 December 2008 and 2007

CZK mil.	Note	2008	2007
Profit before taxes		17,506	13,692
Adjustments for non-cash transactions			
Creation of provisions for losses on loans, advances and other assets		3,428	2,192
Depreciation and amortisation of assets	35	2,696	3,137
Impairment of tangible and intangible fixed assets		2	2
Unrealised profit on securities at fair value through profit or loss		(887)	(1,143)
Creation/(release) of provisions against equity investments	36	190	(175)
Gain on the sale of equity investments	37	(4,277)	(39)
Impairment of securities available for sale	36	2,245	–
(Release)/creation of other reserves		(102)	339
Change in fair values of financial derivatives		4,751	(850)
Income from statute-barred savings books	36	(1)	(1)
Gain on the sale of tangible assets	36	(174)	(153)
Accrued interest, amortisation of discount and premium		306	839
Operating profit before changes in operating assets and liabilities		**25,683**	**17,840**
Cash flows from operating activities			
(Increase)/decrease in operating assets			
Minimum reserve deposits with the CNB		568	3,579
Loans and advances to financial institutions		(21,555)	5,601
Loans and advances to customers		(37,797)	(81,236)
Securities at fair value through profit or loss		4,595	(2,793)
Securities available for sale		(596)	625
Other assets		2,406	(3,884)
Increase/(decrease) in operating liabilities			
Amounts owed to financial institutions		1,753	5,118
Amounts owed to customers		47,167	43,748
Liabilities at fair value		87	2,159
Other liabilities		(1,201)	1,268
Net cash flow from operating activities before income tax		21,110	(7,975)
Income taxes paid		(2,560)	(3,315)
Net cash flow from operating activities		**18,550**	**(11,290)**
Cash flows from investing activities			
Net decrease/(increase) in securities held to maturity		9,296	(1,221)
Net income/costs related to equity investments		3,337	(1,987)
Purchase of tangible and intangible fixed assets		(2,562)	(3,011)
Proceeds from the sale of tangible and intangible fixed assets		453	639
Net cash flow from investing activities		**10,524**	**(5,580)**

CZK mil.	Note	2008	2007
Cash flows from financing activities			
Dividends paid		(4,560)	(4,560)
Payments with treasury and Group shares		10	–
Bonds in issue		(8,482)	22,094
Receipt of subordinated debt		(408)	(281)
Net cash flow from financing activities		**(13,440)**	**17,253**
Net increase in cash and cash equivalents		**15,634**	**383**
Cash and cash equivalents at beginning of year		**15,135**	**14,752**
Cash and cash equivalents at end of year	**39**	**30,769**	**15,135**

The accompanying notes are an integral part of these financial statements.

Notes to the Unconsolidated Financial Statements

1. INTRODUCTION

Česká spořitelna, a. s. (henceforth the "Bank"), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services on the territory of the Czech Republic.

The principal activities of the Bank are as follows:
- Acceptance of deposits from the general public;
- Extension of credit;
- Investing in securities on its own account;
- Payments and clearing;
- Issuance of payment facilities, e.g. payment cards, traveller's cheques;
- Issuance of guarantees;
- Opening of letters of credit;
- Collection services;
- Proprietary or client-oriented trading with foreign currency assets, forward and option contracts, including foreign currency and interest rate transactions, and transferable securities;
- Management of clients' securities on clients' accounts and provision of advisory services;
- Participation in the issuance of shares and provision of related services;
- Safe-keeping and administration of securities or other assets;
- Rental of safe-deposit boxes;
- Provision of business advisory services;
- Issuance of mortgage bonds under special legislation;
- Financial brokerage;
- Depositary activities;
- Foreign exchange services (foreign currency purchases);
- Provision of banking information; and
- Maintenance of a separate part of the Securities Centre's records.

The Bank is subject to the regulatory requirements of the Czech National Bank (henceforth the "CNB"). These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk and foreign currency position.

2. BASIS OF PREPARATION

These statutory financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations approved by the International Accounting Standards Board (IASB) as adopted by the European Union.

All figures are in millions of Czech crowns (CZK mil.), unless stated otherwise.

These financial statements have been prepared under the historical cost convention as modified by the remeasurement to fair value of available for sale securities, financial assets and liabilities at fair value through profit or loss, all financial derivatives, issued debt securities which are hedged against interest rate risk and assets held for sale. Assets held for sale are measured at fair value if this value is greater than their carrying amount (i. e. cost less accumulated depreciation and cumulative impairment losses).

The presentation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period (refer to Note 4). Actual results could differ from those estimates.

Comparative information has been restated, where necessary, on a basis consistent with the current year presentation.

These financial statements and notes thereto are unconsolidated and do not include the accounts and results of those companies over which the Bank has control or significant influence. The policies of accounting for equity investments are disclosed in Note 3b.

The Bank also prepares consolidated financial statements in accordance with International Financial Reporting Standards and interpretations approved by the International Accounting Standards Board (IASB) as adopted by the European Union which present the results of the Bank's financial group.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Loans and Advances, Other Off Balance Sheet Credit Exposures and Provisions for Losses on Loans and Advances

Loans and advances are stated at the amount of outstanding principal and overdue interest and fees. All loans and advances are recognised when cash is advanced to borrowers.

The Bank classifies its loan receivables according to several criteria.

In terms of market segments, loan receivables are split into retail receivables and corporate receivables. Retail receivables include amounts due from individuals/households and sole traders and amounts due from individuals–businessmen, small businesses with the annual turnover of less than CZK 30 million and small municipalities (the MSE category). Corporate loans include amounts due from small and medium sized businesses with the annual turnover between CZK 30 million and CZK 1,000 million (the SME category), amounts due from large corporations (with turnover over CZK 1,000 million) and the public sector.

In risk management terms, loan receivables are segmented into non-default (performing) loans where the principal and interest is not past due for more than 90 days and default (non-performing) loans. Within these loans, two large sub-portfolios are defined – individually significant loans, which include corporate loans or receivables where the Bank's loan exposure exceeds CZK 5 million, and individually insignificant loans. As part of these two sub-portfolios, the Bank additionally monitors five client portfolios for individually significant loans and 15 product portfolios for individually insignificant loans. The Bank monitors risk parameters (PD – probability of default, LGD – loss given default, and CCF – credit conversion factors) in respect of these portfolios. PD is additionally monitored in individual internal rating grades.

The Bank additionally splits its client and product portfolios according to individual internal rating grades; there are 13 plus 1 (default) internal rating grades. Additional details can be found in Note 40.1.

In accounting and provisioning terms, loans are segmented into individually impaired, where objective evidence demonstrates that a loss event occurred subsequent to their initial recognition which impacts future anticipated cash flows arising from these loans and these loans are therefore impaired on an individual basis, and collectively impaired loans where such circumstances were not demonstrated on an individual basis and unimpaired loans with no indication of impairment.

Non-performing loans match individually impaired loans. Performing loans with the 1-6 internal rating are unimpaired loans; loans with 7-8 internal rating are collectively impaired.

Provisions for losses on loans and advances are recorded when there are reasonable doubts over the recoverability of the loan balance. Provisions for losses on loans and advances represent management's assessment of realised losses in relation to the Bank's on and off balance sheet activities. Amounts are set aside to cover losses on loans and advances that have been specifically identified (individually impaired loans) and for potential losses which may be present based on portfolio performance (collectively impaired loans and unimpaired loans). The level of provisions is established by comparing the carrying amount of the loan and the present value of future expected cash flows using the effective interest rate. The level of provisions for individually insignificant loans is always determined statistically at the product portfolio level. Individually significant loans are assessed individually to determine if they are individually impaired. The provisioning percentage in respect of individually significant loans which are collectively impaired or unimpaired is established on a portfolio basis. The amount of the realised loss, i. e., impairment loss adjusting the provisions to their assessed levels, after write-offs, is charged to the profit and loss account line "Provisions for credit risks." Additional details can be found in Note 40.1.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for credit risks" in the profit and loss account. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. The relevant amount and recoveries of loans and advances previously written off are reflected in the profit and loss account through "Provisions for credit risks."

Restructured loans are those loans whose terms have been renegotiated because of a debtor's distress. Restructuring may proceed solely on the basis of a new contract. Restructured loans are initially assigned the internal rating of R. This rating can be upgraded no sooner than six months after the restructuring date.

(b) Debt and Equity Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Bank categorises its securities into the "Securities at fair value through profit and loss" portfolio, the "Securities available for sale" portfolio and the "Securities held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and the recognition of their fair values in the financial statements.

All securities held by the Bank are initially recognised at their cost including transaction costs (acquisition cost), the only exception being securities at fair value through profit or loss which are recognised at cost net of transaction costs.

Securities at Fair Value through Profit and Loss

The portfolio includes debt and equity securities held for trading, that is, securities held by the Bank with the intention of reselling them, thereby generating profits on price fluctuations in the short-term, and debt and equity securities that were designated, upon initial recognition, as at fair value through profit loss. Securities at fair value through profit or loss are recognised at cost at the acquisition date and subsequently remeasured at fair value. Changes in the fair values of assets held for trading are recognised in the profit and loss account as "Net trading result". Changes in the fair values of securities not held for trading are reported as "Other operating income/(expenses), net" in the profit and loss account.

Fair Value Option

In addition to securities, the portfolio of instruments at fair value through profit and loss includes, upon origination or acquisition, other financial assets, liabilities and derivatives if such classification reduces the mismatch in reporting financial expenses or income or if it is a group of financial assets and liabilities which are typically managed and assessed according to fair value changes and such a management and presentation treatment complies with the investment strategy and/or the assets and liabilities management strategy.

For debt and equity securities traded on the Prague Stock Exchange ('PSE') and other stock exchanges, fair values are derived from quoted prices. In respect of securities which are publicly traded but the volumes or frequency are small, management assesses the identified market prices on an individual basis to determine if they provide an actual indication of the fair value. In exceptional cases, management uses its own estimates to make adjustments or uses the Bank's own valuation models. The fair values of securities that are not publicly traded are estimated by the management of the Bank as the best estimation of the cash flow projection reflecting the set of economic conditions that will exist over the remaining maturity of the securities, taking into account the issuer's credit risk.

Securities Available for Sale

Securities available for sale are securities held by the Bank for an indefinite period of time that are available for sale as liquidity requirements arise or market conditions change.

Securities available for sale are carried at acquisition cost and subsequently remeasured at fair value. Changes in the fair values of available for sale securities are recognised in equity as "Revaluation gains or losses", with the exception of their impairment and interest income and foreign exchange differences on debt securities. Impairment of securities available for sale is accounted for on the same basis as impairment of securities held to maturity (see below). When realised, the relevant revaluation gains or losses are taken to the profit and loss account as "Other operating income/(expenses), net". Interest income on coupons, amortisation of discounts or premiums, and dividends are included in “Interest income and similar income”. Foreign exchange differences are reported within “Net trading result”.

If a security is determined to be impaired, this loss needs to be immediately reversed from equity with a charge against expenses. The impairment loss amount is equal to the difference between the cost (decreased/increased by amortisation of discounts/premiums) and the current fair value reflecting the past impairment losses recognised in expenses.

The portion of the net loss attributable to the foreign exchange differences on foreign currency equity securities, which is recognised in equity, is also derecognised through the profit and loss account. Any other losses, including exchange rate components, are reversed from equity through expenses/income until the security is derecognised.

When an impairment loss on equity securities is accounted for, the recognised charge is not reversible.

The impairment losses on debt securities can be reversed when, following the impairment recognition in expenses, the fair value increases for objective reasons as determined by the Bank.

At the reporting date as a minimum, the Bank makes an assessment to determine if events occurred indicating that an investment has suffered impairment/other-than-temporary impairment. The criteria indicating impairment of a security include, but are not limited to: significant changes with an adverse impact on the investment in the market, economic or legislative environments or such are expected to occur in the nearest future (e.g., absence of an active market), significant financial difficulties of the issuer or the committed party, or contract breach such as the non-payment of the principal, interest or delayed payments.

Securities Held to Maturity

Securities held to maturity are financial assets with fixed maturity that the Bank has the positive intent and ability to hold to maturity.

Securities held to maturity are initially measured at acquisition cost. Securities held to maturity are subsequently reported at amortised cost using the effective interest rate. The amortisation of premiums and discounts is included in “Interest income and similar income”.

Equity Investments

Equity investments in subsidiary and associated undertakings are recorded at acquisition cost including transaction costs less provisions for any temporary diminution in value or write-offs for any permanent diminution in value.

An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50 percent of its share capital or in which the Bank can exercise more than 50 percent of the voting rights based on an agreement with another shareholder/owner, or where the Bank can appoint or dismiss a majority of the Board of Directors or Supervisory Board members.

An investment in an associate is one in which the Bank holds, directly or indirectly, 20 percent to 50 percent of its share capital or over which the Bank exercises significant influence through representation on the entity’s statutory board, participation in the development of the entity’s policy, significant transactions between the entity and the Bank, replacement of the entity’s management by the Bank, and access to significant technical information of the entity.

At the financial statement date or interim financial statement date, the Bank assesses equity investments in subsidiary or associated undertakings for impairment. An equity investment is impaired if its carrying amount is greater than its recoverable amount. The recoverable amount is the higher of an asset’s fair value less selling costs and its value in use determined as a sum of discounted expected cash flows (value in use). The fair value less selling costs valuation technique is adopted in respect of the Bank’s investments in real estate funds and venture capital funds; the discounted cash flows method is used in valuing other investments in the Bank’s subsidiaries and associates. Impairment of equity investments in subsidiaries and associates is recognised in “Other operating income/(expenses), net”. Impairment of equity investments in subsidiary or associated undertakings is accounted for through the recognition of provisions.

Dividends from equity investments are recognised in the profit and loss account within “Interest income and similar income” in the period in which they are declared.

(c) Sale and Repurchase Agreements

Where debt or equity securities are sold under a concurrent commitment to repurchase them at a pre-determined price, they remain at fair value or amortised cost (refer to Note 3b) within the relevant portfolio on the balance sheet and the consideration received is recorded in "Amounts owed to financial institutions" or "Amounts owed to customers." Conversely, debt or equity securities purchased under a concurrent commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in "Loans and advances to financial institutions" or "Loans and advances to customers." Interest is accrued evenly over the life of the agreement.

(d) Liabilities at Fair Value

The Bank classifies as liabilities at fair value liabilities held for trading and liabilities for which it uses the fair value option as set out in IAS 39 Financial Instruments: Recognition and Measurement.

Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the Bank records an obligation to return them which is recognised at fair value as a trading liability and is presented in the balance sheet line "Liabilities at fair value". Upon the repurchase of securities, the difference between the carrying amount of the obligation and the contracted purchase price is recognised in "Net trading result".

The Bank additionally classifies as liabilities at fair value certain issued bonds and deposits with embedded derivatives because management believes that this classification materially reduces the inconsistency in valuing these liabilities.

(e) Intangible Fixed Assets

Intangible fixed assets include identifiable assets without physical substance and with an estimated useful life exceeding one year. The Bank has determined that, in addition to fulfilling these criteria, intangible fixed assets must include assets with a cost greater than CZK 60,000. Intangible fixed assets are carried at cost less accumulated amortisation and provisions and are amortised on a straight line basis through "General administrative expenses – amortisation of intangible assets" over an estimated useful life not exceeding four years. Software acquisition, valuable rights and other intangible assets are treated as intangible assets. Intangible fixed assets with a cost exceeding CZK 60,000 are recognised in expenses in the profit and loss account as part of "General administrative expenses – other administrative expenses" for the period in which they were acquired. Costs associated with the maintenance of intangible assets (software) are expensed through "General administrative expenses – other administrative expenses" as incurred whilst costs of technical improvements, if they exceed CZK 40,000 per one asset for the period and are completed, are capitalised and increase the acquisition cost of the intangible fixed asset.

In the year ended 31 December 2008, the Bank changed the policy of amortising technical improvements on intangible fixed assets. With effect from 1 January 2008, the accounting amortisation period in respect of the technical improvements on intangible fixed assets is extended such that the accounting amortisation period of the relevant intangible fixed assets represents four years from the beginning of the period in which the technical improvement is brought into use. Amortisation charges on technically improved intangible fixed assets are determined from the (increased) net book value.

(f) Property and Equipment

Property and equipment includes identifiable tangible assets with physical substance and with an estimated useful life exceeding one year. The Bank has determined that, in addition to fulfilling these criteria, tangible fixed assets must include assets with a cost greater than CZK 13,000. Property and equipment also includes selected low value tangible assets with a cost between CZK 1,000 and CZK 12,999. Property and equipment is stated at historical cost less accumulated depreciation and impairment provisions and is depreciated when ready for use through the profit and loss account line "General administrative expenses – depreciation of property and equipment" on a straight line basis over their estimated useful lives. Depreciation periods for individual categories of assets are as follows:

Buildings and structures	20–50 years
Electronic machines and equipment	6–12 years
Tools and other equipment	4–12 years
Equipment, fixtures and fittings	4–6 years
Selected low value machines and equipment	2 years
Leasehold improvements	Period of the lease

Land and works of art (irrespective of their cost) and assets under construction are not depreciated. The gain and loss arising on the disposal of property and equipment is determined based on its carrying value and is recognised in the profit and loss account line "Other operating income/(expenses), net" in the year of disposal.

Property and equipment costing less than CZK 13,000, and technical improvements costing less than CZK 40,000 are charged to the profit and loss account line "General administrative expenses – other administrative expenses" in the period of acquisition.

In the year ended 31 December 2008, cars were transferred from depreciation group 1 to depreciation group 2. The accounting depreciation period was extended to five years (originally four years). The change in the depreciation group resulted from the change in the Income Taxes Act.

Repairs and maintenance of property and equipment are charged to the profit and loss account line "General administrative expenses – other administrative expenses" in the year in which the expenditure is incurred. Completed technical improvements exceeding CZK 40,000 for the taxation period are capitalised and increase the acquisition cost of intangible assets.

(g) Assets Held for Sale

The category of 'assets held for sale' includes non-current assets that are taken out of active use at the date on which criteria for sale are met, that is, the sale is approved by an authorised person, steps to locate a buyer have been initiated, and a draft of a purchase contract and other documentation is being prepared. At the same date, the assets held for sale are measured at the lower of carrying amount and fair value less selling costs. At the same time, depreciation on such assets ceases. The fair value less selling costs is determined based on an expert appraisal (refer to Note 4(f)).

In circumstances where the fair value less selling costs is lower than the carrying amount, the difference is accounted for through the recognition of an extraordinary write-off in the profit and loss account line "Other operating income/(expenses), net". Any subsequent revaluation of assets arising from the change in the fair value less selling costs is presented in the same profit and loss account line.

In the year ended 31 December 2008, the Bank changed the reporting of assets held for sale due to their immateriality. Assets held for sale for the years ended 31 December 2008 and 2007 are currently reported on a separate line within "Other assets".

(h) Impairment of Assets

Where the carrying amount of an asset stated at net book value is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount in accordance with IAS 36 Impairment of Assets. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs, and the estimated future economic benefits arising from the use of the asset and its disposal at the end of its service life.

The largest components of the Bank's assets are periodically tested for impairment and temporary impairments are provisioned through the profit and loss account line "Other operating income/(expenses), net". An increased carrying amount arising from the reversal of a temporary impairment loss must not exceed the carrying amount that would have been determined (net of amortisation or accumulated amortisation) had no impairment loss been recognised for the asset in prior years.

Significant accounting estimates and decisions in the application of accounting policies are additionally disclosed in Note 4.

(i) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and 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.

(j) Provisions for Guarantees and Other Off Balance Sheet Credit Related Commitments

In the normal course of business, the Bank enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, loan commitments, undrawn loan facilities and letters of credit. Provisions are made for estimated losses on these commitments on the same basis as set out at Note 3 (a) in respect of on balance sheet loan exposures. In estimating the losses, the Bank refers to the historical data regarding risk parameters (credit conversion factors, probability of default and loss-given default). Additional details can be found in Note 40.1.

(k) Shareholders' Equity

The statutory reserve fund comprises funds that the Bank is required to retain according to current legislation. The use of the statutory reserve fund is limited by legislation and the articles of the Bank. The fund is not available for distribution to the shareholders.

Where the Bank purchases its treasury shares or obtains rights to purchase its treasury shares, the consideration paid including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. In selling treasury shares, the Bank recognises the difference between their selling price and cost as share premium.

Dividends reduce retained earnings in the period in which they are declared by the Annual General Meeting.

(l) Accrued Interest

Interest receivable and payable accrued using the effective interest rate on outstanding loan balances, debt securities, deposit products, bonds in issue and subordinated debt is reported within "Other assets" and "Other liabilities," respectively.

(m) Foreign Currency

Transactions denominated in foreign currencies, which are monetary items, are recorded in the local currency at official exchange rates as announced by the CNB on the date of transaction. Assets and liabilities denominated in foreign currencies are translated into the local currency at the CNB exchange rate prevailing at the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the profit and loss account in "Net trading result", with the exception of foreign exchange rate differences on equity investments denominated in foreign currencies which are reported at the historical exchange rate, foreign exchange rate differences on equity securities included in the available-for-sale portfolio which are reported as a component of a change in the fair value and foreign exchange rate differences on derivatives entered into with a view to hedging currency risk associated with assets or liabilities whose foreign exchange rate differences are not reported in the profit and loss account.

(n) Interest Income and Interest Expense

Interest income and expense are recognised, on an accruals basis, in the profit and loss account lines "Interest income and similar income" and "Interest expense and similar expense" when earned or incurred, the only exception being securities held for trading which recognised in "Net trading result". The Bank accounts for the accruals of interest using the effective interest rate method. Outstanding penalties, contractual sanctions and interest on non-performing loans, which are those loans that have overdue interest and/or principal, or for which management of the Bank otherwise believes the contractual interest or principal due may not be received, are only recognised on their collection.

The Bank also recognises interest income on non-performing loans in accordance with IAS 39 Financial Instruments: Recognition and Measurement, Paragraph 93 of the IAS 39 Implementation Guidance. This interest income represents interest income using the effective interest rate in respect of the assets less a provision.

(o) Customer Loyalty Programmes

Customer loyalty programmes include Bonus Programme. The Bank recognises both the full amount of the fees for payment cards and the full amount of a commission from traders for realised transactions as income and the estimated costs of the subsequent use of the points as a provision. At the annual financial statements date, the amount of the provision is adjusted to reflect the current balance of unused points, taking into account the likelihood of their being utilised.

(p) Fees and Commissions

Fees and commissions are recognised in the profit and loss account lines "Fee and commission income" and "Fee and commission expense" on an accruals basis, with the exception of fees that are included in the effective interest rate.

The effective interest rate includes the fees directly associated with the provision of the loan, such as loan origination fees, loan application processing fees, etc. The Bank's direct external transaction costs involved in issuing loans are offset against these capitalised fees.

(q) Taxation

Tax on the profit or loss for the year comprises the current year tax charge, adjusted for deferred taxation. Current tax comprises the tax payable calculated on the basis of the taxable income for the year, using the tax rate enacted by the balance sheet date, and any adjustment of the tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. The principal temporary differences arise from certain non-tax deductible reserves and provisions, tax and accounting depreciation on tangible and intangible fixed assets and revaluation of other assets.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be available to allow the asset to be recovered.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the profit and loss account, except to the extent that it relates to items previously charged or credited directly to equity.

(r) Financial Derivative Instruments

Financial derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency and interest rate options (both purchased and sold), futures and other derivative financial instruments. The Bank uses various types of derivative instruments in both its trading and hedging activities.

Financial derivative instruments entered into for trading or hedging purposes are recognised at fair value as "Positive fair value of financial derivative transactions" and "Negative fair value of financial derivative transactions." Realised and unrealised gains and losses are recognised in the profit and loss account line "Net trading result", the only exception being unrealised gains and losses on cash flow hedges which are recognised in equity. Fair values of derivatives are based upon quoted market prices or pricing models which take into account current market and contractual prices of the underlying instruments, as well as the time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with gains and losses reported in the profit and loss account.

Hedging derivatives are defined as derivatives that comply with the Bank's risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent.

If the Bank uses a fair value hedge, the hedged item is remeasured at fair value and the gain or loss from the remeasurement (in respect of an interest rate risk exposure hedge) is recognised as an expense or income in "Interest income and similar income" or "Interest expense and similar expense" as appropriate. The same accounts of expense and income that reflect the gain or loss from remeasuring the hedged item at fair value are also used in accounting for changes in fair values of hedging derivatives that are attributable to the hedged risk.

If the Bank uses a cash flow hedge, the gains or losses from changes in fair values of hedging derivatives that are attributable to the hedged risk are retained in equity on the balance sheet and are recognised as an expense or income in the periods in which the expense or income associated with the hedged items are recognised.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 Financial Instruments: Recognition and Measurement and are therefore treated as derivatives held for trading with fair value remeasurement gains and losses reported in "Net trading result".

(s) Transactions with Securities Undertaken on behalf of Clients

Securities received by the Bank into custody, administration, management or safe-keeping are typically recorded at market or nominal values if the market value is not available and maintained off balance sheet. "Other liabilities" include the Bank's payables to clients arising from cash received to purchase securities or cash to be refunded to the client.

(t) Segment Reporting

Segment information is based on two segment formats. The primary format represents business segments – retail banking, corporate banking, investment banking and other operations. The secondary format represents the Bank's geographical markets – the Czech Republic, EU countries, other European countries and other regions.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Bank. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Bank's policy. Unallocated items mainly comprise administrative expenses.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Bank's balance sheet. Segment assets and liabilities do not include income tax items.

(u) Cash and Cash Equivalents

The Bank considers cash and deposits with the CNB, treasury bills with a residual maturity of three months or less, nostro accounts with banks institutions and loro accounts with banks to be cash equivalents. For the purposes of determining cash and cash equivalents, the minimum reserve deposit with the CNB is not included as a cash equivalent due to restrictions on its availability.

(v) Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2008

The Bank has adopted IFRSs specifically the following standards:

- Amendments to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments – Disclosures relating to the reclassification of certain financial instruments from the "held for trading" category under unusual circumstances as it is deemed that the current financial crisis is an unusual circumstance which could justify the use of this possibility by companies;
- Amendments to IAS 23: Borrowing Costs in relation to qualifying assets (effective 1 January 2009). The Bank decided to adopt this interpretation before its effective date in the 2008 reporting period. Amendments to IAS 23 had no impact on the Bank's accounting policies. The principal change in the standard that revokes the prior possibility of expensing all borrowings costs as they are incurred has no impact on these financial statements, as the capitalisation of borrowing costs for qualifying assets was already part of the Bank's accounting policies;
- IFRIC 11: IFRS 2 on Group and Treasury Shares Transactions (effective for the period beginning after 31 March 2007). The impact of adopting this interpretation is CZK 10 million in 2008, representing an increase in the Bank's costs and equity instruments that are part of the Bank's equity (an additional capital contribution from the parent company) arising from the fair value of the options under the Management Erste Group Bank Stock Option Programme; and
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective 1 January 2008).

At the date of authorisation of these financial statements, the following standards were in issue and endorsed by the EU but not yet effective:

- IFRS 8 Operating Segments (effective 1 January 2009);
- Revised IAS 1: Presentation of Financial Statements including the requirement to disclose comprehensive income (effective 1 January 2009);
- Amendment to IFRS 2: Share-based Payments defining Vesting Conditions and Cancellations (effective 1 January 2009); and
- IFRIC 13: Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008).

The adoption of these standards in future periods is not expected to have a material impact on the unconsolidated profit or equity.

The following standards or interpretations have been issued by the IASB but not yet endorsed by the EU:

- Revised IFRS 3: Business Combinations (effective for accounting periods beginning on or after 1 July 2009);
- Restructured IFRS 1: First-time Adoption of IFRS (effective 1 January 2009);
- Amendments to IAS 27: Consolidated and Separate Financial Statements (effective 1 January 2009);
- Amendments to IAS 32: Financial Instruments: Disclosure and Presentation and IAS 1: Presentation of Financial Statements relating to Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009);
- Improvements to International Financial Reporting Standards including minor amendments to IFRS 5, IAS 1, 16, 19, 20, 23, 27, 28, 29, 31, 36, 38, 39, 40 and 41 (effective 1 January 2009);
- Amendments to IFRS 1: First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements relating to the Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009);
- Amendment to IAS 39: Financial Instruments: Recognition and Measurement relating to Eligible Hedged Items (effective for accounting periods beginning on or after 30 July 2009);
- Amendment to IAS 39: Financial Instruments – Recognition and Measurement and IFRS 7: Financial instruments – Disclosures relating to the Reclassification of Financial Assets (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008);
- IFRIC 15: Agreements for the Construction of Real Estate (effective 1 January 2009);
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008); and
- IFRIC 17: Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009).

These standards are not yet effective as of the reporting date. Endorsement by the EU is expected by the time the standards and interpretations become effective. The Bank believes that the adoption of these standards will not have a material impact on the unconsolidated profit or equity.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The current financial crisis and subsequent impacts on the financial markets and overall economic environment have triggered significant adjustments to the valuation of the Bank's assets. Management is prudent in monitoring all relevant factors to determine appropriate valuation.

(a) Impairment of Loans and Advances

The Bank regularly assesses its loan portfolio for possible impairment. As part of this analysis, the Bank splits all loans into two categories: non-performing loans, i. e., a larger than insignificant part of the principal and interest is past due for more than 90 days, and performing loans. In respect of the first category of loans, the Bank believes that there is objective evidence demonstrating that a loss event occurred subsequent to the initial recognition of these loans which impacts future anticipated cash flows arising from these loans and these loans are therefore impaired on an individual basis. The Bank makes an estimate of realised losses on an individual basis for individually significant loans, and on a portfolio basis for individually insignificant loans by reference to historical indicators.

The Bank additionally splits performing loans into collectively impaired (the 7–8 internal rating) where an indication of impairment on a portfolio basis exists, and unimpaired (the 1–6 internal rating). With regard to all performing (i. e., including unimpaired) loans, the Bank assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio although the decrease cannot yet be identified with individual loans. Management of the Bank uses estimates based on historical experience of losses on loans that have similar risk characteristics. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data. Given the current unstable economic conditions, the actual future cash flows may differ from the expected cash flows as of the balance sheet date. Details about provisioning can be found in Note 40.1.

(b) Debt Securities Held to Maturity

Based upon the model of the development of future cash flows and its balance sheet structure, the Bank invests in securities and categorises a portion of purchased securities in the held-to-maturity portfolio. The key criterion driving this decision is the Bank's ability to hold the security to maturity assuming sufficient financial coverage throughout the whole term of the investment. Should the sale of a significant volume of the held-to-maturity debt securities before their maturity take place, pursuant to IAS 39 Financial Instruments: Recognition and Measurement, the Bank would be required to reallocate the held-to-maturity securities into one of the remaining portfolios. In terms of the Bank's asset management policy, the purchase of a debt security into the portfolio of the held-to-maturity debt securities is primarily considered as a tool of the banking book interest rate risk management, the ability to hold such a debt security to maturity is a pre-condition for using the debt security as a banking book interest rate risk management tool.

(c) Other-than-temporary Impairment of Securities

Securities held by the Bank, the only exception being debt securities in the held-to-maturity portfolio, are regularly marked to market and the marked-to-market revaluation is recognised in the profit and loss account (the at-fair-value-through-profit-and-loss portfolio) or in equity (the available-for-sale portfolio) which reflects impairment, if any, of the securities (for instance, as a result of the bankruptcy of their issuer).

If the Bank concludes that some of its securities held to maturity suffered other-than-temporary impairment (for instance, a full redemption of the nominal value of a debt security cannot be anticipated with a sufficient degree of certainty), the carrying amount of the security is written down and the incurred loss is taken to the profit and loss account. If the Bank concludes that some securities in the held-to-maturity portfolio suffered other-than-temporary impairment due to the changed situation on the market, they will be transferred to the available-for-sale portfolio in accordance with IAS 39: Financial instruments – Recognition and Measurement, paragraph 51.

(d) Valuation of Instruments without Direct Quotations

Financial instruments without direct quotations in an active market are valued using the mark-to-model technique. The models are regularly reviewed by a skilled employee of the Risk Management Department that is different from the preparer of the model. Each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g., for correlations, volatilities, etc). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

The valuation of structured bonds, the yields of which are linked to the underlying assets (asset backed securities) is performed monthly on the basis of quotations requested from listing agents. With assistance from the parent company, the Bank analyses the quoted prices by reference to the results of internal valuation models and other facts. Based on this analysis, the Bank can value its bonds at other than the quoted price. Where multiple quotations are available, the Bank uses the lowest quotation. The estimated carrying amount of these financial instruments is currently adversely impacted by the decreased liquidity and increased risk mark-ups on the financial markets. The continuing high volatility of market prices, along with the uncertainty regarding future developments, may result in future adjustments of the estimated valuation.

(e) Provisions

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

(f) Fair Value of Immovable Assets Held for Sale

Immovable assets held for sale are valued based on expert appraisals prepared by independent real estate appraisers and the valuation reflects anticipated prices on the real estate market. The Bank carries only immovable assets as assets held for sale.

(g) Impairment of Assets

The Bank tests its assets for impairment at least on an annual basis to determine whether there is any indication that those assets have suffered impairment. If any such indication exists, the Bank compares the carrying amount of the assets with their recoverable amount defined as the higher of fair value less costs to sell and value in use.

With regard to equity investments in subsidiaries and associates that are within the scope of IAS 27 Consolidated and Separate Financial Statements and IFRS 3 Business Combinations, the Bank determines the value in use, the only exception being investments in the real estate funds CEE Property Development Portfolio B.V. and Czech and Slovak Property Fund B.V. and investments in venture capital investment funds Czech TOP Venture Fund B.V. and CS Investment Limited.

The value in use is established as equal to the discounted value of the projected cash flows from individual investments. The discount rate used by the Bank matches the zero-risk rate increased by a credit mark-up reflecting the Group's external rating.

In respect of real estate funds, the Bank determines the fair values of individual equity investments held via these funds less costs to sell. The fair value of the entire fund represents the sum of the fair values of all individual investments. In determining the fair value of equity investments held via the real estate funds, the Bank uses estimates prepared by recognised real estate appraisers.

With respect to venture capital funds, the Bank compares the historical value of the investment recorded in the general ledger to its current fair value determined by an independent appraiser.

With regard to tangible assets within the scope of IAS 16 Property, Plant and Equipment, the Bank determines the fair value less costs to sell. The fair value is arrived at on the basis of expert appraisals prepared by certified appraisers.

Depreciation periods applicable to individual categories of property, plant and equipment and intangible assets are disclosed in Notes 3(e) and 3(f), respectively.

The Bank determines the value in use of intangible assets by estimating discounted future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal.

The fair value of securities held to maturity and securities available for sale that fall within the scope of IAS 39 Financial instruments: Recognition and Measurement is determined on the basis of standard market parameters or valuation models as appropriate.

(h) Fair Value of Collateral

In the course of its lending business, the Bank accepts movable and immovable assets and securities pledged as collateral. The Bank also uses various forms of guarantee statements to collateralise its loan receivables. Movable and immovable assets pledged as collateral are carried off balance sheet and are initially valued on the basis of an expert appraisal (nominal value of collateral) which is reduced, based on the Bank's experience, to the realisable (fair) value using the collateral discount coefficient which is derived from the type of collateral. Guarantees are valued at the nominal value reduced by the collateral coefficient which is derived from the guarantor's solvency. Subsequently, the Bank regularly assesses the realisable value of collateral for impairment. This assessment is mostly conducted as part of the regular (at least annual) monitoring of loan receivables. With respect to a large amount of collateral of the same type, the Bank uses portfolio models to determine if the realisable value of the collateral decreased. The Bank takes into account the realisable value of collateral in calculating provisions for loan receivables. Details about the determination of the realisable (fair) value of collateral are provided in Note 40.1.

5. CASH AND BALANCES WITH THE CNB

CZK mil.	2008	2007
Cash	18,668	14,719
Nostro accounts with the CNB	603	461
Minimum reserve deposits with the CNB	3,935	4,503
Total	**23,206**	**19,683**

Minimum reserve deposits represent mandatory deposits calculated in accordance with regulations promulgated by the CNB, and whose withdrawal is restricted. Minimum reserve deposits accrue interest at the Czech National Bank's two week repo rate. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulation. The nostro balances represent balances with the CNB relating to settlement activities and were available for withdrawal at the year-end.

6. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

CZK mil.	2008	2007
Nostro accounts	2,230	592
Loans and advances to financial institutions	25,544	12,293
Placements with financial institutions	50,939	42,635
Total	**78,713**	**55,520**

As of 31 December 2008, the Bank provided certain financial institutions with loans of CZK 13,670 million (2007: CZK 6,123 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 14,219 million (2007: CZK 6,842 million).

7. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of Loans and Advances to Customers by Type of Loan

CZK mil.	2008	2007
Corporate loans	138,092	128,966
Mortgage loans (both retail and corporate customers)	173,883	159,904
Retail loans	88,062	72,590
Public sector loans	12,435	15,040
Total	**412,472**	**376,500**

As of 31 December 2008, the Bank provided certain clients with loans of CZK 774 million (2007: CZK 4,203 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 835 million (2007: CZK 4,249 million).

(b) Analysis of Loans and Advances to Customers according to Credit Risk Assessment Policies

31 December 2008 **CZK mil.**	**Individually significant loans**	**Individually insignificant loans**	**Total**
Individually impaired	6,943	7,079	14,022
Collectively impaired	13,987	8,522	22,509
Unimpaired	174,840	201,101	375,941
Total	**195,770**	**216,702**	**412,472**

31 December 2007 **CZK mil.**	**Individually significant loans**	**Individually insignificant loans**	**Total**
Individually impaired	4,665	4,857	9,522
Collectively impaired	8,649	6,998	15,647
Unimpaired	169,273	182,058	351,331
Total	**182,587**	**193,913**	**376,500**

Individually significant loans represent corporate loans or loans where the Bank's exposure exceeds CZK 5 million. Individually impaired loans are those loans where objective evidence demonstrates that the associated cash flow is at risk (loss event). The Bank defines the loss event in accordance with BASEL II. This classification corresponds to the 'R' internal rating (default). Collectively impaired loans are loans that show an indication of impairment on a collective basis, which corresponds to the 7–8 internal rating, but are not non-performing. Unimpaired loans are loans with the 1–6 internal rating.

The Bank uses various types of collateral in order to mitigate credit risk exposure. The list of collateral instruments is set out in an internal regulation which also outlines the guidance to be followed in determining the values of individual types of collateral. The Bank establishes the nominal value of collateral based upon a market valuation which is subsequently used as a basis for arriving at the realisable value by applying a discount factor set for each type of collateral. Collateral that is valued at the realisable value is taken into account in provisioning (refer to Note 4a). Collateral valuation rules also set out when and how often the valuations of individual collateral instruments are updated.

8. PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

(a) Creation and use of provisions for losses on loans and advances

CZK mil.	2008	2007
At 1 January	6,105	5,175
Charge for provisions	5,469	4,353
Release of provisions	(2,102)	(2,200)
Net charge/(release) of provisions	3,367	2,153
Unwinding of discount	(418)	(251)
Use of provisions for loans written off and assigned	(877)	(957)
FX differences from provisions in foreign currency	5	(15)
At 31 December	**8,182**	**6,105**
Net change in amount of provisions	**2,077**	**930**

The use of provisions for loans written off and assigned of CZK 877 million (2007: CZK 957 million) has a zero impact on the Bank's profit.

(b) Provisions for losses on loans and advances by category

31 December 2008 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	2,250	3,835	6,085
Collectively impaired	1,049	630	1,679
Unwinding of discount	195	223	418
Total	**3,494**	**4,688**	**8,182**

31 December 2007 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	1,735	2,843	4,578
Collectively impaired	756	520	1,276
Unwinding of discount	111	139	251
Total	**2,603**	**3,502**	**6,105**

In 2007, the Bank sold part of the non-performing loans portfolio of CZK 920 million to third parties. The Bank made a profit of CZK 301 million on this transaction.

The unwinding of discount represents interest income on impaired loans on the basis of the effective interest rate in respect of the discounted value of loans.

9. SECURITIES HELD FOR TRADING

CZK mil.	2008	2007
Listed debt securities	36,339	26,121
Listed equity securities and other variable yield securities	173	2,315
Total	**36,512**	**28,436**

Debt securities comprise:

CZK mil	2008	2007
Variable yield debt securities		
Issued in CZK	707	290
Total	**707**	**290**
Fixed income debt securities		
Issued in CZK	35,502	23,979
Issued in other currencies	130	1,852
Total	**35,632**	**25,831**
Total debt securities	**36,339**	**26,121**

Equity securities and other variable yield securities comprise:

CZK mil.	2008	2007
Shares and share certificates		
Issued in CZK	25	1,804
Issued in other currencies	148	511
Total	**173**	**2,315**

Debt securities were issued by:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	35,377	23,297
Foreign state institutions	130	1,062
Financial institutions in the Czech Republic	40	832
Foreign financial institutions	–	149
Other entities in the Czech Republic	407	491
Other foreign entities	385	290
Total	**36,339**	**26,121**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil.	2008	2007
Shares and share certificates issued by		
Financial institutions in the Czech Republic	13	145
Foreign financial institutions	94	2,041
Other entities in the Czech Republic	10	24
Other foreign entities	56	105
Total	**173**	**2,315**

10. SECURITIES DESIGNATED UPON INITIAL RECOGNITION AS AT FAIR VALUE THROUGH PROFIT AND LOSS

CZK mil.	2008	2007
Debt securities		
Listed	13,434	17,287
Equity securities and other variable yield securities		
Listed	3,288	6,221
Unlisted	1,759	900
Total	**18,481**	**24,408**

This portfolio includes asset-backed securities (‘ABS’) of CZK 1,721 million (2007: CZK 3,316 million). The response of the market to the subprime mortgage crisis in the USA gave rise to an impairment of these securities and the Bank incurred a loss on the revaluation of the ABSs in the amount of CZK 1,120 million (2007: CZK 284 million) which is reported in the profit and loss account line “Other net operating income/(expenses), net” (refer to Note 36).

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence in the aggregate amount of CZK 805 million (2007: CZK 900 million). The fair value of these equity investments is not derived from the market price as these securities are not traded on an active market. The fair value was determined based on the estimate of cash flows.

Debt securities comprise:

CZK mil.	2008	2007
Variable yield debt securities		
Issued in other currencies	1,757	3,684
Total	**1,757**	**3,684**
Fixed income debt securities		
Issued in CZK	399	269
Issued in other currencies	11,278	13,334
Total	**11,677**	**13,603**
Total debt securities	**13,434**	**17,287**

Equity securities and other variable yield securities comprise:

CZK mil.	2008	2007
Shares and share certificates		
Issued in CZK	1,759	1,253
Issued in other currencies	3,288	5,868
Total	**5,047**	**7,121**

Debt securities were issued by the following issuers:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	287	187
Foreign state institutions	802	2,293
Financial institutions in the Czech Republic	838	215
Foreign financial institutions	11,067	13,942
Other entities in the Czech Republic	203	124
Other foreign entities	237	526
Total	**13,434**	**17,287**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2008	2007
Shares and share certificates issued by		
Financial institutions in the Czech Republic	4,763	4,354
Foreign financial institutions	284	2,767
Total	**5,047**	**7,121**

11. POSITIVE FAIR VALUE OF FINANCIAL DERIVATIVE TRANSACTIONS

CZK mil.	2008	2007
Financial derivatives		
– Foreign currency	10,974	10,522
– Interest rate hedging	748	245
– Interest rate non-hedging	15,043	6,667
– Other	451	138
Total	**27,216**	**17,572**

12. SECURITIES AVAILABLE FOR SALE

CZK mil.	2008	2007
Debt securities		
Listed	8,262	10,686
Equity securities and other variable yield securities		
Unlisted	62	43
Total	**8,324**	**10,729**

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence in the aggregate amount of CZK 62 million (2007: CZK 43 million).

In the year ended 31 December 2008, the Bank transferred debt securities issued by Lehman Brothers in the aggregate carrying amount of CZK 364 million and debt securities issued by the Icelandic banks Landsbanki Island HF, Glitnir banki HF and Kaupthing Bunadarbanki HF in the aggregate carrying amount of CZK 2,018 million from the held-to-maturity portfolio to the available-for-sale portfolio, as the Bank changed the intention to hold the debt securities to maturity due to the significant decrease in the rating of the issuer and intends to sell the securities. Concurrently, the Bank recognised in Other operating expense (Refer to Note 36) an impairment loss on the debt securities of Lehman Brothers amounting to CZK 301 million and an impairment loss on the debt securities issued by the Icelandic banks amounting to CZK 1,929 million..

Debt securities comprise:

CZK mil.	2008	2007
Variable yield debt securities		
Issued in CZK	2,242	2,181
Issued in other currencies	3,188	4,345
Total	**5,430**	**6,526**
Fixed income debt securities		
Issued in CZK	2,831	2,815
Issued in other currencies	1	1,345
Total	**2,832**	**4,160**
Total debt securities	**8,262**	**10,686**

Equity securities and other variable yield securities comprise:

CZK mil.	2008	2007
Shares and share certificates		
Issued in CZK	58	38
Issued in other currencies	4	5
Total	**62**	**43**

Debt securities were issued by the following issuers:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	2,636	2,665
Foreign state institutions	–	1,345
Financial institutions in the Czech Republic	2,348	2,330
Foreign financial institutions	3,013	3,987
Other foreign entities	265	359
Total	**8,262**	**10,686**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2008	2007
Shares and share certificates issued by		
Financial institutions in the Czech Republic	58	38
Other foreign entities	4	5
Total	**62**	**43**

13. SECURITIES HELD TO MATURITY

CZK mil.	2008	2007
Debt securities		
Listed	97,117	101,272
Unlisted	–	310
Total	**97,117**	**101,582**

In the year ended 31 December 2007, the "Unlisted" category comprised credit linked notes issued by the parent company, Erste Group Bank, at a cost of CZK 310 million).

Debt securities comprise:

CZK mil.	2008	2007
Variable yield debt securities		
Issued in CZK	10,556	19,065
Issued in other currencies	2,907	2,740
Total	**13,463**	**21,805**
Fixed income debt securities		
Issued in CZK	83,358	79,245
Issued in other currencies	296	532
Total	**83,654**	**79,777**
Total debt securities	**97,117**	**101,582**

Debt securities were issued by the following issuers:

CZK mil.	2008	2007
Debt securities issued by		
State institutions in the Czech Republic	57,019	47,922
Financial institutions in the Czech Republic	9,738	10,599
Foreign financial institutions	26,454	40,491
Other entities in the Czech Republic	1,766	2,071
Other foreign entities	2,140	499
Total	**97,117**	**101,582**

14. EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Name of the company	Registered office	Principal activities
Associated undertakings		
CBCB–Czech Banking Credit Bureau, a. s.	Na Příkopě 1096/21, Prague 1	Provision of information from the client information banking register
První certifikační autorita, a. s.	Prague 9, Podvinný mlýn 2178/6	Digital signature certification services
s IT Solutions CZ, s. r. o.	Prague 4, Antala Staška 32/1292	Provision of software and advisory involving hardware and software
s IT Solutions SK, spol. s r. o.	Bratislava, Prievozská 14, Slovakia	Provision of software
Subsidiary undertakings		
brokerjet České spořitelny, a. s.	Prague 6, Evropská 2690/17	Investment services
CEE Property Development Portfolio B. V.	Naritaweg 165 Amsterdam, Netherlands	Real estate investment
Consulting České spořitelny, a. s.	Prague 3, Vinohradská 1632/180	Consultancy
CS Investment Limited	Ogier House, St Julian's Avenue, St Peter Port, Guernsey	Investments and equity holdings
CS Property Investment Limited	Themistokli Dervi, 48, Nicosia, Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B. V.	Fred Roeskerstraat 123, 1076EE, Amsterdam, Netherlands	Real estate investment
Czech TOP Venture Fund B. V.	Postweg 11 6561 Groesbeek, Netherlands	Management and financing services
Erste Corporate Finance, a. s.	Prague 6, Evropská 2690/17	Consultancy
Factoring České spořitelny, a. s.	Prague 8, Pobřežní 46	Factoring
Informatika České spořitelny, a. s.	Prague 4, Antala Staška 32/1292	Provision of IT services
Investiční společnost České spořitelny, a. s.	Prague 6 – Dejvice, Evropská 2690/17	Investment management
Penzijní fond České spořitelny, a. s.	Prague 4, Poláčkova 1976/2	Pension insurance
RAVEN EU Advisory, a. s.	Brno, Jakubské nám. 101/2	Business advisory
Realitní společnost České spořitelny, a. s.	Prague 3, Vinohradská 180/1632	Real estate activities
REICO investiční společnost České spořitelny, a. s.	Prague 1, Antala Staška 2027/79	Real estate investment
s Autoleasing, a. s.	Prague 8, Střelničná 8/1680	Leasing
Stavební spořitelna České spořitelny, a. s.	Prague 3, Vinohradská 180/1632	Construction savings bank

At 31 December 2008 Name of the company	Share capital in CZK mil./ TEUR, SKK	Currency	Ownership percentage	Voting power in %	Carrying amount in CZK mil.
Associated undertakings					
CBCB–Czech Banking Credit Bureau, a. s.	1	CZK	20.00%	20.00%	0.2
První certifikační autorita, a. s.	20	CZK	23.25%	23.25%	8
s IT Solutions CZ, s. r. o.	0.2	CZK	40.00%	40.00%	0.09
s IT Solutions SK, spol. s r. o.	7	EUR	23.50%	23.50%	69
Total associated undertakings					
Subsidiary undertakings					
brokerjet České spořitelny, a. s.	160	CZK	51.00%	51.00%	82
CEE Property Development Portfolio B. V.	20	EUR	20.00%	20.00%	2,081
Consulting České spořitelny, a. s.	1	CZK	100.00%	100.00%	–
CS Investment Limited	8	EUR	99.99%	100.00%	253
CS Property Investment Limited	112	EUR	100.00%	100.00%	2,987
Czech and Slovak Property Fund B. V.	30	EUR	10.00%	10.00%	617
Czech TOP Venture Fund B. V.	19	EUR	84.25%	84.25%	184
Erste Corporate Finance, a. s.	6	CZK	50.17%	50.17%	3
Factoring České spořitelny, a. s.	84	CZK	100.00%	100.00%	57
Informatika České spořitelny, a. s.	10	CZK	100.00%	100.00%	10
Investiční společnost České spořitelny, a. s.	70	CZK	100.00%	100.00%	77
Penzijní fond České spořitelny, a. s.	350	CZK	100.00%	100.00%	1,841
RAVEN EU Advisory, a. s.	7	CZK	100.00%	100.00%	30
Realitní společnost České spořitelny, a. s.	30	CZK	100.00%	100.00%	20
REICO investiční společnost České spořitelny, a. s.	90	CZK	100.00%	100.00%	82
s Autoleasing, a. s.	372	CZK	100.0%	100.00%	372
Stavební spořitelna České spořitelny, a. s.	750	CZK	95.00%	95.00%	1,198
Total subsidiary undertakings					**9,894**
Total equity investments					**9,971**

The Bank presents its investments in the real estate funds CEE Property Development Portfolio B. V. and Czech and Slovak Property Fund B. V. as equity investments in subsidiary undertakings. While the Bank holds 20 percent and 10 percent, respectively, of the issued share capital of the funds and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank receiving substantially all of the returns and bearing substantially all of the risks of the investments. The second shareholder of CEE Property Development Portfolio B. V. bears minimal risks and receives minimal returns from its investment in the funds. Following the completion of shareholding changes, the Bank also remains the majority shareholder of Czech and Slovak Property Fund B. V. owning 67 percent of the invested funding.

During the year ended 31 December 2008, the portfolio of equity investments underwent the following changes:

- In March 2008, the Bank sold its equity investment in Leasing České spořitelny, a. s., the gain from the transaction amounted to CZK 22 million;
- In April 2008, the Bank increased the share capital of s Autoleasing, a. s. by CZK 272 million;
- In July 2008, the Bank made the final settlement of the purchase price for the equity investment in RAVEN EU Advisory, a. s., the carrying amount of the equity investment decreased to CZK 23 million; in October 2008, the Bank increased the equity investment in RAVEN EU Advisory, a. s. from 65.71 percent to 100 percent of the share capital, the carrying amount increased to CZK 30 million;
- In September 2008, the Bank increased its equity investment in s IT Services CZ, s. r. o. from 20 percent to 40 percent of the share capital and the equity investment was translated from SKK into EUR, s IT Services CZ, s. r. o. was renamed to s IT Solutions CZ, s. r. o. in October 2008;
- In September 2008, a major part of the equity investment in Pojišťovna České spořitelny, a. s. was sold (the Bank retained a 5 percent equity investment which in included in the securities available for sale portfolio), the profit on the sale transaction amounted to CZK 3,639 million (Refer to Note 37);
- In September 2008, the Bank recognised a provision against the equity investment in REICO investiční společnost České spořitelny, a. s. in the amount of CZK 80 million;
- In October 2008, the Bank increased the share capital in Realitní společnost České spořitelny, a. s. to CZK 30 million; together with the subscribed share premium, the carrying amount of the equity investment increased to CZK 120 million, concurrently, the Bank recognised a provision of CZK 100 million, the carrying amount of the equity investment decreased to CZK 20 million;
- In December 2008, the Bank increased the share capital in REICO investiční společnost České spořitelny, a. s. to CZK 90 million and subscribed for the share premium of CZK 40 million, the provision against the equity investment was newly determined at CZK 48 million, the carrying amount of the equity investment increased to CZK 82 million;
- In October and December 2008, the Bank increased the share capital in Penzijní fond České spořitelny, a. s. to the aggregate amount of CZK 350 million, together with the subscribed share premium, the carrying amount of the equity investment increased to CZK 1,841 million;
- In December 2008, the Bank entered into a Contract for the Sale of the Equity Investment in Consulting České spořitelny, a. s. and subsequently received the first payment of the purchase price which exceeded the carrying amount of the equity investment carried in the Bank's accounting books. For this reason, the carrying amount as of 31 December 2008 is zero;
- In December 2008, the Bank recognised a provision against the equity investment in Czech and Slovak Property Fund B. V. in the amount of CZK 64 million;
- By way of issuing shares with share premium, the Bank increased its equity investment in CS Property Investment Limited in relation to the expansion of its business activities;
- By way of the payment of the share premium to already owned shares, the equity investment in Czech TOP Venture Fund B. V. was increased in relation to the expansion of its business activities;
- By way of the payment of the share premium to already owned shares, the equity investment in Czech and Slovak Property Fund B. V. was increased in relation to the expansion of its business activities;
- With a view to managing foreign currency risk exposures associated with the Bank's investments in foreign subsidiaries and associates CS Investment Limited, CS Property Investment Limited, Czech TOP Venture Fund B. V., CEE Property Development Portfolio B. V., and Czech and Slovak Property Fund B. V. denominated in EUR, the Bank has defined these investments as a hedged item within the fair value hedge of these shareholdings. Hedging instruments include foreign currency interest rate swaps. The Bank remeasures these investments at fair value as a result of the foreign currency risk hedge.

CEE Property Development Portfolio B. V., Czech and Slovak Property Fund B. V., sAutoleasing, a. s. and RAVEN EU Advisory, a. s. hold investments in other entities with which they form sub-groups (detailed information is provided in the consolidated financial statements).

At 31 December 2007 Name of the company	Share capital in CZK mil./ TEUR, SKK	Currency	Ownership percentage	Voting power in %	Carrying amount in CZK mil.
Associated undertakings					
CBCB – Czech Banking Credit Bureau, a. s.	1	CZK	20.00%	20.00%	0.2
První certifikační autorita, a. s.	20	CZK	23.25%	23.25%	8
s IT Services CZ, s. r. o.	0.2	CZK	20.00%	20.00%	0.04
s IT Solutions SK, spol. s r. o.	200	SKK	23.50%	23.50%	69
Total associated undertakings					**77**
Subsidiary undertakings					
brokerjet České spořitelny, a. s.	160	CZK	51.00%	51.00%	82
CEE Property Development Portfolio B. V.	20	EUR	20.00%	20.00%	2,081
Consulting České spořitelny, a. s.	1	CZK	100.00%	100.00%	5
CS Investment Limited	8	EUR	99.99%	100.00%	254
CS Property Investment Limited	87	EUR	100.00%	100.00%	2,370
Czech and Slovak Property Fund B. V.	30	EUR	10.00%	10.00%	683
Czech TOP Venture Fund B. V.	19	EUR	84.25%	84.25%	159
Erste Corporate Finance, a. s.	6	CZK	50.17%	50.17%	3
Factoring České spořitelny, a. s.	84	CZK	100.00%	100.00%	57
Informatika České spořitelny, a. s.	10	CZK	100.00%	100.00%	10
Investiční společnost České spořitelny, a. s.	70	CZK	100.00%	100.00%	77
Leasing České spořitelny, a. s.	300	CZK	100.00%	100.00%	250
Penzijní fond České spořitelny, a. s.	100	CZK	100.00%	100.00%	241
Pojišťovna České spořitelny, a. s.	1,117	CZK	55.25%	55.25%	1,363
RAVEN EU Advisory, a. s.	7	CZK	65.71%	65.71%	46
Realitní společnost České spořitelny, a. s.	20	CZK	100.00%	100.00%	20
REICO investiční společnost České spořitelny, a. s.	80	CZK	100.00%	100.00%	80
s Autoleasing, a. s.	100	CZK	100.00%	100.00%	100
Stavební spořitelna České spořitelny, a. s.	750	CZK	95.00%	95.00%	1,198
Total subsidiary undertakings					**9,079**
Hedging instruments to equity investments denominated in EUR					65
Total equity investments					**9,221**

15. INTANGIBLE FIXED ASSETS

CZK mil.	Software	Other	Total
Cost			
1 January 2007	3,275	7,584	10,859
Additions	1,926	133	2,059
Disposals	(711)	(541)	(1,252)
31 December 2007	4,490	7,176	11,666
1 January 2008	4,490	7,176	11,666
Additions	,–	667	667
Disposals	(1)	–	(1)
Transfers	1,011	(1,011)	0
31 December 2008	**5,500**	**6,832**	**12,332**
Accumulated amortisation including impairment and provisions			
1 January 2007	(1,969)	(4,430)	(6,399)
Additions	(769)	(902)	(1,671)
Disposals	474	244	718
31 December 2007	(2,264)	(5,088)	(7,352)
1 January 2008	(2,264)	(5,088)	(7,352)
Additions	(886)	(500)	(1,386)
Disposals	–	–	–
31 December 2008	(3,150)	(5,588)	(8,738)
Net book value			
31 December 2007	2,226	2,088	4,314
31 December 2008	**2,350**	**1,244**	**3,594**

The balances as of 31 December 2008 shown above include CZK 997 million (2007: CZK 1,515 million) in assets under construction.

16. PROPERTY AND EQUIPMENT

CZK mil.	Land and buildings	Equipment, fixtures and fittings	Total
Cost			
1 January 2007	15,570	11,154	26,724
Additions	508	1,180	1,688
Disposals	(8)	(1,503)	(1,511)
31 December 2007	16,070	10,831	26,901
1 January 2008	16,070	10,831	26,901
Additions	1,385	505	1,890
Disposals	(858)	(588)	(1,446)
31 December 2008	**16,597**	**10,748**	**27,345**
Accumulated depreciation including impairment and provisions			
1 January 2007	(5,058)	(8,535)	(13,593)
Additions	(455)	(982)	(1,437)
Disposals	54	981	1,035
31 December 2007	(5,459)	(8,536)	(13,995)
1 January 2008	(5,459)	(8,536)	(13,995)
Additions	(477)	(833)	(1,310)
Disposals	218	953	1,171
31 December 2008	**(5,718)**	**(8,416)**	**(14,134)**
Net book value			
31 December 2007	10,611	2,295	12,906
31 December 2008	**10,879**	**2,332**	**13,211**

The balances as of 31 December 2008 shown above include CZK 1,390 million (2007: CZK 626 million) in assets under construction. In 2008, the Bank recognised asset impairment of CZK 2 million (2007: CZK nil). This impairment largely relates to real estate that is insufficiently used by the Bank for its activities.

17. OTHER ASSETS

CZK mil.	2008	2007
Accrued income	3,857	3,736
Of which:		
– Interest on loans and advances to financial institutions	717	314
– Interest and fees on loans and advances to customers	131	425
– Coupons on bonds	3,003	2,996
– Other	6	1
Deferred tax asset (refer to Note 26)	435	249
Income tax receivable	412	–
Other tax receivables	115	68
Assets held for sale	9	78
Deferred expenses	1,106	1,047
Receivables from securities trading	645	3,433
Various receivables	1,585	1,669
Total	**8,164**	**10,280**

18. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

CZK mil.	2008	2007
Loro accounts	1,524	737
Term deposits	17,521	22,668
Loans received	22,407	15,507
Total	**41,452**	**38,912**

As of 31 December 2008, the Bank received from other financial institutions loans of CZK 17,167 million (2007: CZK 11,964 million) under repurchase transactions which were collateralised by securities amounting to CZK 17,145 million (2007: CZK 11,787 million).

19. AMOUNTS OWED TO CUSTOMERS

CZK mil.	2008	2007
Repayable on demand	368,330	367,797
Other deposits	153,241	106,608
Total	**521,571**	**474,405**

As of 31 December 2008, the Bank received from customers loans of CZK 6,796 million (2007: CZK nil) under repurchase transactions which were collateralised by securities amounting to CZK 6,826 million (2007: CZK nil).

The fair value option has been applied in respect of part of amounts owed to customers (refer to Note 20).

Analysis of amounts owed to customers:

CZK mil.	2008	2007
Savings deposits	85,422	94,319
Other amounts owed to customers		
– Public sector	61,692	51,049
– Corporate clients	95,177	93,662
– Retail clients	279,280	235,375
Total	**521,571**	**474,405**

20. LIABILITIES AT FAIR VALUE

CZK mil.	2008	2007
Payables to customers – deposits with the fair value option	3,443	3,080
Liabilities arising from issued securities at fair value	1,741	1,189
Payables arising from short sales – debt securities	2,424	3,167
Payables arising from short sales – shares	88	173
Total	**7,696**	**7,609**

"Liabilities arising from issued securities at fair value" include bond issues ISIN CZ0003701237, CZ0003701278, CZ0003701351, CZ0003701518 and CZ0003701690 (refer to Note 23).

Change in the fair value of debt securities:

CZK mil.	2008	2007
Change in the fair value unrelated to changes in market conditions		
Payables to customers – deposits with the fair value option	175	6
Liabilities arising from issued securities at fair value	41	14
Total	**216**	**20**
Difference between the carrying amount and the contractual agreed nominal value due at maturity		
Payables to customers – deposits with the fair value option	21	104
Liabilities arising from issued securities at fair value	63	35
Total	**84**	**139**

Short sales are short-term trading liabilities which mature between one and three months. Changes in the fair value of these trading liabilities are not analysed since the liabilities are different at each balance sheet date.

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair value of the liabilities at the issue date and the balance sheet date.

21. NEGATIVE FAIR VALUE OF FINANCIAL DERIVATIVE TRANSACTIONS

CZK mil.	2008	2007
Financial derivatives		
– Foreign currency	9,295	3,857
– Interest rate hedging	470	727
– Interest rate non–hedging	14,689	5,994
– Other	1,006	488
Total	**25,460**	**11,066**

22. BONDS IN ISSUE

	ISIN	Date of issue	Maturity	Interest rate	2008 CZK mil.	2007 CZK mil.
Mortgage bonds	CZ0002000235	March 2003	March 2008	5.20%	–	1,071
Mortgage bonds	CZ0002000276	August 2003	August 2008	4.50%	–	1,503
Mortgage bonds	CZ0002000342	April 2004	April 2009	3.50%	299	303
Mortgage bonds	CZ0002000409	August 2004	August 2009	3.60%	699	698
Mortgage bonds	CZ0002000524	May 2005	May 2010	4.50%	3,039	2,073
Mortgage bonds	CZ0002000573	June 2005	June 2010	4.05%	3,048	2,056
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	5,170	5,403
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,697	4,863
Mortgage bonds	CZ0002000771	December 2005	December 2008	4.45%	–	2,496
Mortgage bonds	CZ0002000896	October 2006	October 2011	Floating	1,146	1,163
Mortgage bonds	CZ0002000904	October 2006	October 2014	3.65%	1,022	1,067
Mortgage bonds	CZ0002000920	October 2006	October 2011	3.00%	770	788
Mortgage bonds	CZ0002000995	May 2007	May 2012	5.90%	1,063	1,082
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	760	762
Mortgage bonds	CZ0002001084	July 2007	July 2014	Floating	1,618	1,640
Mortgage bonds	CZ0002001126	August 2007	August 2012	3.70%	843	884
Mortgage bonds	CZ0002001134	August 2007	August 2017	Floating	2,998	2,998
Mortgage bonds	CZ0002001191	October 2007	October 2022	Floating	1,998	1,998
Mortgage bonds	CZ0002001274	November 2007	November 2014	Floating	600	600
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,094	2,130
Mortgage bonds	CZ0002001290	November 2007	November 2010	4.00%	999	999
Mortgage bonds	CZ0002001407	December 2007	December 2022	Floating	3,997	3,997
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	464	469
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,376	5,438
Mortgage bonds	CZ0002001613	December 2007	December 2022	Floating	–	3,000
Mortgage bonds	CZ0002001639	December 2007	December 2012	3.70%	414	69
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	42	4
Mortgage bonds	CZ0002001654	December 2007	December 2022	Floating	1,493	157
Bonds	CZ0003700759	February 2004	February 2008	1.00% x)	–	316
Bonds	CZ0003700767	February 2004	February 2014	3.51% x)	1,168	1,460
Bonds	CZ0003701013	May 2005	June 2008	– x)	–	230
Bonds	CZ0003701047	July 2005	July 2012	2.72% xx)	584	736
Bonds	CZ0003701054	September 2005	September 2017	4.75% x)	219	211
Bonds	CZ0003701062	October 2005	October 2013	5.00% x)	259	252
Bonds	CZ0003701286	March 2007	March 2012	3.49%	970	948
Bonds	CZ0003701740	September 2008	September 2009	Floating	293	–
Bonds	CZ0003701781	December 2008	December 2010	0.50%	11	–
Depository bills of exchange					2,434	4,994
Total					**50,587**	**58,858**

x) Bonds were issued with a combined yield.

xx) If the early repayments option is not exercised, the interest rate is increased by 3.55 percent.

Of the aggregate carrying value of the mortgage bonds, CZK 11,997 million (2007: CZK 14,180 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with applicable accounting policies, these mortgage bonds are remeasured at fair value.

The ISIN CZ0003700767 and CZ0003701047 issues of bonds are remeasured at fair value because they are hedged against interest rate risk and early repayment options are attached to the bonds. Of the aggregate carrying value of the mortgage bonds, CZK 1,752 million (2007: CZK 2,042 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate.

The ISIN CZ0003701013, CZ0003701054 and CZ0003701062 issues were placed with a share index option which is recorded separately and is remeasured at fair value. The ISIN CZ0002000342, CZ0002000409, CZ0002001126, CZ0002001613, CZ0002001639, CZ0002001647 and CZ0002001654 mortgage bonds issues and the ISIN CZ0003701013, CZ0003701740 and CZ0003701781 bond issues are not traded on any regulated market. Other issues of mortgage bonds and bonds are traded on the official free market of the Prague Stock Exchange.

The Bank has also placed the following bonds which are reported as "Liabilities arising from issued securities at fair value" (refer to Note 21):

	ISIN	Date of issue	Maturity	Interest rate	2007 CZK mil.	2006 CZK mil.
Bonds	CZ0003701237	February 2007	April 2011	x)	282	273
Bonds	CZ0003701278	March 2007	March 2010	xx)	740	746
Bonds	CZ0003701351	September 2007	September 2011	x)	279	170
Bonds	CZ0003701518	April 2008	May 2011	x)	282	–
Bonds	CZ0003701690	July 2008	January 2012	x)	158	–
Total					**1,741**	**1,189**

x) Bonds bear no interest, the yield of bonds increases on a one-off basis as of the final maturity date.
xx) The yield depends on the development of the EUR/PLN spot exchange rate.

The ISIN CZ0003701237, CZ0003701351, CZ0003701518 and CZ0003701690 issues were placed as structured bonds, the yield of which is determined as equal to the difference between the issue rate and 'another value' in accordance with the issue terms and conditions. The amount of the 'another value' will be based on a set of indexes and an equity bucket and will be payable as of the final maturity of the bonds. Similarly, the ISIN CZ0003701278 issue was placed as a structured bond, the yield of which is derived from the development of the EUR/PLN spot exchange rate. The ISIN CZ0003701237, CZ0003701351, CZ0003701518 and CZ0003701690 issues are not traded on any regulated market. The ISIN CZ0003701278 issue is traded on the official free market of the Prague Stock Exchange.

23. PROVISIONS

(a) Structure of provisions

CZK mil.	2008	2007
Provision for legal disputes relating to credit transactions	1,451	1,986
Provision for off balance sheet credit risks	187	143
Other provisions	554	882
Total	**2,192**	**3,011**

Other provisions include the provisions for the Bonus programme, legal disputes, onerous contracts and other risks. The most significant provision for the Bonus programme is maintained to cover the cost of providing clients with awards for the use of payment cards in making cash-free payments.

(b) Charge for and use of provisions

CZK mil.	2008	2007
Balance at 1 January	3,011	2,650
Charge for provisions	129	525
Use of provisions	(760)	(22)
Release of provisions	(188)	(142)
Balance at 31 December	**2,192**	**3,011**

(c) Provisions for other credit risks and off balance sheet credit exposures

Provisions for other credit risks and off balance sheet credit exposures are recorded to cover specific risks arising from pending legal disputes relating to loan transactions and to cover losses that result from off balance sheet and other exposures.

CZK mil.	2008	2007
Balance at 1 January	2,129	2,097
Charge for provisions	116	152
Use of provisions	(534)	(11)
Release of provisions	(73)	(109)
Balance at 31 December	**1,638**	**2,129**

24. OTHER LIABILITIES

CZK mil.	2008	2007
Accrued expenses	1,336	1,127
Of which:		
– Interest on amounts owed to financial institutions	184	88
– Interest on amounts owed customers	305	196
– Interest on bonds in issue	798	791
– Other	49	52
Deferred income	1,056	1,201
Various creditors	2,118	1,729
Payables from securities trading	803	3,152
Payables from payment transactions	2,476	2,816
Estimated payables	3,839	3,203
Other liabilities	1,344	125
Income tax liability	–	378
Total	**12,972**	**13,731**

Estimated payables largely comprise estimated payables for staff and management bonuses, unbilled supplies and contributions to the Deposit Insurance Fund.

Deferred income principally includes deferred commissions and fees related to amounts due from customers in respect of the effective interest rate.

25. DEFERRED INCOME TAXES

Deferred income tax is calculated from all temporary differences under the liability method using a principal tax rate of 20 percent (2007: 20 percent).

Net deferred income tax assets (liabilities) are as follows:

CZK mil.	2008	2007
Balance at the beginning of the year	249	(80)
Movement for the year – equity	151	76
Movement for the year – income/(expense)	35	253
Net balance at the year-end – asset/(liability)	**435**	**249**

Deferred income tax assets and liabilities are attributable to the following items:

CZK mil.	2008	2007
Deferred tax assets		
Non-tax deductible reserves and provisions	244	340
Changes in the fair value of securities available for sale and hedging derivatives	136	–
Other temporary differences	187	102
Total deferred tax asset	**567**	**442**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(132)	(178)
Changes in the fair value of securities available for sale and hedging derivatives	–	(15)
Total deferred tax liability	**(132)**	**(193)**
Net deferred tax asset (liability)	**435**	**249**

The impact of deferred tax assets on equity arises from changes in the fair value of securities available for sale and hedging derivatives. The deferred tax (charge)/credit in the profit and loss account comprises the following temporary differences:

CZK mil.	2008	2007
Provisions and reserves	(96)	196
Accelerated depreciation	46	61
Other temporary differences	85	(4)
Total (Note 38)	**35**	**253**
Of which: impact of the change of rate	**–**	**(50)**

26. SUBORDINATED DEBT

Date of issue	Maturity of the issue	Interest rate	Nominal value	Carrying amount at 31 December 2008 CZK mil.	Carrying amount at 31 December 2007 CZK mil.
16 May 2005	16 May 2015	6M PRIBOR+0.46%	3 000	2,780	2,950
2 October 2006	2 October 2016	6M PRIBOR+0.45%	3 000	2,417	2,655
Total				**5,197**	**5,605**

Both issues of subordinated debt were made in certificate form and placed on the free market of the Prague Stock Exchange. If the Bank does not exercise its option for premature repayment of the debt after the lapse of five years, the interest rates attached to each issue shall increase to 6M PRIBOR plus 1.4 percent p. a. Interest is payable semi-annually in arrears. The debt is unsecured and unconditional. On 5 May 2005 and 13 September 2006, the Czech National Bank issued certificates confirming that these issues of subordinated debt are compliant with all regulatory requirements and may be included in the additional capital of the Bank for the purposes of calculating the capital adequacy ratio.

27. SHARE CAPITAL

Authorised, called-up and fully paid share capital was as follows:

	2008 Number of shares	CZK mil.	2007 Number of shares	CZK mil.
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Priority shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Priority shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, priority shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Priority shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Priority registered shares can be issued only to municipalities and local governments in the Czech Republic. The priority registered shares can be transferred to entities other than municipalities and local governments of the Czech Republic only subject to the approval of the Board of Directors.

28. REVALUATION GAINS OR LOSSES

	Securities available for sale		Hedging derivatives		Total	
	2008	2007	2008	2007	2008	2007
At 1 January						
Gain on fair value changes	77	386	–	–	77	386
Deferred tax liability	(15)	(91)	–	–	(15)	(91)
Cash flow hedge	–	–	–	1	–	1
Total at 1 January	**62**	**295**	**–**	**1**	**62**	**296**
Changes during the year						
Loss on fair value changes	(760)	(309)	–	–	(760)	(309)
Deferred tax (liability)/asset	151	76	–	–	151	76
Cash flow hedge	–	–	–	(1)	–	(1)
At 31 December						
Gain/(loss) on fair value changes	(683)	77	–	–	(683)	77
Deferred tax (liability)/asset	136	(15)	–	–	136	(15)
Cash flow hedge	–	–	–	–	–	–
Total at 31 December	**(547)**	**62**	**–**	**–**	**(547)**	**62**

29. INTEREST INCOME AND SIMILAR INCOME

CZK mil.	2008	2007
Loans and advances to financial institutions	5,101	2,978
Loans and advances to customers	26,216	20,129
Of which: unwinding of discount	418	251
Debt securities	5,446	5,393
of which: Securities designated upon initial recognition as at fair value through profit and loss	788	833
Securities available for sale	470	488
Securities held to maturity	4,188	4,072
Proceeds from shares and other variable yield securities	1,782	1,170
of which: Securities designated upon initial recognition as at fair value through profit and loss	668	372
Securities available for sale	83	19
Equity investments	1,031	779
Other	149	99
Total	**38,694**	**29,769**

30. INTEREST EXPENSE AND SIMILAR EXPENSE

CZK mil.	2008	2007
Amounts owed to financial institutions	1,533	1,347
Amounts owed to customers	7,180	4,359
Bonds in issue	2,245	1,299
Subordinated debt	248	197
Fair value of interest rate hedging derivatives	54	103
Total	**11,260**	**7,305**

The loss from the revaluation of hedging derivatives in the amount of CZK 54 million (2007: CZK 103 million) decreases the loss from the revaluation of the hedged part of issued bonds in the amount of CZK 13,748 million (2007: CZK 16,222 million), whose fair value is hedged by these derivatives (Refer to Note 22).

31. PROVISIONS FOR CREDIT RISKS

CZK mil.	2008	2007
Charge for reserves for the year (refer to Note 23)	(116)	(152)
Release of reserves for the year (refer to Note 23)	73	109
Net (charge)/release of reserves for the year	**(43)**	**(43)**
Charge for provisions for the year (refer to Note 8)	(5,469)	(4,353)
Release of provisions for the year (refer to Note 8)	2,102	2,200
Net (charge)/release of provisions for the year	**(3,367)**	**(2,153)**
Reversal of the charge for provisions for outstanding interest	–	–
Write-offs of loans not covered by provisions	(16)	(9)
Recoveries	138	89
Total	**(3,288)**	**(2,116)**

32. FEE AND COMMISSION INCOME

CZK mil.	2008	2007
Lending activities	2,654	1,976
Payment transactions	7,044	6,144
Custody, trustee and administration of assets	232	250
Securities transactions	890	929
Mediation of insurance activities	333	177
Mediation of construction savings activities	795	602
Foreign exchange transactions	41	40
Other financial activities	406	337
Total	**12,395**	**10,455**

33. FEE AND COMMISSION EXPENSE

CZK mil.	2008	2007
Lending activities	604	286
Payment transactions	686	586
Securities transactions	155	3
Mediation of insurance activities	51	26
Mediation of construction savings activities	210	157
Foreign exchange transactions	1	10
Other financial activities	93	156
Total	**1,800**	**1,224**

34. NET TRADING RESULT

CZK mil.	2008	2007
Realised and unrealised gains/(losses) on securities held for trading	825	(852)
Derivative instruments	(717)	372
Foreign exchange trading	1,322	1,862
Other	177	312
Total	**1,607**	**1,694**

With effect from 4 February 2008, the Bank transferred its financial markets trading to Erste Group Bank's newly implemented business model of Group Capital Markets. The market risk arising from the sales activities of the Financial Markets Division (i. e., transactions with retail and corporate clientele), with the exception of the equity risk and transactions for the Bank's liquidity management purposes (money market), was transferred to Erste Group Bank. Trading gains (i. e. from Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in the "Net trading result".

The basic principle underlying these rules involves the Erste Group Bank absorbing potential losses in individual classes of assets in exchange for the risk premium derived from the VaR indicator. The Cost Income Ratio is reallocated to individual participants in the model based on the results from the sale of assets in individual asset groups.

The net trading result for 2008 includes the income from the market positions of Erste Group Bank structured as follows:

CZK mil.	2008	2007
Gains from foreign exchange transactions	354	–
Gain from fixed income securities	195	–
Total	**549**	**–**

35. GENERAL ADMINISTRATIVE EXPENSES

(a) Composition of general administrative expenses

CZK mil.	2008	2007
Staff costs		
Wages and salaries	5,801	5,569
Social security costs	1,709	1,885
Other staff costs	409	390
Total staff costs	**7,919**	**7,844**
Other administrative expenses		
Data processing expenses	2,798	2,057
Building maintenance and rent	1,589	1,409
Costs of business transactions	1,237	1,055
Advertising and marketing	944	697
Advisory and legal services	341	247
Other administrative expenses	711	545
Total other administrative expenses	**7,620**	**6,010**
Depreciation		
Amortisation of intangible assets (Note 15)	1,386	1,671
Depreciation of property and equipment (Note 16)	1,310	1,466
Total depreciation and amortisation	**2,696**	**3,137**
Total	**18,235**	**16,991**

(b) Board of Directors and Supervisory Board remuneration

CZK mil.	2008	2007
Remuneration	100	124
Total	**100**	**124**

Remuneration to the members of the Board of Directors and Supervisory Board are accounted for short-term employee benefits.

(c) Average number of employees and Board members

CZK mil.	2008	2007
Board of Directors	7	7
Supervisory Board	10	11
Staff	10,145	10,098

With a view to increasing the relation of staff to the Bank, fostering loyalty of the Bank's key employees and attracting new key managers, the Supervisory Board of Erste Bank, resolved, based upon authorisation given by the General Meeting of Shareholders dated 8 May 2001, to implement an Employee Erste Bank Stock Ownership Programme ('ESOP') and a Management Erste Bank Stock Option Programme ('MSOP') within the Group.

All employees of the Bank were entitled to subscribe for shares under the Employee Stock Ownership Programme. Each employee was entitled to subscribe for a maximum of 200 shares (2007: 200 shares). The price of one share was established on the basis of the average rate in April 2008 decreased by a 20 percent discount. The 20 percent discount is conditional upon the shares being held for a period of one year. A total of 767 employees (2007: 809) participated in the programme and subscribed for 105,872 shares (2007: 98,868).

Under the Management Erste Bank Stock Option Plans 2002 and 2005, no tranches of options were granted in 2008, only the options acquired in past years were exercised. The options acquired under the Management Erste Bank Stock Option Plans 2005 entitle the holders to acquire Erste Group Bank's shares for the price of EUR 43 which was determined as the average price of the shares ruling in April 2005 plus a 10 percent mark-up, rounded to EUR 0.5. For the options subscribed until 2004 under the Management Erste Bank Stock Option Plan 2002, the price of the share was EUR 16.50. In 2008, 1,550 options granted under the Management Erste Bank Stock Option Plan 2002 were exercised, for which 6,200 shares were purchased (2007: 52,800). No options granted under the Management Erste Bank Stock Option Plan 2005 were exercised in 2008 (the first exercise period in 2007: 10,750, 1,300 options in the second exercise period, and 130 options during the third exercise period).

The Management Erste Bank Stock Option Plan 2008 intended for managers and key employees announced in April 2008 was cancelled in November 2008 pursuant to the resolution of the Erste Group's Board of Directors due to the significant difference between the exercise value of the option (EUR 47) valid for MSOP 2008 and the market value of Erste Group Bank's share. No options were granted under this programme.

The aggregate amount of the discount in respect of both programmes was CZK 32 million (2007: CZK 33 million) and was reported within "General administrative expenses – other staff costs".

36. OTHER OPERATING INCOME/(EXPENSES), NET

CZK mil.	2008	2007
Release of other reserves	115	33
Gain on the sale of real estate	174	153
Income from other services	68	84
Received compensation for deficits and damage	135	39
Release of provisions against non-credit receivables	17	11
Income from statute-barred deposits	1	1
Other operating income	138	201
Total other operating income	**648**	**522**
Charges for other reserves	(13)	(372)
Contribution to the Deposit Insurance Fund	(486)	(442)
Loss on the sale and impairment of real estate	(18)	(5)
Deficits and damage, fines and penalties	(185)	(56)
Charge for provisions against non-credit receivables	(70)	(7)
Sponsorship contributions	–	(40)
Other operating charges	(37)	(81)
Other taxes	(48)	(40)
Total other operating expense	**(857)**	**(1,043)**
Gains on the sale of securities held to maturity	–	12
Losses from the revaluation/sale of securities at fair value through profit or loss that are not designed for trading	(2,142)	(458)
(Losses)/gains from the sale of securities available for sale	(98)	112
Impairment of securities available for sale	(2,245)	–
(Recognition)/release of provisions for equity investments	(190)	175
Total other operating income/(expenses), net	**(4,884)**	**(680)**

The line “Losses from the revaluation/sale of securities at fair value through profit or loss that are not designed for trading” includes the loss from the revaluation of asset-backed securities of CZK 1,120 million (2007: CZK 284 million) (refer to Note 10).

The line “Impairment of securities available for sale” includes impairment of the bonds issued by Lehman Brothers and Icelandic banks in the amount of CZK 2,245 million (refer to Note 12).

37. GAINS ON THE SALE OF EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The line “Gains on the sale of equity investments in subsidiary and associated undertakings“ for the year ended 31 December 2008 includes gains from the sale of an equity investment in Pojišťovna České spořitelny, a. s. of CZK 3,639 million, from the sale of Burza cenných papírů Praha, a. s. of CZK 636 million and from the sale of Consulting České spořitelny, a. s. of CZK 2 million. The line “Gains on the sale of equity investments in subsidiary and associated undertakings “ for the year ended 31 December 2007 included gains from the sale of an equity investment in MasterCard Incorporated of CZK 51 million and from the sale of an equity investment in České nemovitosti, a. s. of CZK 39 million.

38. INCOME TAX EXPENSE

CZK mil.	2008	2007
Current tax expense	(2,559)	(3,329)
Deferred tax income/(expense) (Note 25)	35	253
Total	**(2,524)**	**(3,076)**

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Czech Republic as follows:

CZK mil.	2008	2007
Profit before tax	17,506	13,692
Tax calculated at a tax rate of 21 percent (2007: 24 percent)	**3,676**	**3,286**
Income not subject to tax	(1,845)	(728)
Expenses not deductible for tax purposes	737	720
Tax allowances and credits, including the utilisation of tax losses, tax recoveries and additional taxes for prior periods	(49)	65
Other items	40	(14)
Subtotal – current tax expense	**2,559**	**3,329**
Movement in deferred taxation (Note 26)	(35)	(253)
Income tax expense	**2,524**	**3,076**
Effective tax rate	**14.42%**	**22.47%**

Further information about deferred income tax is presented in Note 26.

39. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the year as shown in the statements of cash flows are composed of the following balances:

CZK mil.	2008	2007
Cash (Note 5)	18 668	14 719
Nostro accounts with the CNB (Note 5)	603	461
Treasury bills with maturity of less than three months	10 792	100
Nostro accounts with financial institutions (Note 6)	2 230	592
Loro accounts with financial institutions (Note 18)	(1 524)	(737)
Total cash and cash equivalents	**30 769**	**15 135**

40. RISK MANAGEMENT

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

The Bank classifies financial instruments into the trading and banking (investment) portfolios in accordance with BASEL II rules as per CNB Regulation No. 123/2007 as amended by Regulation 282/2008 Coll., on the rules of prudent business of banks, savings and lending associates and securities traders (henceforth 'Regulation 123/2007'). The Bank uses various risk management techniques for the banking and trading books.

Financial instruments may result in certain risks to the Bank. The most significant is the credit risk, i. e. the counterparty risk. In addition, the investment portfolio of the Bank is exposed to the interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate and equity risks and other risks relating to trading with complex instruments. All transactions with financial instruments also carry operational risk.

In 2007, a division managed by the Chief Risk Officer was formed as part of the reorganisation of the Bank's structure. This division, which is completely independent of the business divisions of the Bank, centralises all departments tasked with risk management such as Legal and Compliance, Central Risk Management and Credit Risk Management, Credit Risk Controlling and Credit Portfolio Management. Central Risk Management is further divided into Financial Markets Risk Management, Operational Risks and Economic Capital.

In accordance with IAS 39: Financial Instruments: Recognition and measurement, the Bank classifies financial instruments into the following categories:
- Loans and advances not intended for trading;
- Investments held to maturity;
- Financial assets at fair value through profit and loss;
- Financial assets available for sale;
- Financial liabilities measured at amortised value; and
- Financial liabilities at fair value through profit and loss.

The Bank records the following categories of financial instruments:
- Cash and balances with CNB;
- Loans and advances to financial institutions;
- Loans and advances to customers – retail and corporate,
- Securities held for trading;
- Securities designated upon initial recognition as at fair value through profit and loss;
- Financial derivative instruments;
- Securities available for sale;
- Securities held to maturity;
- Other assets;
- Amounts owed to financial institutions;
- Amounts owed to customers;
- Liabilities at fair value;
- Financial derivative instruments;
- Bonds in issue;
- Other assets; and
- Subordinated debt.

The balances of financial instruments in individual categories are as follows:
The table shows the comparison between categories of financial assets and liabilities reported according to IFRS 7: Financial instruments – Disclosures and categories of financial assets and liabilities reported according to IAS 39: Financial instruments: Recognition and measurement.

At 31 December 2008	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities (measured at amortised value)	Financial liabilities at fair value
FINANCIAL ASSETS						
Cash and balances with CNB	23,206					
Loans and advances to financial institutions	76,001		2,712			
Loans and advances to customers	404,290					
Securities held for trading			36,512			
Securities designated upon initial recognition as at fair value through profit and loss			18,481			
Financial derivative instruments			27,216			
Securities available for sale				8,324		
Securities held to maturity		97,117				
Other assets	8,164					
FINANCIAL LIABILITIES						
Amounts owed to financial institutions					41,452	
Amounts owed to customers					521,571	
Liabilities at fair value						7,696
Financial derivative instruments						25,460
Bonds in issue					50,587	
Other liabilities					12,972	
Subordinated debt					5,197	

At 31 December 2007	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities (measured at amortised value)	Financial liabilities at fair value
FINANCIAL ASSETS						
Cash and balances with CNB	19,683					
Loans and advances to financial institutions	55,520					
Loans and advances to customers	370,395					
Securities held for trading			28,436			
Securities designated upon initial recognition as at fair value through profit and loss			24,408			
Financial derivative instruments			17,572			
Securities available for sale				10,729		
Securities held to maturity		101,582				
Other assets	10,280					
FINANCIAL LIABILITIES						
Amounts owed to financial institutions					38,912	
Amounts owed to customers					474,405	
Liabilities at fair value						7,609
Financial derivative instruments						11,066
Bonds in issue					58,858	
Other liabilities					13,731	
Subordinated debt					5,605	

40.1 Credit Risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Credit Risk Management Methodology

In managing credit risk, the Bank applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy includes:

- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities;
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan;
- Principal methods for arriving at an internal rating of a borrower and its periodic review;
- Basic principles underlying the determination of the system of limits and the structure of approval authorities;
- Risk parameters calculation methodology;
- Rules of loan collateral management;
- Structure of basic product categories;
- Provision calculation methodology;
- Stress testing methodology; and
- Credit risk pricing methodology.

Breakdown of the Portfolio for Credit Risk Management Purposes

For credit risk management purposes, the Bank's loan portfolio is broken down as follows:

- Retail receivables are receivables from individuals and small enterprises with the annual turnover of up to CZK 30 million. The portfolio of retail receivables is further divided by type of counterparty and product for the purpose of regular analyses, and it is further divided into smaller sub-portfolios as part of ad hoc analyses. The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.
- Receivables from corporate counterparties include receivables from legal entities which do not comply with the 'small enterprise' definition. The portfolio of corporate receivables is further divided by counterparty type (large enterprises, mid-size enterprises, project financing and municipalities) for the purposes of regular analyses. The methods of managing the credit risk of corporate receivables are based on statistical models (namely for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular individual analysis of individual customers.

With exception of sporadic border-line cases, the implemented breakdown of the portfolio corresponds to the asset classes defined in CNB Regulation 123/2007 which implements the Basel II rules.

For the purpose of provisioning, monitoring and predicting losses, the Bank differentiates between individually significant and individually insignificant exposures when managing credit risk. The credit risk attached to individually significant exposures is managed on an individual basis with the minor use of portfolio models. The Bank aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis. The Bank's category of individually significant exposures includes corporate loans, including small and medium sized enterprises (SME), and private sector loans. Individually insignificant exposures include retails loans to households, individuals, individuals – entrepreneurs and small municipalities (MSE).

Individually significant loans predominantly include loans from Bank's corporate portfolio. Corporate (individually significant) loans are additionally split into 6 portfolios: large corporate clients the exposure of which is managed using a unified method in the Erste Group Bank, large corporate customers administered and managed on the Bank level (turnover over CZK 1,000 million), small and medium sized enterprises (turnover from CZK 30 to 1,000 million), project funding and corporate mortgages, municipality loans and loans from the Workout department. Corporate loans additionally match the corporate class (segment) of assets under BASEL II. or special funding.

Individually insignificant loans, including MSE loans, principally encompass the Bank's retail loans. These loans are additionally split into 15 product portfolios. The key portfolios include mortgage retail loans, cash and consumer loans, credit card loans and overdraft loans. The Bank's retail loans additionally match the 'individuals/households' assets class (segment) under BASEL II.

All loans are additionally segmented into non-default loans (performing) and default loans (non-performing). Default is defined using the BASEL II criteria.

Collection of Key Risk Management Information

In managing credit risk, the Bank refers not only to its own portfolio information but also the portfolio information of other members of the Česká spořitelna Group. The Bank additionally uses information obtained from external sources such as the Credit Bureau or ratings provided by reputable rating agencies. As part of the preparation for the application of Regulations 2006/48/EU and 2006/49/EU (Basel II), the collected data were expanded and their quality markedly improved in the past. These data provide a basis for modelling credit risk and as a support during debt recovery, valuation of receivables and calculation of losses.

Internal Rating Tools

The internal rating of the Bank reflects the ability of counterparties to meet with their financial liabilities. The degree of the risk is reflected in the internal rating as a probability of default of the debtor in the following twelve months. This degree of risk complies with the definition of new capital requirements set out in CNB Regulation 123/2007 (BASEL II).

The Bank allocates internal ratings to all loan receivables from customers. In addition to the rating of individuals and households, the Bank uses the 13-degree rating scale of non-default categories and one group for “R” default customers. The scale for individuals and households is 8 + R.

The definition of default of a debtor complies with the CNB Regulation referred to above and thus reflects the debt status of any portion of the receivable with the limit of 90 days and more past the due date, bankruptcy proceedings, insolvency or forced restructuring of a receivable.

Individual customer segments (classes) are, under BASEL II, subject to various rating instruments and all of them are currently the Erste Group Bank-wide standard.

Counterparties from the sovereign and banking segments are evaluated using a model which is unified for the whole Erste Group Bank. The model places great emphasis on independent external ratings combined with other information.

Counterparties under specialised financing and projects are also subject to the Group-wide instrument, but the rating model reflects local specifics of the legislative and economic environment and the specifics of project financing and is primarily based on projected cash flow.

Corporate customers are evaluated on the basis of their financial strength, business information, business plan and credit history data. The primary source of information includes financial statements; less significant weight is given to soft factors.

The rating of the small enterprises segment is based on similar foundations as the rating of corporates, but the overall rating substantially takes into account the solvency of the enterprise owner or the entrepreneur himself.

Individuals/households are evaluated on the basis of socio-demographic data, behavioural scoring and loan history, obtained primarily from external registers of debtors (Credit Bureau) and historical data of the Bank and the Group.

The Bank uses its own model based on analysis of budgets in arriving at the internal ratings of its clients from among budget-driven and subsidised organisations.

Ratings for corporate, small enterprises and individuals segments are prepared using a unified Group-wide database designed to ensure a conceptual compliance with the Group standard, but the setting of the models reflects local economic and legislative conditions. This database tool uses outputs from individual rating tools and facilitates the combination of multiple sources of information into one rating, for example, for corporate clients, the outputs of financial analysis and soft factors or behavioural scoring and repayment ability.

The Bank reviews ratings in respect of all segments on a regular basis. The rating of the banking, corporate and sovereign segments is analysed at least annually on an individual basis. The Bank has developed ‘behavioural rating’ for retail customers where the Bank updates the rating of a customer based on its activities in the Bank and its delinquency on a monthly basis.

In addition to the internal ratings outlined above, the Bank allocates risk-profile groups to individual assets arising from the loan arrangement according to CNB Regulation 123/2007. In accordance with this Regulation, the Bank maintains five groups of risk profiles, ranging from standard, watch, substandard, doubtful to loss receivables. Individual groups are differentiated according to the number of past due dates of any portion of a receivable, bankruptcy status of a customer, forced restructuring of a receivable and the internal anticipation of the Bank with regard to the timely and full repayment of the whole receivable balance.

The Bank also uses independent external ratings provided by reputable rating agencies. Based upon its historical experience, the Bank has determined a transfer bridge between its own internal ratings and external ratings.

In compliance with the regulatory requirements arising from BASEL II, rating instruments are subject to regular annual validation by the Risk Management Department and independent specialists (Internal Audit). In addition, the rating instruments are periodically adjusted to reflect changing economic conditions and the Bank's plans, based on validations (results consistency testing) and performance testing undertaken by the Credit Risk Controlling and Portfolio Management Department.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Bank may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Bank strives to protect its revenues and capital from risk concentration. Risk concentration is measured through the amount of the loss of twenty groups to which the Bank records the highest exposure and several other indicators for which limits have been established.

Structure of Approval Authorities

The structure of approval authorities is derived from the principle of the materiality of the impact of a potential loss from a provided loan on the Bank's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Supervisory Board and the Credit Committee of the Board of Directors. Lower approval authorities are categorised taking account of the seniority of the staff of the Credit Risk Management Department and Credit Service Department.

Risk Parameters

The Bank uses its own internal models in determining risk parameters such as the probability of default (PD), loss given default (LGD) and credit conversion factors (CCF). All of the models are developed according to Basel II requirements and were subject to review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for quantitative management of the portfolio credit risk. The Bank currently uses risk parameters in monitoring portfolio risks, in-default loans portfolio management, portfolio protection measurement and risk valuation. The active use of the risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments on both internal and external changes. The PD risk parameter is monitored for individual internal rating grades (see above) with the exception of non-performing loans (in default) where it is equal to 1. The LDG risk parameter is monitored in respect of homogenous 5 corporate product portfolios and 15 product retail portfolios in regard to non-performing loans (in default). The CCF risk parameter is monitored for guarantees, overdraft loans and credit card loans.

All models are back-tested at least annually and validated by independent specialists.

Provisions for Loan Losses

The Bank recognises provisions for incurred losses. These losses are determined and recognised in accordance with IAS 39 Financial Instruments: Recognition and Measurement. In determining the amount of the loss, the Bank uses risk parameters estimated as part of the implementation of BASEL II rules.

Loan loss provisions are determined for individually impaired loans and collectively impaired loans which include all performing loans/loans that do not fall into the 'individually impaired loans' category.

Individual Losses Component

Individually impaired receivables are receivables in default (receivables with the 'R' internal rating) and the definition of default complies with Basel II requirements (a receivable is past due by more than 90 days or its full repayment is assessed as being unlikely).

The individual losses component covers losses arising from receivables impaired on an individual basis. Impairment of a receivable is identified based on loss making events that can be ascertained individually. Impairment of corporate receivables and retail receivables with a value exceeding CZK 5 million (individually significant exposures) is measured on an individual basis. The impairment represents the difference between the net present value of expected future cash flows arising from the receivable using the original effective interest rate and the carrying amount of the receivable.

The level of impairment of retail receivables (individually insignificant) is determined using the provisioning coefficients matrix. Provisioning coefficients are derived from the historical values of probability of defaults (PD) and loss given default (LGD) in respect of individual portfolios of individually insignificant exposures. The coefficients additionally reflect durability of default.

All receivables are assessed by the Bank on a monthly basis to determine whether a loss making event or other changes occurred.

The estimated loss on the impairment of individually significant exposures is reviewed at least on a quarterly basis for each exposure.

Given the current unstable economic conditions, the actual future cash flows may differ from the expected cash flows as of the balance sheet date.

Collective Losses Component

The collective losses component represents the loss on collective impairment of individually unimpaired exposures. Collective impairment corresponds to the anticipated loss from the portfolio of unimpaired exposures determined based on the experience with similar exposures. Collective impairment losses represent the Bank's reasonable estimate made on the basis of historical experience with the risk profile of individual sub-portfolios of individually unimpaired exposures. Given the current unstable economic conditions, also the actual future losses may differ from the estimated based on historical experience as of the balance sheet date.

The level of provisioning for these receivables is determined in accordance with the Group methodology reflecting the probability of default (PD), loss given default (LGD) and loss identification period (LIP). In determining the amount of incurred loss, the Bank adopts the same method of calculating historical PDs and LGDs which are used as a basis for the calculation of risk weighted assets under BASEL II. The LIP parameter is set depending on the counterparty type – for corporate counterparties, it is anticipated that the default is identified within one year, the default on retail receivables is anticipated to be identified within four months at the latest. Given that the Bank has a customer definition of the default in place, the LIP parameter is identical for all retail products.

Restructured receivables are marked with the 'R' internal rating. As part of the half-year reviews of restructured receivables, the Bank decides to improve the internal rating or to extend the monitoring period by another six months.

Management of the Credit Risk in the Trading Portfolio

The credit risk inherent in the trading portfolio is managed through the imposition of limits approved for individual counterparties.

Collateral

Collateralisation of the Bank's receivables arising from lending transactions is governed by the following principles: collateral represents the Bank's prevention and protection as a creditor and, in addition to the collateralising function itself, it is exclusively a secondary source of repayment. The selection of individual collateral instruments and the composition of collateral depends on the Bank's loan products, requirements and professional assessment by the Bank's responsible employee, always with respect to the possibility of trouble-free realisation of the collateral.

The value of collateral is determined by reference to the market price valuation (nominal value of collateral). The market price is taken to mean the arm's length price (selling) or the price determined using a different valuation technique in terms of Section 2 (1) and (3) of Property Valuation Act No. 151/1997 Coll.; however, always determined taking into account all the circumstances which have a pricing impact, namely defects. If more market prices of the collateral determined using various valuation techniques are available in a particular business transaction, the lower/lowest market price is used.

If the collateral instrument involves real estate, movable asset, business or its branch, trade mark, an asset declared as a historical monument, antiquities, paintings, jewels, manuscripts, etc. the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Bank or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate must not be older than six months at the date when the loan contract is entered into. For real estate valuation purposes, a detailed special 'Methodology of Valuation of Real Estate for the Purpose of Advancing of a Loan, Including Mortgage Loans, at Česká spořitelna' is used.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. In determining the collateral coefficient/the realisable (fair) value of the collateral, it is necessary to assess individual instruments by their specific features, e.g. real estate by the character of its construction, etc. and always following a physical inspection. The expert appraiser/price estimate always has to be reviewed. Other conditions taken into account in determining the realisable value of the collateral are, among others, as follows:

- Comprehensive assessment of all available and, for the particular case, significant circumstances and background documentation;
- Insurance and pledge of a receivable arising from the insurance proceeds in favour of the Bank;
- Possibilities of the realisation of collateral at a particular time and place and the amount of the costs of the realisation which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

In the event of doubt or any suspicion, the loan officer has to personally verify the actual condition and nature of collateral prior to determining the coefficient of recoverability.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. The Collateral Catalogue also includes requirements for periodical revaluation of collateral. Typically, the collateral value is analysed and updated upon the regular monitoring/credit review of clients. With respect to credit product portfolios with a significant amount of collateral, the Bank uses portfolio models of updating collateral realisable values.

In addition, the Bank regularly monitors the loan to value ratio, mainly in respect of mortgage loans and project financing loans.

Credit Risk Pricing

The Bank uses historical experience and available data regarding PD, LGD and CCF to arrive at an indicative standard risk mark-up for individual types of counterparties, levels of internal rating and products.

Stress Testing

The Bank regularly undertakes the stress-testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Bank performs scenario analyses modelling the impact of the adverse development of the macroeconomic quantities (such as change in the economic growth rate, change in interest rates and change in inflation).

The breakdown on credit risk by industries is shown in Note 40.1 f).

a) Analysis of Individually Impaired Loans

CZK mil.		Individually impaired		Fair value of collateral
	2008	2007	2008	2007
Retail loans/loans to households				
Overdraft loans	347	257	–	–
Credit cards	217	248	–	–
Other loans	3,234	2,205	240	219
Mortgage loans	2,480	1,543	1,704	1,034
Subtotal	**6,278**	**4,253**	**1,944**	**1,253**
MSE x)				
Overdraft loans	219	219	38	29
Other loans	925	564	406	291
Mortgage loans	656	417	493	258
Municipal loans	20	13	2	–
Subtotal	**1,820**	**1,213**	**939**	**578**
Total retail loans	**8,098**	**5,466**	**2,883**	**1,831**
Corporate loans				
Corporate customers	1,831	907	258	70
Small and medium sized enterprises (SMEs) xx)	3,503	2,349	1,773	1,325
Corporate mortgage loans	573	800	360	523
Municipalities	17	–	14	–
Total corporate loans	**5,924**	**4,056**	**2,405**	**1,918**
Total	**14,022**	**9,522**	**5,288**	**3,749**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

b) Restructuring of Loans

The Bank has restructured the loans that would otherwise be in default or impaired in the aggregate amount of CZK 4,009 million (2007: CZK 900 million). No new assets relating to these loans were recognised in the Bank's balance sheet.

CZK mil.	2008	2007
Other loans	2,508	412
Mortgage loans	1,501	488
Total	**4,009**	**900**

c) Loans Past their Due Dates

As of 31 December 2008 and 2007, the Bank reports the following loans which are past their due dates, but not impaired:

CZK mil. At 31 December 2008	Past due date by less than do 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans/loans to households					
Overdraft loans	85	58	31	174	–
Credit cards	506	57	19	582	–
Other loans	3,576	858	328	4,762	596
Mortgage loans	276	995	385	1,656	1,358
Subtotal	**4,443**	**1,968**	**763**	**7,174**	**1,954**
MSE x)					
Overdraft loans	15	24	10	49	8
Other loans	589	224	140	953	478
Mortgage loans	145	324	111	580	486
Municipal loans	27	–	–	27	–
Subtotal	**776**	**572**	**261**	**1,609**	**972**
Total retail loans	**5,219**	**2,540**	**1,024**	**8,783**	**2,926**
Corporate loans					
Corporate customers	550	–	–	550	6
Small and medium sized enterprises (SMEs) xx)	1,747	157	131	2,035	1,069
Corporate mortgage loans	333	1,216	18	1,567	1,386
Municipalities	64	–	–	64	–
Total corporate loans	**2,694**	**1,373**	**149**	**4,216**	**2,461**
Total	**7,913**	**3,913**	**1,173**	**12,999**	**5,387**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

CZK mil. At 31 December 2007	Past due date by less than do 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans/loans to households					
Overdraft loans	244	51	26	321	–
Credit cards	337	38	16	391	–
Other loans	2,404	563	209	3,176	484
Mortgage loans	415	687	289	1,391	1,012
Subtotal	**3,400**	**1,339**	**540**	**5,279**	**1,496**
MSE x)					
Overdraft loans	28	20	10	58	10
Other loans	410	87	52	549	323
Mortgage loans	95	146	114	355	296
Municipal loans	10	–	–	10	6
Subtotal	**543**	**253**	**176**	**972**	**635**
Total retail loans	**3,943**	**1,592**	**716**	**6,251**	**2,131**
Corporate loans					
Corporate customers	1,468	60	–	1,528	113
Small and medium sized enterprises (SMEs) xx)	1,698	296	92	2,086	789
Corporate mortgage loans	350	203	–	553	182
Municipalities	–	–	167	167	67
Total corporate loans	**3,516**	**559**	**259**	**4,334**	**1,151**
Total	**7,459**	**2,151**	**975**	**10,585**	**3,282**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

d) Losses from Impairment by Individual Categories of Financial Assets

CZK mil. 2008	At 1 Jan	Provisioning	Write-off of loans	Amounts recovered during the year	Unwinding of discounts x)	Foreign exchange rate gains or losses	At 31 Dec	Change in the balance
Retail loans/loans to households								
Overdraft loans	**216**	210	(36)	(67)	(10)	–	313	97
Credit cards	**225**	121	(88)	(58)	(12)	–	188	(37)
Other loans	**1,811**	1,652	(412)	(425)	(103)	–	2,523	712
Mortgage loans	**721**	518	(13)	(185)	(57)	–	984	263
Subtotal	**2,973**	**2,501**	**(549)**	**(735)**	**(182)**	**–**	**4,008**	**1,035**
MSE xx)								
Overdraft loans	**227**	112	(78)	(40)	(1)	–	220	(7)
Other loans	**433**	348	(37)	(110)	(19)	–	615	182
Mortgage loans	**153**	192	(7)	(26)	(21)	–	291	138
Municipal loans	**–**	5	–	–	–	–	5	5
Subtotal	**813**	**657**	**(122)**	**(176)**	**(41)**	**–**	**1,131**	**318**
Corporate loans								
Corporate customers	**434**	472	(19)	(32)	(73)	5	787	353
Small and medium sized enterprises (SMEs) xxx)	**1,646**	994	(161)	(451)	(79)	–	1,949	303
Corporate mortgage loans	**230**	186	(26)	(56)	(43)	–	291	61
Municipalities	**9**	12	–	(5)		–	16	7
Subtotal	**2,319**	**1,664**	**(206)**	**(544)**	**(195)**	**5**	**3,043**	**724**
Total	**6,105**	**4,822**	**(877)**	**(1 455)**	**(418)**	**5**	**8,182**	**2,077**

x) Unwinding of discounts – interest income from impaired financial receivables

xx) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million

xxx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

CZK mil. 2007	At 1 Jan	Provi-sioning	Write-off of loans	Amounts recovered during the year	Unwinding of discounts x)	Foreign exchange rate gains or losses	At 31 December	Change in the balance
Retail loans/loans to households								
Overdraft loans	**183**	171	(58)	(75)	(5)		216	33
Credit cards	**145**	237	(1)	(138)	(18)		225	80
Other loans	**1,833**	1,271	(570)	(641)	(82)		1,811	(22)
Mortgage loans	**492**	468	(1)	(226)	(12)		721	229
Subtotal	**2,653**	**2,147**	**(630),**	**(1,080)**	**(117)**		**2,973**	**320**
MSE xx)								
Overdraft loans	**219**	137	(36)	(93)	–		227	8
Other loans	**281**	248	(27)	(57)	(12)		433	152
Mortgage loans	**67**	134	–	(37)	(11)		153	86
Municipal loans	**9**	–	–	(9)	–		–	(9)
Subtotal	**576**	**519**	**(63)**	**(196)**	**(23)**		**813**	**237**
Corporate loans								
Corporate customers	**549**	246	(140)	(160)	(46)	(15)	434	(115)
Small and medium sized enterprises (SMEs) xxx)	**1,237**	1,010	(124)	(424)	(53)	–	1,646	409
Corporate mortgage loans	**160**	108	–	(26)	(12)	–	230	70
Municipalities	**–**	9	–	–	–	–	9	9
Subtotal	**1,946**	**1,373**	**(264)**	**(610)**	**(111)**	**(15)**	**2,319**	**373**
Total	**5,175**	**4,039**	**(957)**	**(1,886)**	**(251)**	**(15)**	**6,105**	**930**

x) Unwinding of discounts – interest income from impaired financial receivables
xx) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xxx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

e) Structure of Credit Risk by On-balance Sheet and Off-balance Sheet Items

The Bank is exposed to credit risk arising from the following items:

CZK mil.	2008	2007
Credit risk exposures relating to on-balance sheet items		
Cash and with the Czech National Bank	4,538	4,964
Loans and advances to financial institutions	78,713	55,520
Loans and advances to customers, net of provisions	404,290	370,395
a) Retail loans	**191,854**	**174,130**
Overdraft loans	5,890	5,875
Credit cards	3,529	2,951
Other loans	67,314	54,465
Mortgage loans	115,121	110,839
b) Retail loans – businessmen and small companies (MSE)	**49,603**	**42,803**
Overdraft loans	2,737	2,572
Other loans	16,215	13,486
Mortgage loans	20,953	17,477
Municipal loans	9,698	9,268
c) Corporate loans	**162,833**	**153,462**
Large enterprises	64,275	65,195
Small and medium sized enterprises (SMEs)	52,774	45,993
Corporate mortgages	35,346	28,674
Municipalities	10,438	13,600
Positive fair value of financial derivative transactions	27,216	17,572
Financial assets at fair value through profit and loss		
Debt securities held for trading	36,339	26,121
Debt securities designated upon initial recognition as at fair value through profit and loss	13,434	17,287
Debt securities available for sale	8,262	10,687
Debt securities held to maturity	97,117	101,582
Credit risk exposure relating to off-balance sheet items		
Amounts owed from guarantees and letters of credit	37,567	44,577
Undrawn loan commitments	101,049	94,060
Total	**808,525**	**742,765**

The resulting credit exposure as of 31 December 2008 and 2007 represents a worst case scenario, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 60 percent of the total exposure is derived from loans and advances to financial institutions and customers (2007: 57%); 19 percent represents investments in debt securities (2007: 21%).

f) Credit Risk by Individual Sectors

Set out below is a summary of loans and advances to customers and financial institutions and debt securities by individual sectors in the distribution of the credit exposure of the Bank:

CZK mil.		2008		2007
Financial institutions	155,033	24,00%	148,473	26,00%
Resident individuals	195,861	30,00%	177,194	30,00%
Trade	33,676	5,00%	29,444	5,00%
Energy sector	5,735	1,00%	6,934	1,00%
State institutions	96,252	15,00%	77,706	13,00%
Public sector	14,165	2,00%	18,002	3,00%
Construction industry	6,965	1,00%	7,170	1,00%
Hotels, public catering services	2,912	1,00%	2,955	1,00%
Manufacturing industry	43,650	7,00%	35,510	6,00%
Other	92,087	14%	84,308	14,00%
Total	**646,336**		**587,696**	

Given the allocation of credit risk of on-balance and off-balance sheet items presented in Table 40.1 e), this does not include “Cash and balances with the Czech National Bank“ and “Credit risk exposure relating to off-balance sheet items“. In addition, loans and advances to customers are not decreased by provisions.

The geographical concentration of assets and liabilities is detailed in Note 42b.

g) Assessment of Asset Quality Using External Ratings by a Reputable Rating Agency

At 31 December 2008 CZK mil.	AAA	AA- to AA+	A- to A+	Lower than A	Unrated	Total
Securities held for trading	280	–	35,709	523	–	36,512
Securities at fair value through profit and loss	3,616	1,325	5,214	8,326	–	18,481
Securities available for sale	1,270	–	3,731	3,323	–	8,324
Securities held to maturity	10,588	296	68,925	17,058	250	97,117
Total	**15,754**	**1,621**	**113,579**	**29,230**	**250**	**160,434**

At 31 December 2007 CZK mil.	AAA	AA- to AA+	A- to A+	Lower than A	Unrated	Total
Securities held for trading	149	–	25 309	1 184	1 794	28 436
Securities at fair value through profit and loss	6 773	5 251	5 919	6 465	–	24 408
Securities available for sale	510	1 772	5 798	2 607	42	10 729
Securities held to maturity	3 261	11 962	78 620	7 739	–	101 582
Total	**10 693**	**18 985**	**115 646**	**17 995**	**1 836**	**165 155**

h) Assessment of Asset Quality Using Internal Ratings

31 December 2008 CZK mil.	Investment grade (1–4c)	Standard monitoring (5–6)	Special monitoring (7–8)	Sub-standard (R)	Total
Retail loans/loans to households					
Overdraft loans	4,533	931	392	347	6,203
Credit cards	2,668	545	287	217	3,717
Other loans	55,262	7,379	3,962	3,234	69,837
Mortgage loans	102,489	7,776	3,360	2,480	116,105
MSE x)					
Overdraft loans	842	1,820	76	219	2,957
Other loans	5,259	10,088	558	925	16,830
Mortgage loans	7,679	12,277	632	656	21,244
Municipal loans	3,750	5,913	20	20	9,703
Corporate loans					
Large enterprises	21,188	38,300	3,743	1,831	65,062
Small and medium sized enterprises (SMEs) xx)	14,017	31,197	6,006	3,503	54,723
Corporate mortgage loans	11,610	20,228	3,226	573	35,637
Municipalities	6,109	4,081	247	17	10,454
Total loans and advances to customers	**235,406**	**140,535**	**22,509**	**14,022**	**412,472**
Total loans and advances to financial institutions	**73,488**	**5,225**	**–**	**–**	**78,713**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million

xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

31 December 2007 CZK mil.	Investment grade (1–4c)	Standard monitoring (5–6)	Special monitoring (7–8)	Sub-standard (R)	Total
Retail loans/loans to households					
Overdraft loans	4,522	950	362	257	6,091
Credit cards	2,233	465	230	248	3,176
Other loans	44,281	6,979	2,811	2,205	56,276
Mortgage loans	97,435	9,441	3,141	1,543	111,560
MSE x)					
Overdraft loans	866	1,631	83	219	2,799
Other loans	4,199	8,648	508	564	13,919
Mortgage loans	5,021	11,668	524	417	17,630
Municipal loans	3,384	5,816	55	13	9,268
Corporate loans					
Large enterprises	27,069	34,075	3,578	907	65,629
Small and medium sized enterprises (SMEs) xx)	10,834	31,176	3,280	2,349	47,639
Corporate mortgage loans	6,817	20,654	633	800	28,904
Municipalities	10,445	2,721	443	–	13,609
Total loans and advances to customers	**217,106**	**134,224**	**15,648**	**9,522**	**376,500**
Total loans and advances to financial institutions	**49,266**	**6,254**	**–**	**–**	**55,520**

x) MSE – individuals – businessmen and small companies with annual turnover of less than CZK 30 million
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

40.2 Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, equity and commodity financial instruments, the value of which changes subject to general and specific financial market movements. The Bank is primarily exposed to the market risk arising from open positions in the trading book. A significant component of the market risk is also the interest rate risk associated with assets and liabilities included in the banking book.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:
- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Proprietary trading in the interbank, derivative and capital markets.

The Bank trades with the following derivative financial instruments through the over-the-counter (OTC) market:
- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives (for gold, crude oil, oil, rape and zinc); and
- Credit derivatives.

In the area of exchange-traded derivatives, the Bank trades the following instruments:
- Bond futures;
- Interest rate futures;
- Commodity derivatives (gold and crude oil futures); and
- Options in respect of bond futures.

The Bank also trades, on behalf of its clients, with other less common currency options, such as digital, barrier or windowed options. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the banking book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (FX swaps and cross currency swaps).

During the 1st quarter of 2008, the Erste Group Bank Group revised its business model. The majority of open positions arising from client transactions in the Bank's trading book are transferred to the Group portfolio through 'back-to-back' transactions. As such, the market risk arising from the Group's OTC transactions is managed on a consolidated basis within the Erste Group Bank portfolio. The Bank retains in the trading portfolio the money market risk due to liquidity management, equity risk, interest rate risk from trading with Czech Government bonds and partially a residual risk from previously closed transactions. This residual risk is hedged dynamically at a macro-level in line with the Bank's limits set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Bank uses the 'value at risk' methodology ('VaR') to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The Board of Directors establishes a VaR limit for the trading portfolio as the Bank's maximum exposure of the trading portfolio to market risk that may be accepted. VaR sub-limits in respect of individual trading desks and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, equity prices, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is also calculated for the banking book using special models for current accounts and other liabilities without specified maturity. The VaR of the banking book is reported to the Assets and Liabilities Committee (ALCO) on a monthly basis. Similarly as for the trading book, the Board of Directors of the Bank approves the VaR limit for the banking book. The amount of the acceptable level of risk is based on the assessment of the capital available to cover risks based on the ICAAOP methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the banking book.

The VaR methodology includes all risk factors while reflecting their mutual diversification effect. As of 31 December 2008, the value of VaR for the trading book and the one-day period on the 99 percent confidence level, i.e. the maximum loss during one day, was CZK 26 million (2007: CZK 25 million) which corresponds to a monthly VaR of CZK 121 million (2007: CZK 117 million). The average of daily VaR values for 2008 was CZK 14 million (2007: CZK 20 million). The monthly VaR for the banking book as of 31 December 2008, i.e. the maximum loss during one month, was CZK 2,074 million (2007: CZK 836 million). The average of monthly VaR values for 2008 was CZK 1,298 million (2007: CZK 769 million).

The VaR method is complemented with 'back testing' which is designed to review the model for correctness. Back testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading day. Back testing results have, to date, confirmed the correctness of the setting of the VaR calculation model.

In addition, the Bank uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the trading book. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to the Assets and Liabilities Committee.

The current financial and economic crisis markedly affects the economy, principally in terms of the significant volatility of market prices of financial instruments, increased interest rates, decreased liquidity, and general uncertainty regarding future developments, fair market values of financial assets and their potential impairment. In view of these changes, the Bank has intensified its efforts in monitoring events and developments that could impact its financial position. For this purpose, the Bank has been monitoring, on an ongoing basis, financial intelligence sources, analysing the market, and developing possible scenarios that reflect these current economic developments.

40.2.1 Interest Rate Risk

a) Interest Rate Risk Management

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages the interest rate risk of the banking book through the monitoring of the repricing dates of Bank's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Bank's net interest income.

In order to measure the interest rate risk exposure within the trading portfolio instruments, the Bank uses the 'PVBP gap' defined as a matrix of sensitivity factors to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency. The limits are compared to the value that represents the greater of the sum of positive PVBP values or the sum of negative PVBP values in absolute terms for each period to maturity. By adopting this approach, the Bank manages not only the risk attached to a parallel shift of the yield curve, but also any possible 'flip' of the yield curve. With regard to foreign currency options, the PVBP limits also include the Rho and Phi equivalents. In addition, the Bank monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

The VaR methodology is also used for the calculation of the interest rate risk of both the trading and banking books. The VaR value for the interest rate risk of the trading book for one day and 99 percent confidence level as of 31 December 2008 was CZK 17 million (2007: CZK 20 million.) which corresponds to a VaR value for one month of CZK 80 million (2007: CZK 94million.) The average of daily VaR values for the interest rate risk for 2008 was CZK 10 million (CZK 15 million). The monthly VaR for the interest rate of the banking book as of 31 December 2008 was CZK 2,070 million (CZK 792 million). The average of monthly VaR values for the interest rate risk for 2008 was CZK 1,238 million (2007: CZK 727 million).

For monitoring and measuring the banking book interest rate exposures, the Bank uses a simulation model focused on monitoring potential impacts of market interest rate movements on the Bank's net interest income. Simulations are performed over the period of 36 months. A basic analysis focuses on the sensitivity of the Bank's net interest income to a one-off change(s) of market interest rates (rate shock). In addition, the Bank undertakes probability modelling of its net interest income (stochastic simulation) and the traditional gap analysis. The analyses noted above are undertaken on a monthly basis. Current level of the interest rate exposure is assessed by the Assets and Liabilities Committee on a monthly basis in the context of the overall development of financial markets, Czech banking sector, as well as the structural changes in the Bank's balance sheet.

The following sensitivity analysis is based on the exposure of the Bank to interest rates for derivative and non-derivative instruments as of the balance sheet date and the determined changes which occurred at the beginning of the year and are constant during the reported period for the instruments with a variable interest rate. i. e., the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity. As such, the model assumes the fixed structure of the balance sheet according to interest rate sensitivity.

If the CZK interest rates increased/decreased by 100 points during the year and other variable interest rates remain unchanged:

- The profit for 2008 would increase by CZK 460 million/decrease by CZK 460 million (2007: an increase of CZK 470 million /decrease of CZK 550 million); and
- The gains/losses from revaluation would increase by CZK -71/+73 million (2007: CZK -131/+137 million), namely as a result of the changes in the fair value of securities with a fixed interest rate in the available-for-sale portfolio.

The Bank monitors the impact of stress scenarios of the shifts of yield curves on the market value of the banking book.

These stress scenarios are determined in accordance with the regulatory rules as 1 percent or 99 percent quantiles of the year-on-year changes in interest rates based on the five year history of time series of individual maturities of yield curves in all currencies. As of 31 December 2008, this stress scenario would trigger a loss in the market value of the banking book of 1.1 percent of the Bank's capital (a total of the original and additional capital; 2007: 1.5 percent).

b) Interest Rate Repricing Analysis

The following tables present the distribution of assets and liabilities according to the interest rate repricing dates. They include significant financial assets and liabilities in CZK, EUR and USD as of 31 December 2008 and 2007. Variable yield assets and liabilities have been reported according to their next rate repricing date. Fixed income assets and liabilities have been reported according to their remaining maturity.

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	4,538	–	–	–	–	4,538
Loans and advances to financial institutions	50,444	16,976	10,449	–	–	77,869
Loans and advances to customers, net of provisions	64,688	101,957	69,720	140,051	27,874	404,290
Securities at fair value through profit and loss	2,259	6,612	12,037	21,348	7,314	49,570
Securities available for sale	1,156	3,222	1,092	2,792	–	8,262
Securities held to maturity	4,877	13,939	5,773	43,347	29,181	97,117
Total selected assets	**127,962**	**142,706**	**99,071**	**207,538**	**64,369**	**641,646**
Selected liabilities						
Amounts owed to financial institutions	28,993	8,943	2,603	–	–	40,539
Amounts owed to customers	96,263	71,172	117,499	233,228	–	518,162
Bonds in issue	5,434	4,382	9,462	11,466	19,843	50,587
Subordinated debt	–	–	5,197	–	–	5,197
Total selected liabilities	**130,690**	**84,497**	**134,761**	**244,694**	**19,843**	**614,485**
Current gap	**(2 728)**	**58,209**	**(35 690)**	**(37 156)**	**44,526**	**27,161**
Cumulative gap	**(2 728)**	**55,481**	**19,791**	**(17 365)**	**27,161**	

At 31 December 2007 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	4,964	–	–	–	–	4,964
Loans and advances to financial institutions	35,913	1,508	13,236	4,645	218	55,520
Loans and advances to customers, net of provisions	77,285	74,459	72,088	122,955	23,395	370,182
Securities at fair value through profit and loss	2,129	1,913	7,705	19,913	11,748	43,408
Securities available for sale	698	5,597	1,576	2,815	–	10,686
Securities held to maturity	5,772	15,976	7,945	41,159	30,731	101,583
Total selected assets	**126,761**	**99,453**	**102,550**	**191,487**	**66,092**	**586,343**
Selected liabilities						
Amounts owed to financial institutions	20,925	2,805	3,437	152	11,528	38,847
Amounts owed to customers	87,480	75,835	105,322	201,362	–	469,999
Bonds in issue	9,445	5,949	10,370	10,769	22,325	58,858
Subordinated debt	–	–	5,605	–	–	5,605
Total selected liabilities	**117,850**	**84,589**	**124,734**	**212,283**	**33,853**	**573,309**
Current gap	**8,911**	**14,864**	**(22 184)**	**(20 796)**	**32,239**	**13,034**
Cumulative gap	**8,911**	**23,775**	**1,591**	**(19 205)**	**13,034**	

In addition, the Bank enters into interest rate swaps to manage its interest rate risk exposure.

c) Effective Yield Information

The effective yields of significant financial assets and liabilities by major currencies of the banking segment as of 31 December 2008 and 2007 are as follows:

At 31 December 2008	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	1.93%	2.50%	–	1.93%
Loans and advances to financial institutions	3.22%	3,68%	1.31%	3.22%
Loans and advances to customers, net of provisions	6.67%	5.12%	3.86%	6.59%
Securities at fair value through profit and loss	1.32%	4.05%	6.71%	2.14%
Securities available for sale	3.76%	7.99%	10.56%	5.42%
Securities held to maturity	4.37%	4.92%	–	4.39%
Selected liabilities				
Amounts owed to financial institutions	2.79%	3.62%	2.02%	2.97%
Amounts owed to customers	1.09%	1.38%	0.68%	1.10%
Bonds in issue	3.70%	2.65%	–	3.70%
Subordinated debt	4.63%	–	–	4.63%

At 31 December 2007	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	3.09%	4.00%	–	3.11%
Loans and advances to financial institutions	3.72%	3.95%	5.62%	4.00%
Loans and advances to customers, net of provisions	6.22%	5.96%	5.39%	6.21%
Securities at fair value through profit and loss	4.63%	4.61%	5.68%	4.72%
Securities available for sale	3.95%	4.87%	5.07%	4.44%
Securities held to maturity	4.23%	5.66%	–	4.28%
Selected liabilities				
Amounts owed to financial institutions	3.61%	4.65%	5.02%	4.23%
Amounts owed to customers	0.88%	1.76%	2.65%	0.91%
Bonds in issue	3.59%	3.97%	–	3.59%
Subordinated debt	4.19%	–	–	4.19%

40.2.2 Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments in both the trading and bank book will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Bank monitors special sensitivity limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract fair value sensitivity to the exchange rate volatility in the form of the vega equivalent. In addition, the Bank monitors the fair value sensitivity of options to the period to maturity (theta) and interest rate sensitivity (rho, phi) which is measured, together with other interest rate instruments, in the form of the PVBP (Present Value of a Basis Point). Foreign currency risk of all financial instruments is transferred in the Trading Department's positions which manages these currency positions in accordance with the set currency sensitivity limits. In addition to the monitoring of limits, the Bank uses the VaR ("value at risk") concept for measuring the risk arising from open positions from all currency instruments.

The value of currency risk in the form of VaR for one day and 99 percent confidence level was CZK 21 million (2007: CZK 19 million) as of 31 December 2008. The average of daily VaR values for foreign currency risk was CZK 8 million (CZK 13 million). The VaR value for the currency volatility of the trading book was CZK 5 million (2007: CZK 4 million). The average of daily VaR values for the foreign currency volatility for 2008 was CZK 4 million (2007: CZK 5 million).

Net Foreign Exchange Position

The net foreign exchange positions of the Bank as of 31 December 2008 and 2007 were as follows:

At 31 December 2008 CZK mil.	CZK	EUR	USD	GBP	SKK	HUF	PLN	Other	Total
Assets									
Cash and balances with the CNB	21,006	1,338	254	65	209	31	18	285	23,206
Loans and advances to financial institutions	52,797	20,177	4,895	283	74	15	6	466	78,713
Loans and advances to customers, net of provisions	384,728	18,182	780	31	162	25	142	240	404,290
Securities at fair value through profit and loss	38,392	11,393	1,934	–	130	3,004	67	73	54,993
Positive fair value of financial derivative transactions	24,738	1,875	449	–	69	54	26	5	27,216
Securities available for sale	5,132	3,097	95	–	–	–	–	–	8,324
Securities held to maturity	93,913	3,204	–	–	–	–	–	–	97,117
Equity investments in subsidiary and associated undertakings	3,779	6,192	–	–	–	–	–	–	9,971
Other assets	23,868	714	130	2	5	233	2	15	24,969
	648,353	**66,172**	**8,537**	**381**	**649**	**3,362**	**261**	**1,084**	**728,799**
Liabilities									
Amounts owed to financial institutions	27,060	11,096	2,375	15	63	20	39	784	41,452
Amounts owed to customers	496,384	19,234	3,068	364	–	2,083	111	327	521,571
Liabilities at fair value	7,680	12	4	–	–	–	–	–	7,696
Negative fair value of financial derivative transactions	21,975	2,576	528	–	81	268	32	–	25,460
Bonds in issue	50,400	187	–	–	–	–	–	–	50,587
Other liabilities	18,350	1,711	212	8	–	1	70	9	20,361
	621,849	**34,816**	**6,187**	**387**	**144**	**2,372**	**252**	**1,120**	**667,127**
Net foreign exchange position – on balance sheet	**26,504**	**31,356**	**2,350**	**(6)**	**505**	**990**	**9**	**(36)**	**61,672**
Net foreign exchange position – off balance sheet	**48,411**	**(30,738)**	**(2,324)**	**15**	**(481)**	**(1,218)**	**(3)**	**51**	**13,713**

The line ‘Other assets’ includes other assets, property and equipment, intangible fixed assets. The line ‘Other liabilities’ includes other liabilities, provisions, and subordinated debt.

At 31 December 2007 CZK mil.	CZK	EUR	USD	GBP	SKK	HUF	PLN	Other	Total
Assets									
Cash and balances with the CNB	17,956	999	241	112	113	19	25	218	19,683
Loans and advances to financial institutions	35,971	11,324	6,700	555	54	11	212	693	55,520
Loans and advances to customers, net of provisions	353,440	15,125	1,072	123	268	1	115	251	370,395
Securities at fair value through profit or loss	27,595	16,157	3,110	–	851	3,102	1,912	117	52,844
Positive fair value of financial derivative transactions	16,657	610	157	–	69	54	18	7	17,572
Securities available for sale	5,033	5,592	104	–	–	–	–	–	10,729
Securities held to maturity	98,310	3,272	–	–	–	–	–	–	101,582
Equity investments in subsidiary and associated undertakings	3,540	5,612	–	–	69	–	–	–	9,221
Other assets	26,304	675	177	5	1	–	61	277	27,500
	584,806	**59,366**	**11,561**	**795**	**1,425**	**3,187**	**2,343**	**1,563**	**665,046**
Liabilities									
Amounts owed to financial institutions	16,567	14,930	4,840	1	0	786	693	1,095	38,912
Amounts owed to customers	453,854	13,794	3,020	431	213	2,552	265	276	474,405
Liabilities at fair value	7,487	72	50	–	–	–	–	–	7,609
Negative fair value of financial derivative transactions	9,984	789	208	–	53	11	20	1	11,066
Bonds in issue	58,608	250	–	–	–	–	–	–	58,858
Other liabilities	20,225	1,479	312	6	12	4	50	259	22,347
	566,725	**31,314**	**8,430**	**438**	**278**	**3,353**	**1,028**	**1,631**	**613,197**
Net foreign exchange position – on balance sheet	**18,081**	**28,052**	**3,131**	**357**	**1,147**	**(166)**	**1,315**	**(68)**	**51,849**
Net foreign exchange position – off balance sheet	**39,189**	**(28,513)**	**(3,078)**	**(254)**	**221**	**(528)**	**(678)**	**179**	**6,538**

The line ‘Other assets’ includes other assets, property and equipment, intangible fixed assets. The line ‘Other liabilities’ includes other liabilities, provisions, and subordinated debt.

40.2.3 Equity Risk

To monitor and manage the equity risk inherent in the trading and banking books, the Bank uses the VaR method and sensitivity analysis which is based on the exposure to the risk of change in the rate of shares as of the balance sheet date. With respect to the increased volatility of share prices, the equity risk represents a significant component of risks despite smaller volumes of share positions.

As of 31 December 2008, the VaR value of the equity risk of the trading portfolio was CZK nil (2007: CZK 7 million) for one day and 99 percent confidence level which corresponds to the VaR value for one month of CZK 1 million (2007: CZK 30 million). The average of daily VaR values for the equity risk for 2008 was CZK 4 million. The VaR value for equity risk of the banking book for one month as of 31 December 2008 and at the same confidence level was CZK 4 million (2007: CZK 78 million). The average of monthly VaR values for the equity risk for 2008 was CZK 118 million (2007: CZK 74 million).

1.1.4 Fair Value

Fair Value of Derivative Financial Instruments

The Bank maintains strict control limits on net open derivative positions, ie. the difference between the fair values of purchase and sale contracts. At any one time the amount subject to credit risk is limited to the positive fair value of derivative financial instruments, which is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers. Limits are established reflecting the risk of fair value fluctuations arising from market movements. Collateral or other security is not usually obtained for credit risk exposures on the derivative financial instruments, except where the Bank requires deposits from counterparties.

All derivatives are stated at fair value on the balance sheet as of 31 December 2008 and 2007 (refer to Notes 11 and 21).

Foreign Currency Contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes.

Interest Rate Swaps

Interest rate swap contracts obligate two parties to exchange one or more payments calculated by reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were principally transacted for propriety trading purposes, to hedge customer-oriented transactions or to hedge against interest rate risk.

The Bank has applied hedge accounting in respect of the interest rate exposure arising from its own issue of mortgage bonds. The mortgage bonds issued with a fixed interest rate were linked to a floating market rate through interest rate swaps.

Option Contracts

Option contracts represent the formal reservation of the right to buy or sell an asset at the specified quantity, within a given time in the future and at a certain price. The buyer of the option has the right, but not the obligation, to exercise the right to buy or sell an asset and the seller has the obligation to sell or purchase the asset at the specified quantity and at the price defined in the option contract.

Forward Rate Agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in market interest rates.
In principle, the Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. All of the Bank's forward rate agreements were entered into for trading purposes.

Swap and Forward Contracts with Securities

Swap and forward contracts with securities are agreements to purchase or sell the securities for a specific amount at a future date. The swap and forward contracts with securities are used by the Bank for trading purposes.

Cross Currency Swaps and Forwards

Cross currency swaps are combinations of interest rate swaps and foreign currency contracts. As with interest rate swaps, the Bank agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, and are settled on a gross basis. Unlike interest rate swaps, the notional balances of the different currencies are typically exchanged at the beginning and re-exchanged at the end of the contract period.

Futures

Futures contracts represent the obligation to sell or purchase a financial instrument in the organised market at a certain price at a certain agreed date in the future. The Bank entered into futures contracts in respect of debt securities and equities for trading purposes.

Commodity Swaps

Commodity swaps are agreements to exchange future payments depending upon the prices of a certain commodity. One element of the transaction (the fixed arm) always represents a fixed, predetermined amount while the other element (the floating arm) is determined based on the average prices of the relevant commodity for a period. In certain cases, an option is embedded in the floating arm, restricting its overall payment. Each client commodity swap is offset by a mirror transaction with Erste Group Bank, hence the Bank carries no market risk.

a) Nominal and Fair Values of Financial Derivative Instruments

At 31 December 2008		Nominal value		Fair value
CZK mil.	Positive	Negative	Positive	Negative
Hedging instruments				
Interest rate option contracts	601	601	–	–
Interest rate swaps	13,585	13,585	748	166
Foreign currency interest rate swaps	5,450	4,911	–	302
Total hedging instruments	**19,636**	**19,097**	**748**	**468**
Trading instruments				
Spot contracts				
– interest rate	3	3		
– currency	728	729		
Option contracts:				
– interest rate	19,626	19,627	82	39
– currency	119,680	117,935	3,018	2,260
– equity	1,355	1,355	–	68
– commodity	1,071	1,071	182	185
Forward contracts:				
– interest rate	127,305	127,306	184	207
– foreign currency interest rate	61,304	61,430	2,634	2,595
– equity	2,787	3,004	0	222
– commodity	39	40	9	8
Swaps:				
– interest rate	695,892	695,892	14,777	14,349
– foreign currency interest rate	124,912	124,653	5,322	4,354
– equity	5,610	5,610	27	279
– commodity	2,038	2,038	232	243
Other derivatives	1,766	1,766	1	183
Futures	2	2	–	–
Total trading instruments	**1,164,118**	**1,162,461**	**26,468**	**24,992**
Total	**1,183,754**	**1,181,558**	**27,216**	**25,460**

At 31 December 2007		Nominal value		Fair value
CZK mil.	Positive	Negative	Positive	Negative
Hedging instruments				
Interest rate option contracts	684	684	–	16
Interest swaps	16,001	16,001	239	706
Total hedging instruments	**16,685**	**16,685**	**239**	**722**
Trading instruments				
Sport contracts	5,229	5,227	–	–
Option contracts:				
– interest rate	21,273	21,273	75	74
– currency	94,359	96,308	679	1,309
– equity	2,118	2,118	–	355
– commodity	128	128	–	9
Forward contracts:				
– interest rate	214,180	214,180	158	176
– foreign currency interest rate	38,901	39,528	372	1,040
– equity	8	8	–	–
– commodity	9	9	–	–
Swaps:				
– interest rate	636,333	636,333	6,441	5,749
– foreign currency interest rate	159,052	151,330	9,407	1,509
– equity	5,125	5,125	122	168
– commodity	1,094	1,094	15	20
Other derivatives (credit)	311	311	1	–
Futures	5,800	5,800	63	–
Total trading instruments	**1,183,920**	**1,178,772**	**17,333**	**10,409**
Hedging instrument to equity investments denominated in EUR	–	–	–	(65)
Total			**17,572**	**11,066**

b) Remaining Maturity of Financial Derivative Instruments

At 31 December 2008 Fair value in CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate swaps	–	–	(4)	28	558
Foreign currency interest rate swaps	–	–	–	–	(302)
Total	**–**	**–**	**(4)**	**28**	**256**
Trading instruments					
Spot contracts					
– interest rate	–	–	–	–	–
– currency	–	–	–	–	–
Option contracts:					
– interest rate	–	–	–	27	17
– currency	12	(206)	202	719	30
– equity	(3)	(13)	(50)	(1)	(1)
– commodity	–	–	(3)	–	–
Forward contracts:					
– interest rate	46	(34)	(12)	(23)	–
– foreign currency interest rate	(13)	11	31	5	5
– equity	(222)	–	–	–	–
– commodity	1	–	–	–	–
Swaps:					
– interest rate	(13)	(57)	83	23	392
– foreign currency interest rate	(390)	491	36	590	241
– equity	(1)	12	7	(196)	(74)
– commodity	–	–	–	(11)	–
Other derivatives	–	1	–	(120)	(63)
Futures	–	–	–	–	–
Total	**(583)**	**205**	**294**	**1,013**	**547**

At 31 December 2007 Fair value in CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate option contracts	–	–	–	(16)	–
Interest rate swaps	–	–	–	(45)	(422)
Total hedging instruments	**–**	**–**	**–**	**(61)**	**(422)**
Trading instruments					
Spot contracts	2	–	–	–	–
Option contracts:					
– interest rate	–	–	(8)	2	7
– currency	1	(53)	(281)	(297)	–
– equity	–	(220)	(30)	(105)	–
– commodity	–	–	–	(9)	–
Forward contracts:					
– interest rate	3	(2)	(26)	7	–
– foreign currency interest rate	(87)	(39)	(220)	(313)	(9)
– equity	–	–	–	–	–
– commodity	–	–	–	–	–
Swaps:					
– interest rate	(118)	5	54	100	650
– foreign currency interest rate	324	522	409	1,205	5,438
– equity	–	49	46	(94)	(47)
– commodity	–	–	1	(6)	–
Other derivatives	1	–	–	–	–
Futures	–	–	–	–	62
Total trading instruments	**126**	**262**	**(55)**	**490**	**6,101**
Hedging instrument against equity investments denominated in EUR					65
Total	**126**	**262**	**(55)**	**429**	**5,744**

c) Average Weighted Interest Rate of Derivatives

At 31 December 2008	Accepted interest rate			Paid interest rate		
	Less than 1 year	1 to 5 years	Over 5 years	Less than 1 year	1 to 5 years	Over 5 years
Hedging instruments						
Interest rate option contracts	0.10%	–	–	0.10%	–	–
Interest rate swaps	3.16%	3.14%	3.72%	3.16%	3.14%	3.72%
Foreign exchange interest rate swaps	–	–	2.08%	–	–	2.08%
Trading instruments						
Interest rate option contracts	1.20%	4.24%	2.68%	1.20%	4.24%	2.68%
Forward contracts:						
– interest rate	3.75%	4.04%	–	3.75%	4.04%	–
Swaps:						
– interest rate	3.75%	3.74%	3.62%	3.7%	3.74%	3.62%
– foreign currency interest rate	4.07%	2.66%	3.56%	4.08%	2.68%	3.63%

At 31 December 2007	Accepted interest rate			Paid interest rate		
	Less than 1 year	1 to 5 years	Over 5 years	Less than 1 year	1 to 5 years	Over 5 years
Hedging instruments						
Interest rate option contracts		0.10%				
Interest rate swaps		3.43%	3.47%	0.00%	3.46%	3.71%
Trading instruments						
Option interest rate contracts	3.90%	4.40%	2.72%	3.89%	4.41%	2.73%
Forward contracts:						
– interest rate	3.58%	4.49%	–	3.45%	4.19%	–
Swaps:						
– interest rate	3.06%	3.26%	2.68%	3.55%	3.53%	3.33%
– foreign currency interest rate	4.10%	3.93%	4.01%	4.15%	3.96%	4.00%

Fair Value of Other Financial Instruments Except for Derivatives

Fair value estimates are made based on relevant market data and information about the financial instruments. Because no readily available market prices exist for a significant portion of the Bank's financial instruments, fair value estimates for these instruments are based on judgements regarding current economic conditions, currency and interest rate characteristics and other factors.

Many of these estimates involve uncertainties and matters of significant judgement and cannot be determined with precision. Therefore, the calculated fair value estimates cannot always be substantiated by comparison to market values and, in many cases, may not be realised in the current sale of the financial instrument. Changes in underlying assumptions used to determine fair value could significantly affect the determined fair value.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value.

CZK mil.	Carrying value 2008	Estimated fair value 2008	Carrying value 2007	Estimated fair value 2007
Financial assets				
Loans and advances to financial institutions	78,713	80,151	55,520	55,474
Loans and advances to customers, net of provisions	404,290	402,611	370,395	367,502
Securities held to maturity	97,117	97,654	101,582	101,096
Financial liabilities				
Amounts owed to financial institutions	41,452	41,323	38,912	38,367
Amounts owed to customers	521,571	521,238	474,405	473,935
Bonds in issue	50,587	52,218	58,858	57,970
Subordinated debt	5,197	4,921	5,605	5,611

Loans and Advances to Financial Institutions
The fair value of loans and advances to financial institutions is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by the Bank.

Loans and Advances to Customers
Loans and advances to customers are carried net of provisions. The fair value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by the Bank.

Securities and Other Assets Held to Maturity
The fair value of securities held to maturity is based on market prices or price quotations obtained from brokers or dealers. If this information is not available, the fair value is estimated using quoted market values for securities with similar credit risk characteristics, maturity or yield rate or, as and when appropriate, according to the recoverability of the net asset value of these securities.

Amounts Owed to Financial Institutions and Customers
The estimated fair value of amounts owed to financial institutions and customers with no stated maturity which include no-interest earning deposits, is equal to the amount payable on demand. The fair value of fixed income deposits and other liabilities with no stated market value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar maturities. The fair value of products with no contractually stated maturity (such as sight deposits, passbooks, overdraft facilities) is considered equal to their carrying value.

Bonds in Issue
The aggregated fair value is based on quoted market prices. The fair value of securities where no market price is available is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar remaining maturities.

Subordinated Debt
Issued subordinated debt is traded on the free market of the Prague Stock Exchange. Its fair value is based on quoted market price.

40.3 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to satisfy its financial liabilities when they mature or in financing its assets. The Bank's short-term liquidity position is monitored and managed based on expected cash flows and adjusting the structure of interbank deposits and placements accordingly and/or taking other decisions aimed at adjusting the short-term liquidity position of the Bank, for example, taking a decision to balance the short-term liquidity position in individual currencies.

The mid-term and long-term liquidity is monitored on a monthly basis through the Traffic Light System (TLS) simulation model which takes into account the anticipated possibility of renewal, preliminary repayment or sale of the Bank's individual positions. The results are presented and discussed in the Operating Liquidity Committee (OLC) and the Assets and Liabilities Committee (ALCO) which decide on the need to take measures with respect to the liquidity risk exposure.

Given the current financial and economic crisis, the Czech National Bank has strengthened its supervision over the current liquidity of individual banks on the market. The Bank is required to report each day on the volume of highly liquid assets, the development of primary deposits and loans, the expected forecast for the nearest future and the anticipated changes that would have a materially adverse impact on the Bank's overall standing.

a) Maturity Analysis

The table below analyses assets and liabilities of the Bank into relevant maturity groupings as of 31 December 2008, based on the remaining period at the balance sheet date to the contractual maturity date (remaining maturity). In this analysis, derivatives are reported at their fair values as of the balance sheet date.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	20,738	–	–	–	–	2,468	23,206
Loans and advances to financial institutions	47,110	1,842	14,386	5,023	10,345	7	78,713
Loans and advances to customers, net of provisions	13,300	15,341	70,549	126,625	155,398	23,077	404,290
Securities at fair value through profit and loss	1,004	5,802	11,802	21,749	9,416	5,220	54,993
Positive fair value of financial derivative transactions	1,021	1,725	5,128	11,329	8,013	–	27,216
Securities available for sale	–	213	492	5,255	2,302	62	8,324
Securities held to maturity	250	5,908	8,712	52,473	29,774	–	97,117
Equity investments in subsidiary and associated undertakings	–	–	–	–	–	9,971	9,971
Other assets	535	703	2,452	30	149	21,100	24,969
Total	**83,958**	**31,534**	**113,521**	**222,484**	**215,397**	**61,905**	**728,799**
Liabilities							
Amounts owed to financial institutions	21,646	3,883	2,603	8,079	5,241	–	41,452
Amounts owed to customers	436,226	14,799	19,751	50,795	0	–	521,571
Liabilities at fair value	159	279	885	4,801	1,484	88	7,696
Negative fair value of financial derivative transactions	1,604	1,520	4,838	10,288	7,210	–	25,460
Bonds in issue	1,818	216	1,641	13,197	33,715	–	50,587
Subordinated debt	–	–	–	–	5,197	–	5,197
Other liabilities	2,306	388	572	204	876	10,818	15,164
Total	**463,759**	**21,085**	**30,290**	**87,364**	**53,723**	**10,906**	**667,127**
Current gap	**(379,801)**	**10,449**	**83,231**	**135,120**	**161,674**	**50,999**	**61,672**
Cumulative gap	**(379,801)**	**(369,352)**	**(286,121)**	**(151,001)**	**10,673**	**61,672**	

The line 'Other assets' includes other assets, property and equipment, intangible fixed assets. The line 'Other liabilities' includes other liabilities and provisions.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings as of 31 December 2007, based on the remaining maturity.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	17,141	–	40	–	–	2,502	19,683
Loans and advances to financial institutions	35,913	1,508	13,236	4,645	218	–	55,520
Loans and advances to customers, net of provisions	15,909	10,313	74,764	113,286	141,918	14,205	370,395
Securities at fair value through profit and loss	376	296	7,830	20,300	14,606	9,436	52,844
Positive fair value of financial derivative transactions	904	1,264	1,840	5,572	7,992	–	17,572
Securities available for sale	–	1,345	640	6,039	2,662	43	10,729
Securities held to maturity	–	3,103	11,794	55,182	31,503	–	101,582
Equity investments in subsidiary and associated undertakings	–	–	–	–	–	9,221	9,221
Other assets	3,708	832	2,312	–	–	20,648	27,500
Total	**73,951**	**18,661**	**112,456**	**205,024**	**198,899**	**56,055**	**665,046**
Liabilities							
Amounts owed to financial institutions	20,990	2,805	3,437	152	11,528	–	38,912
Amounts owed to customers	390,134	21,504	15,382	47,385	–	–	474,405
Liabilities at fair value	16	–	3,124	3,926	543	–	7,609
Negative fair value of financial derivative transactions	652	1,001	1,894	5,143	2,376	–	11,066
Bonds in issue	4,804	1,464	4,244	11,741	36,605	–	58,858
Subordinated debt	–	–	–	–	5,605	–	5,605
Other liabilities	4,155	781	434	83	19	11,270	16,742
Total	**420,751**	**27,555**	**28,515**	**68,430**	**56,676**	**11,270**	**613,197**
Current gap	**(346,800)**	**(8,894)**	**83,941**	**136,594**	**142,223**	**44,785**	**51,849**
Cumulative gap	**(346,800)**	**(355,694)**	**(271,753)**	**(135,159)**	**7,064**	**51,849**	

The line ‘Other assets’ includes other assets, property and equipment, intangible fixed assets. The line ‘Other liabilities’ includes other liabilities, provisions and liabilities at fair value.

b) Interest Rate Payments

The following tables present expected cash flows from received/paid interest on selected assets and liabilities according to individual time buckets:

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	**Total**
Selected assets						
Cash and balances with the CNB	4	–	–	–	–	4
Loans and advances to financial institutions	142	105	132	–	–	379
Loans and advances to customers, net of provisions	2,043	3,185	10,116	26,053	9,252	50,649
Securities at fair value through profit and loss	67	88	321	749	147	1,372
Securities available for sale	33	42	94	210	–	379
Securities held to maturity	346	623	2,474	8,898	6,380	18,721
	2,635	**4,043**	**13,137**	**35,910**	**15,779**	**71,504**
Selected liabilities						
Amounts owed to financial institutions	64	33	27	–	–	124
Amounts owed to customers	429	704	2,395	5,101	–	8,629
Bonds in issue	153	274	1,032	3,861	3,671	8,991
Subordinated debt	20	40	90	–	–	150
	666	**1,051**	**3,544**	**8,962**	**3,671**	**17,894**
Current gap	**1,974**	**3,010**	**9,649**	**27,008**	**12,011**	**53,652**
Cumulative gap	**1,974**	**4,984**	**14,633**	**41,641**	**53,652**	

At 31 December 2007 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	6	–	–	–	–	6
Loans and advances to financial institutions	117	96	187	1	–	401
Loans and advances to customers, net of provisions	1,715	2,649	8,503	21,103	7,269	41,239
Securities at fair value through profit and loss	108	121	440	1,169	491	2,329
Securities available for sale	38	52	108	222	–	420
Securities held to maturity	354	627	2,397	8,524	6,298	18,200
	2,338	**3,545**	**11,635**	**31,019**	**14,058**	**62,595**
Selected liabilities						
Amounts owed to financial institutions	82	47	51	11	–	191
Amounts owed to customers	323	519	1,726	3,648	–	6,216
Bonds in issue	162	269	992	3,732	3,624	8,779
Subordinated debt	20	39	88	–	–	147
	587	**874**	**2,857**	**7,391**	**3,624**	**15,333**
Current gap	**1,751**	**2,671**	**8,778**	**23,628**	**10,434**	**47,262**
Cumulative gap	**1,751**	**4,422**	**13,200**	**36,828**	**47,262**	

40.4 Operational Risk

In accordance with CNB Regulation 123/2007, the Bank defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events, including loss due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Bank put in place a standardised categorisation of operational risks. This classification became the basis of the ‘Book of Risks of Česká spořitelna’, developed in cooperation with the Risk Management and Internal Audit Departments. The Book of Risks is a tool used to achieve unification of risk identification procedures on a group-wide level and unification of risk categorisation in order to ensure consistency of risk monitoring and evaluation.

The Bank has cooperated with an external supplier in developing a specialised software application to collect data about operational risk which conforms to the data collection requirements set out in BASEL II. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. In addition to monitoring actual occurrence of operational risk, the Bank also pays attention to how the operational risk is perceived by the Bank’s management. This expert risk analysis is assessed annually.

A tool of importance in mitigating losses arising from operational risks is the Bank’s insurance programme put in place in 2002. This insurance programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank and its subsidiaries have joined the Erste Group Bank insurance programme which expands the Bank’s insurance protection specifically with regard to damage that may materially impact its profit or loss.

40.5 Capital Risk

As part of the Internal Capital Adequacy Assessment Process (ICAAP), the Bank has identified the following risks which should be covered entirely or partially by capital: market risks, interest rate risk of the banking book, credit risk and concentration risk, liquidity risk, operational risk, reputation risk, strategic risk, business risk and residual risk of securitisation.

The principal objectives of the Bank in managing capital risks are as follows:

- Quantification of risks in the form of economic capital which is needed to cover potential losses arising from these risks;
- Comparison of capital requirements with capital resources;
- Management of capital resources with respect to current and future risks;
- Determination of the maximum acceptable degree of risks with respect to available capital resources;
- Monitoring and management of the performance of business activities with respect to the risk or the capital requirements; and
- Strategic planning with respect to the risk, allocated capital resources and capital efficiency of individual business activities of the Bank and the financial group.

To calculate the economic capital for the market, credit, interest rate, securitisation and operational risks, the Bank uses the Value at Risk (VaR) methodology for a one-year period on the confidence level of 99.9 percent which corresponds approximately to the Bank's rating (A-) and the relevant probability of default of the customer. To calculate other risks, the Bank uses an estimate of the impact of risk scenarios modelled on an identical confidence level (liquidity risk) or an expert estimate of the unexpected loss (business, reputation, strategic risks) based on the experience of the Bank's managers and historical data.

The aggregate value of the economic capital or capital requirements is determined as the sum of economic capital for individual risks (for the purpose of allocating capital to individual business departments) or as aggregate economic capital (for the purpose of comparison with available capital resources to cover risks). The resulting aggregate risk capital is compared to capital resources determined in accordance with the regulatory rules as the sum of basic and additional capital and the profit for the current year taking into account the anticipated payment of dividends. This comparison of the risk and capital resources (risk capacity) is submitted to the Assets and Liabilities Committee (ALCO) on a quarterly basis.

41. CONTINGENT ASSETS AND LIABILITIES

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off balance sheet financial instruments. The following represent notional amounts of these off balance sheet financial instruments, unless stated otherwise.

Legal Disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Bank is named are resolved.

The Bank is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Bank believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

Assets Pledged

Assets are pledged as collateral under repurchase agreements with other banks and customers in the amount of CZK 33,775 million (2007: CZK 13,958 million). Mandatory reserve deposits are also held with the local central bank in accordance with statutory requirements (refer to Note 5). These deposits are not available to finance the Bank's day to day operations.

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached the commitments to extend credit represents a potential loss for the Bank. The Bank estimates the potential loss on the basis of historical developments of credit conversion factors, probability of default and loss given default. Credit conversion factors indicate the likelihood of the Bank paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Bank believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments is minimal.

In 2008, the Bank recorded provisions for off balance sheet risks to cover potential losses that may be incurred in connection with these off balance sheet transactions. As of 31 December 2008, the aggregate balance of these provisions was CZK 187 million (2007: CZK 143 million). Refer to Note 23.

CZK mil.	2008	2007
Guarantees and letters of credit	37,567	44,577
Undrawn loan commitments	101,049	94,060

42. SEGMENT REPORTING

(a) Industry segments

For management purposes, the Bank is organised into the following major operating divisions:

- Retail banking (accepting deposits from the public, providing loans to retail clients, services related to credit and debit cards);
- Commercial banking (providing loans to corporate clients and municipalities, issuance of guarantees, opening of letters of credit);
- Investment banking (securities investments, proprietary trading and trading on behalf of the client with securities, foreign exchange assets, entering into futures and options including foreign currency and interest rate transactions, financial brokerage, custodian services, participation in issuance of stock, management, safe-keeping and administration of securities or other assets); and
- Other operations.

2008 CZK mil.	Retail	Commercial	Banking Investment	Other activities	Total
REVENUE					
Total segment revenue	**28,970**	**4,792**	**2,837**	**7,962**	**44,561**
PROFIT					
Segment profit	13,960	2,050	(2,509)	6,658	20,159
Unallocated costs					(2,653)
Profit before tax					17,506
Income tax					(2,524)
Total profit					**14,982**
OTHER INFORMATION					
Asset acquisition	1,563	16	188	795	2,562
Write-offs and depreciation	895	–	41	1,760	2,696
Impairment losses	2	–	–	–	2
BALANCE SHEET					
Assets					
Segment assets	270,777	167,900	262,765	25,680	727,122
Unallocated assets					1,677
Total assets					**728,799**
Liabilities					
Segment liabilities	408,149	69,857	179,785	80	657,871
Unallocated liabilities					9,256
Total liabilities					**667,127**

2007 CZK mil.	Retail	Commercial	Banking Investment	Other activities	Total
REVENUE					
Total segment revenue	**24,028**	**4,044**	**2,406**	**3,822**	**34,300**
PROFIT					
Segment profit	10,735	1,763	1,566	2,212	16,276
Unallocated costs					(2,584)
Profit before tax					13,692
Income tax					3,076
Total profit					**10,616**
OTHER INFORMATION					
Asset acquisition	1,358	23	127	1,503	3,011
Write-offs and depreciation	973	–	90	2,074	3,137
Impairment losses	–	–	–	2	2
BALANCE SHEET					
Assets					
Segment assets	242,515	148,053	251,258	21,272	663,098
Unallocated assets					1,948
Total assets					**665,046**
Liabilities					
Segment liabilities	383,801	58,038	159,016	175	601,030
Unallocated liabilities					12,167
Total liabilities					**613,197**

Total income is composed of 'Net interest income', 'Net fee and commission income', 'Net trading result', 'Total other operating income' and 'Income from the revaluation/sale of securities, derivatives and equity investments' (refer to Note 36).

(b) Geographical segments

The Bank operates predominantly within the Czech Republic and has no significant cross border operations.

The geographical concentration of assets and liabilities as of 31 December 2008 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	21,038	1,650	221	297	23,206
Loans and advances to financial institutions	20,487	53,881	1,414	2,931	78,713
Loans and advances to customers, net of provisions	395,167	7,343	925	855	404,290
Securities at fair value through profit and loss	41,938	12,105	236	714	54,993
Positive fair value of financial derivative transactions	9,389	17,787	3	37	27,216
Securities available for sale	5,041	3,120	89	74	8,324
Securities held to maturity	68,523	24,284	1,000	3,310	97,117
Equity investments in subsidiary and associated undertakings	3,780	6,191	–	–	9,971
Other assets	23,280	1,561	35	93	24,969
Total assets	**588,643**	**127,922**	**3,923**	**8,311**	**728,799**
Liabilities					
Amounts owed to financial institutions	23,596	17,372	67	417	41,452
Amounts owed to customers	515,739	3,560	1,369	903	521,571
Liabilities at fair value	7,634	48	13	1	7,696
Negative fair value of financial derivative transactions	5,266	20,043	–	151	25,460
Bonds in issue	50,221	360	6	–	50,587
Subordinated debt	4,661	536	–	–	5,197
Other liabilities	14,813	289	3	59	15,164
Total liabilities	**621,930**	**42,208**	**1,458**	**1,531**	**667,127**
Net position	**(33,287)**	**85,714**	**2,465**	**6,780**	**61,672**

The line 'Other assets' includes other assets, property and equipment, intangible fixed assets. The line 'Other liabilities' includes other liabilities and provisions.

The geographical concentration of assets and liabilities as of 31 December 2007 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	17,956	1,292	159	276	19,683
Loans and advances to financial institutions	27,482	25,028	1,555	1,455	55,520
Loans and advances to customers, net of provisions	362,502	6,793	534	566	370,395
Securities at fair value through profit and loss	29,670	20,656	236	2,282	52,844
Positive fair value of financial derivative transactions	3,480	13,962	37	93	17,572
Securities available for sale	5,034	5,695	–	–	10,729
Securities held to maturity	60,591	32,445	3,799	4,747	101,582
Equity investments in subsidiary and associated undertakings	3,605	5,616	–	–	9,221
Other assets	26,165	865	48	422	27,500
Total assets	**536,485**	**112,352**	**6,368**	**9,841**	**665,046**
Liabilities					
Amounts owed to financial institutions	18,609	20,063	191	49	38,912
Amounts owed to customers	468,518	3,906	1,109	872	474,405
Liabilities at fair value	7,379	230	–	–	7,609
Negative fair value of financial derivative transactions	4,061	6,824	22	159	11,066
Bonds in issue	58,568	284	6	–	58,858
Subordinated debt	4,751	829	25	–	5,605
Other liabilities	16,323	78	3	338	16,742
Total liabilities	**578,209**	**32,214**	**1,356**	**1,418**	**613,197**
Net position	**(41,724)**	**80,138**	**5,012**	**8,423**	**51,849**

The line 'Other assets' includes other assets, property and equipment, intangible fixed assets. The line 'Other liabilities' includes other liabilities and provisions.

43. TRADING ON BEHALF OF CLIENTS

a) Assets under Administration

The Bank provides custody, trustee, investment management and advisory services to third parties which involve the Bank making purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Bank administered CZK 188,534 million (2007: CZK 204,451 million) of assets as of 31 December 2008 representing certificate securities and other assets received from customers into its custody for administration and safe-keeping split as follows:

CZk mil.	2008	2007
Customer securities in custody	15,331	14,814
Customer securities under administration	137,660	160,768
Customer securities for safe-keeping	33	74
Assets received for management	35,510	28,795
Total	**188,534**	**204,451**

In addition to customer assets arising from the provision of investment services (refer to Note 51), the total balance includes bills of exchange and other securities collateralising loans and other assets that do not relate to the provision of investment services.

The Bank also acts as a depositary for several mutual, investment and pension funds, whose assets amounted to CZK 81,956 million as of 31 December 2008 (2007: CZK 106,854 million).

b) Payables arising from the Provision of Investment Services

Investment services involve receiving and providing instructions related to investment instruments, performing instructions relating to investment instruments to a third party account, proprietary trading with investment instruments, management of customer assets under a contractual arrangement with the client if these assets include an investment instrument, and investment instruments underwriting or placement.

Additional investment services involve administration and custody of investment instruments, issuing loans to the client for the purpose of trading with investment instruments if the issuer of the loan takes part in the transaction, advisory services relating to capital structuring, industrial strategy, investments in investment instruments, provision of advice and services related to mergers and acquisitions, implementation of foreign exchange transactions relating to the provision of investment services, services related to the underwriting of investment instrument issues and rent of safe-deposit boxes.

In connection with the provision of these services, the Bank received cash and investment instruments from clients or obtained cash or investment instruments for its clients ('customer assets') in exchange for these values, which amounted to CZK 142,822 million as of 31 December 2008 (2007: CZK 163,211 million).

44. RELATED PARTY TRANSACTIONS

Related parties involve connected entities or parties that have a special relation to the Bank.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Erste Group Bank AG. Erste Stiftung exercises significant influence over the Bank. The remaining investment in the Bank is held by minority shareholders and institutional investors via freely traded shares on the stock exchanges in Vienna, Prague and Bucharest.

The parties that have a special relation to the Bank are considered to be members of the Bank's statutory and supervisory bodies and management, legal entities exercising control over the Bank (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Bank's statutory and supervisory bodies, management, and entities exercising control over the Bank, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Bank and any other legal entity under their control, members of the Czech National Bank's Banking Board, and legal entities which the Bank controls.

Pursuant to the definitions outlined above, the category of the Bank's related parties principally comprises its subsidiary and associated undertakings, members of its Board of Directors and Supervisory Board, and other entities, namely Erste Group Bank, its subsidiary and associated undertakings, and subsidiary and associated undertakings owned by the Bank's subsidiaries.

The Bank has the following amounts due from/to related parties as of 31 December 2008 and 2007:

2008 CZK mil.	Parent bank	Subsidiaries	Associates	Members of the Board of Directors and Supervisory Board	Other related parties
Assets					
Loans and advances to financial institutions	26,654	–	–	–	2,158
Loans and advances to customers	–	8,220	–	10	1,463
Securities at fair value through profit or loss	73	–	–	–	–
Securities held to maturity	–	–	–	–	594
Positive fair value of financial derivative transactions	10,189	182	–	–	9
Other assets	260	215	7	–	19
Total assets	**37,176**	**8,617**	**7**	**10**	**4,243**
Liabilities					,
Amounts owed to financial institutions	10,659	4,372	–	–	103
Amounts owed to customers	–	3,519	38	17	352
Bonds in issue	87	12,392	–	–	–
Negative fair value of financial derivative transactions	12,999	–	–	–	18
Other liabilities	111	305	19	–	164
Subordinated debt	107	–	–	–	300
Total liabilities	**23,963**	**20,588**	**57**	**17**	**937**
Off balance sheet					,
Undrawn loans	166	4,614	–	–	316
Issued guarantees	9	19,685	–	–	2
Received guarantees	1,174	–	–	–	2
Positive nominal value of financial derivatives	489,428	2,657	–	–	763
Negative nominal value of financial derivatives	(492,377)	(2,631)	–	–	(775)
					,
Income					
Interest income	636	408	2	8	137
Dividends received	–	831	5	–	–
Fee and commission income	23	1,489	–	–	118
Net trading result	(4,668)	145	–	–	52
Other operating income	797	60	1		12
Total income	**(3,212)**	**2,933**	**8**	**8**	**319**
Expenses					**–**
Interest expense	480	704	–	–	34
Fee and commission expense	1	41	–	–	7
General administrative expenses	106	265	514	–	502
Total expenses	**587**	**1,010**	**514**	**–**	**543**

2007	Parent bank	Subsidiaries	Associates	Members of the Board of Directors and Supervisory Board	Other related parties
Assets					
Loans and advances to financial institutions	4,590	2,000	–	–	232
Loans and advances to customers	–	6,119		20	1,079
Securities held to maturity	310	0	–	–	–
Positive fair value of financial derivative transactions	7,930	10	–	–	–
Other assets	73	266	4	–	45
Total assets	**12,903**	**8,395**	**4**	**20**	**1,356**
Liabilities					,
Amounts owed to financial institutions	11,216	420	–	–	1,069
Amounts owed to customers	0	2,514	117	5	685
Bonds in issue	82	11,583	–	–	1,700
Negative fair value of financial derivative transactions	1,920	–	1	–	61
Other liabilities	53	112	100	–	136
Subordinated debt	329	–	–	–	300
Total liabilities	**13,600**	**14,629**	**218**	**5**	**3,951**
Off balance sheet					,
Undrawn loans	200	2,380	–	–	426
Issued guarantees	18	22,729	–	–	39
Received guarantees	–	687	–	–	–
Positive nominal value of financial derivatives	192,518	1,497	56	–	3,780
Negative nominal value of financial derivatives	(187,029)	(1,445)	(56)	–	(3,841)
Income					,
Interest income	125	308	–	1	100
Dividends received	–	752	27	–	19
Fee and commission income	9	1,655	–	–	115
Net trading result	(263)	18	–	–	35
Other operating income	57	68	–	–	25
Total income	**(72)**	**2,801**	**27**	**1**	**294**
Expenses					
Interest expense	369	207	–	–	40
Fee and commission expense	–	69	–	–	8
General administrative expenses	37	225	279	–	519
Total expenses	**406**	**501**	**279**	**–**	**567**

Subsidiaries include both direct and indirect investments with controlling influence, associates include both direct and indirect investments with significant influence, other related parties include companies directly or indirectly controlled by Erste Group Bank.

(a) Members of the Board of Directors and Supervisory Board

Loans and advances granted to members of the Board of Directors and Supervisory Board amounted to CZK 10 million (in nominal values) as of 31 December 2008 (2007: CZK 20 million).

Members of the Board of Directors and Supervisory Board held no shares of the Bank. Under the Employee Stock Option Plan (refer to Note 36), members of the Board of Directors subscribed for 41,019 shares (2007: 50,432 shares) of the parent company, Erste Group Bank. Under the Management Stock Option Plan (refer to Note 36), members of the Board of Directors hold 24,000 options (2007: 36,000 options) for subscription of shares of the parent company, Erste Group Bank.

(b) Related parties

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis.

45. DIVIDENDS

Management of the Bank has proposed that total dividends of CZK 15,504 million be declared in respect of the profit for the year ended 31 December 2008, which represents CZK 102 per both ordinary and priority share (2007: CZK 4,560 million, that is, CZK 30 per both ordinary and priority share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15 percent or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an EU member country and whose interest in a subsidiary's share capital is no less than 10 percent and that hold the entity's shares for at least one year are not subject to a withholding tax.

46. POST BALANCE SHEET EVENTS

No significant events that would have a material impact on the financial statements for the year ended 31 December 2008 occurred subsequent to the balance sheet date.

Report on Relations between Related Parties

UNDER SECTION 66A (9) OF COMMERCIAL CODE 513/1991 COLL. FOR THE YEAR ENDED 31 DECEMBER 2008

Česká spořitelna, a. s., with its registered office at Olbrachtova 1929/62, 140 00 Prague 4, Corporate ID: 45244782, incorporated in the Register of Companies, Section B, File 1171, maintained at the Municipal Court in Prague (hereinafter **"Česká spořitelna"** or the **"Company"**), is part of a business group (holding company) in which the following relations between Česká spořitelna and controlling entities and further between Česká spořitelna and entities controlled by the same controlling entities (hereinafter the **"related entities"**) exist.

This report on relations between the entities stated below was prepared in accordance with Section 66a (9) of Commercial Code 513/1991 Coll., as amended, for the year ended 31 December 2008 (hereinafter the **"accounting period"**). In the accounting period, Česká spořitelna and the below mentioned entities entered into the contracts stated below and adopted or effected the following legal acts and other factual measures. The Report on Relations reports on the financial details of the transactions with the related entities for the year ended 31 December 2008.

A. CHART OF ENTITIES WHOSE RELATIONS ARE DESCRIBED

The Erste Group

Erste Group Bank

Česká spořitelna	Allgemeine Sparkasse
BCR	Bank Waldviertel Mitte
Dezentrale IT	ecetra CE Finance
Epsilon Immorent	Erste Bank Hungary
Erste Befektetesi	Erste Sec Polska
Erste-Sparinvest	Erste & Steiermärkische
Factoring SISp	Grand Hotel Marienbad
Immorent Avenir	Immorent BR
Immorent ČR	Immorent Develop
Immorent Finance	Immorent Hrádek
Immorent Cheb	Immorent Chomutov
Immorent Inprox	Immorent Investment XVII
Immorent Investment XX	Immorent Investment XXV
Immorent Kladno	Immorent Leasfinance
Immorent Orange	Immorent Orange Ostrava
Immorent Orion	Immorent Ostrava
Immorent Plzeň	Immorent PTC
Immorent SPC	Immorent TMIS
Immorent Vega	IT Austria CZ
IT Austria	IT Austria SK
Inprox F-M	Jablonecká
JSC Erste Bank	Lambda Immorent
Logcap ČR	Malá Štěpánská
Mocero	OCI
Objektmanagement	Omega Immorent
Pankrácká obchodní	Poštovní 14
Procurement CZ	Procurement AT
Proxima Immorent	s IT Solutions CZ
S IT Solutions AT	s IT Solutions SK
S Morava leasing	Senior Park
Slovenská sporiteľňa	Sparkasse Schwaz
Sparkasse Kitzbühel	Theta Immorent
Waldviertler Sparkasse	Weinviertler Sparkasse
Zeta Immorent	

B. CHART OF ENTITIES WHOSE RELATIONS ARE DESCRIBED

The Česká spořitelna Financial Group

Erste Group Bank

Česká spořitelna

Becon	BGA Czech
brokerjet ČS	CEE Property Development
Consulting ČS	CP Praha
CPDP 2003	CPDP IT Cen
CPDP Jungamannova	CPDP LPK I
CPDP LPK II	CPDP SMK
CPP Lux	CSPF Residential
CS Property Investment	Czech and Slovak Property
Erste Corporate Finance	Factoring ČS
Gallery Myšák	Informatika ČS
Investiční společnost ČS	Leasing ČS
NHS	Nové Butovice
Penzijní fond ČS	RAVEN EU Advisory
Realitní společnost ČS	REICO ČS
s Autoleasing	s Autoúvěr
Satpo Jeseniova	Satpo Král. vyhlídka
Satpo Na Malzavinkách	Satpo Sacre Coeur
Satpo Sacre Coeur II	Satpo Švédská
Smíchov Real Estate	Stavební spořitelna ČS
Tavaresa	

C. CONTROLLING ENTITIES

- **Erste Group Bank AG,** Am Graben 21, Vienna, Austria ("Erste Group Bank")
  Relation to the Company: directly controlling entity

D. OTHER RELATED PARTIES WHOSE RELATIONS ARE DESCRIBED

OTHER RELATED ENTITIES, The Erste Bank Group

- **Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft,** Promenade 11, Linz, Austria ("Allgemeine Sparkasse")
  Relation to the Company: related entity

- **Banca Comerciala Romana,** Regina Elisabeta Blvd 5, Bucharest, Rumania ("BCR")
  Relation to the Company: related entity

- **Bank und Sparkassen Aktiengesellschaft Waldviertel Mitte,** Hauptplatz 3, Zwettl, Austria ("Bank Waldviertel Mitte")
  Relation to the Company: related entity

- **Dezentrale IT-Infrastruktur Services GmbH,** Geiselbergstrasse 21, Vienna, Austria ("Dezentrale IT")
  Relation to the Company: related entity

- **ecetra Central European e– Finance AG,** Neutorgasse 2, Vienna, Austria ("ecetra CE Finance")
  Relation to the Company: related entity

- **Epsilon Immorent s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Epsilon Immorent")
  Relation to the Company: related entity

- **Erste Bank Hungary Nyrt,** Hold utca 16, Budapest, Hungary ("Erste Bank Hungary")
  Relation to the Company: related entity

- **Erste Befektetesi Zrt,** Népfürdő u. 24–26., Budapest, Hungary ("EB Befektetesi")
  Relation to the Company: related entity

- **Erste Securities Polska S.A.,** ul. Królewska 16, Warsaw, Poland ("Erste Sec Polska")
  Relation to the Company: related entity

- **Erste-Sparinvest Kapitalanlagegesellschaft m.b.H.,** Habsburgergasse 1, Vienna, Austria ("Erste-Sparinvest")
  Relation to the Company: related entity

- **Erste & Steiermärkische banka d.d.,** Rijeka, Jadranski trg 3, Rijeka, Croatia ("Erste & Steiermarkische")
  Relation to the Company: related entity

- **Factoring Slovenskej sporiteľni a.s.,** Tomášikova 48, Bratislava, Slovakia ("Factoring SlSp")
  Relation to the Company: related entity

- **Grand Hotel Marienbad s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Grand Hotel Marienbad")
  Relation to the Company: related entity

- **Immorent Avenir 3 s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Avenir")
  Relation to the Company: related entity

- **Immorent Brno Retail, s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent BR")
  Relation to the Company: related entity

- **Immorent ČR, s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent ČR")
  Relation to the Company: related entity

- **Immorent Development s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Develop")
  Relation to the Company: related entity

- **Immorent Financeprojekt s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Finance")
  Relation to the Company: related entity

- **Immorent Hrádek, a.s.,** Národní 41/973, Prague 1, Czech Republic ("Immorent Hrádek")
  Relation to the Company: related entity

- **Immorent Cheb s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Cheb”)
Relation to the Company: related entity

- **Immorent Chomutov, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Chomutov”)
Relation to the Company: related entity

- **Immorent Inprox Budweis s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Inprox”)
Relation to the Company: related entity

- **Immorent Investment XVII, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Invest XVII”)
Relation to the Company: related entity

- **Immorent Investment XX, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Invest XX”)
Relation to the Company: related entity

- **Immorent Investment XXV, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Invest XXV”)
Relation to the Company: related entity

- **Immorent Kladno, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Kladno”)
Relation to the Company: related entity

- **Immorent Leasfinance s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Leasfinance”)
Relation to the Company: related entity

- **Immorent Orange s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Orange”)
Relation to the Company: related entity

- **Immorent Orange Ostrava s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Orange Ostrava”)
Relation to the Company: related entity

- **Immorent Orion, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Orion”)
Relation to the Company: related entity

- **Immorent Ostrava I s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Ostrava”)
Relation to the Company: related entity

- **Immorent Plzeň s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Plzeň”)
Relation to the Company: related entity

- **Immorent PTC, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent PTC”)
Relation to the Company: related entity

- **Immorent SPC s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent SPC”)
Relation to the Company: related entity

- **Immorent TMIS s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent TMIS”)
Relation to the Company: related entity

- **Immorent Vega, s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Immorent Vega”)
Relation to the Company: related entity

- **Informations-Technologie Austria CZ, s. r. o.,** Antala Staška 32/1292, Prague 4, Czech Republic (“IT Austria CZ”)
Relation to the Company: related entity

- **Informations-Technologie Austria GmbH,** Lassallestrasse 5, Vienna, Austria (“IT Austria”)
Relation to the Company: related entity

- **Informations-Technologie Austria SK,** spol. s r. o., Prievozská 10, Bratislava, Slovakia (“IT Austria SK”)
Relation to the Company: related entity

- **Inprox Frýdek-Místek s. r. o.,** Národní 973/41, Prague 1, Czech Republic (“Inprox F-M”)
Relation to the Company: related entity

- **Jablonecká realitní a. s.,** Národní 973/41, Prague 1, Czech Republic (“Jablonecká”)
Relation to the Company: related entity

- **JSC Erste Bank,** Proreznaja 6, Kiev, Ukraine
("JSC Erste Bank")
Relation to the Company: related entity

- **Lambda Immorent s. r. o.,** Národní 973/41, Prague 1,
Czech Republic ("Lambda Immorent")
Relation to the Company: related entity

- **Logcap ČR s. r. o.,** Národní 973/41, Prague 1,
Czech Republic ("Logcap ČR")
Relation to the Company: related entity

- **Malá Štěpánská 17 s. r. o.,** Národní 973/41, Prague 1,
Czech Republic ("Malá Štěpánská")
Relation to the Company: related entity

- **Mocero reality s. r. o.,** Národní 973/41, Prague 1,
Czech Republic ("Mocero")
Relation to the Company: related entity

- **ÖCI – Unternehmensbeteiligungs-gesellschaft. m. b. H.,**
Am Graben 21, Vienna, Austria ("OCI")
Relation to the Company: related entity

- **OM Objektmanagement GmbH,** Schwarzenbergplatz 2,
Vienna, Austria ("Objektmanagement")
Relation to the Company: related entity

- **Omega Immorent s. r. o.,** Národní 973/41, Prague 1,
Czech Republic ("Omega Immorent")
Relation to the Company: related entity

- **Pankrácká obchodní, a. s.,** Na Pankráci 14, Prague 4,
Czech Republic ("Pankrácká obchodní")
Relation to the Company: related entity

- **Poštovní 14, a. s.,** Národní 973/41, Prague 1,
Czech Republic ("Poštovní 14")
Relation to the Company: related entity

- **Procurement Services CZ, s. r. o.,** Želetavská 1449/9,
Prague 4, Czech Republic ("Procurement CZ")
Relation to the Company: related entity

- **Procurement Services GmbH,** Brehmstrasse 12,
Vienna, Austria ("Procurement AT")
Relation to the Company: related entity

- **Proxima Immorent, s. r. o.,** Národní 973/41, Prague 1,
Czech Republic ("Proxima Immorent")
Relation to the Company: related entity

- **s IT Solutions CZ, s. r. o.,** Antala Staška 32/1292, Prague 4,
Czech Republic ("S IT Solutions CZ")
Relation to the Company: related entity

- **s IT Solutions AT Spardat GmbH,** Geiselbergstrasse 21,
Vienna, Austria ("S IT Solutions AT")
Relation to the Company: related entity

- **s IT Solutions SK, spol. s r.o.,** Prievozská 14, Bratislava,
Slovakia ("S IT Solutions SK")
Relation to the Company: related entity

- **s Morava leasing, a. s.,** Horní náměstí 264/18, Znojmo,
Czech Republic ("S – Morava leasing")
Relation to the Company: related entity

- **Senior Park a. s.,** Na Strži 1702/65, Prague 4,
Czech Republic ("Senior Park")
Relation to the Company: related entity

- **Slovenská sporiteľňa, a. s.,** Tomášikova 48, Bratislava,
Slovakia ("Slovenská sporiteľňa")
Relation to the Company: related entity

- **Sparkasse Schwaz AG,** Franz-Josef-Strasse 8–10,
Schwaz, Austria ("Sparkassen Schwaz")
Relation to the Company: related entity

- **Sparkasse der Stadt Kitzbühel AG,** Bahnhofstrasse 6,
Kitzbühel, Austria ("Sparkassen Kitzbühel")
Relation to the Company: related entity

- **Theta Immorent s. r. o.,** Národní 973/41, Prague 1,
Czech Republic ("Theta Immorent")
Relation to the Company: related entity

- **Waldviertler Sparkasse von 1842 AG,** Hauptplatz 22, 3830 Waidhofen a. d. Thaya, Austria ("Waldviertler Sparkasse")
  Relation to the Company: related entity

- **Weinviertler Sparkasse AG,** Hauptplatz 10, Hollabrunn, Austria ("Weinviertler Sparkasse")
  Relation to the Company: related entity

- **Zeta Immorent s.r.o.,** Národní 973/41, Prague 1, Czech Republic ("Zeta Immorent")
  Relation to the Company: related entity

OTHER RELATED ENTITIES, THE ČESKÁ SPOŘITELNA FINANCIAL GROUP

- **Becon s.r.o.,** Rozkošného 1058/3, Prague 5, Czech Republic ("Becon")
  Relation to the Company: indirectly controlled entity

- **BGA Czech s.r.o.,** Rozkošného 1058/3, Prague 5, Czech Republic ("BGA Czech")
  Relation to the Company: indirectly controlled entity

- **brokerjet České spořitelny, a.s.,** Evropská 2690/17, Prague 6, Czech Republic ("brokerjet ČS")
  Relation to the Company: directly controlled entity

- **CEE Property Development Portfolio B.V.,** Naritawes 165 Telestone 8, 1043 BW Amsterdam, Netherlands ("CEE Property Development")
  Relation to the Company: directly controlled entity

- **Consulting České spořitelny, a.s.,** Vinohradská 180/1632, Prague 3, Czech Republic ("Consulting ČS")
  Relation to the Company: directly controlled entity

- **CP Praha s.r.o.,** Koněvova 929/19, Prague 3, Czech Republic ("CP Praha")
  Relation to the Company: indirectly controlled entity

- **CPDP 2003 s.r.o.,** Vodičkova 710/31, Prague 1, Czech Republic ("CPDP 2003")
  Relation to the Company: indirectly controlled entity

- **CPDP IT Centrum s.r.o.,** Vodičkova 710/31, Prague 1, Czech Republic("CPDP IT Cen")
  Relation to the Company: indirectly controlled entity

- **CPDP Jungmannova s.r.o.,** Vodičkova 710/31, Prague 1, Czech Republic ("CPDP Jungmannova")
  Relation to the Company: indirectly controlled entity

- **CPDP Logistics Park Kladno I a.s.,** Vodičkova 710/31, Prague 1, Czech Republic ("CPDP LPK I")
  Relation to the Company: indirectly controlled entity

- **CPDP Logistics Park Kladno II a.s.,** Vodičkova 710/31, Prague 1, Czech Republic ("CPDP LPK II")
  Relation to the Company: indirectly controlled entity

- **CPDP Shopping Mall Kladno, a.s.,** Vodičkova 710/31, Prague 1, Czech Republic ("CPDP SMK")
  Relation to the Company: indirectly controlled entity

- **CPP Lux S.'ar.l.,** Rue de la Poste 20, Luxembourg, Luxembourg ("CPP Lux")
  Relation to the Company: indirectly controlled entity

- **CSPF Residential B.V.,** Fred Roeskestraat 123, Amsterdam, Netherlands ("CSPF Residential")
  Relation to the Company: indirectly controlled entity

- **CS Property Investment Limited,** Themistokli Dervi 48, Nicosia, Cyprus ("CS Property Investment")
  Relation to the Company: directly controlled entity

- **Czech and Slovak Property Fund B.V.,** Fred Roeskerstraat 123, Amsterdam, Netherlands ("Czech and Slovak Property")
  Relation to the Company: directly controlled entity

- **Erste Corporate Finance, a.s.,** Evropská 2690/17, Prague 6, Czech Republic ("Erste Corporate")
  Relation to the Company: directly controlled entity

- **Factoring České spořitelny, a.s.,** Pobřežní 46, Prague 8, Czech Republic ("Factoring ČS")
  Relation to the Company: directly controlled entity

- **Gallery Myšák s. r. o.,** Vodičkova 710/31, Prague 1, Czech Republic ("Gallery Myšák")
  Relation to the Company: indirectly controlled entity

- **Informatika České spořitelny, a. s.,** Antala Staška 32/1292, Prague 4, Czech Republic ("Informatika ČS")
  Relation to the Company: directly controlled entity

- **Investiční společnost České spořitelny, a. s.,** Evropská 2690/17, Prague 6, Czech Republic ("Investiční společnost ČS")
  Relation to the Company: directly controlled entity

- **Leasing České spořitelny, a. s.,** Střelničná 8, Prague 8, Czech Republic ("Leasing ČS")
  Relation to the Company: directly controlled entity

- **NHS Czech, s. r. o.,** Rozkošného 1058/3, Prague 5, Czech Republic ("NHS")
  Relation to the Company: indirectly controlled entity

- **Nové Butovice Development s. r. o.,** Rozkošného 1058/3, Prague 5, Czech Republic ("Nové Butovice")
  Relation to the Company: indirectly controlled entity

- **Penzijní fond České spořitelny, a. s.,** Poláčkova 1976/2, Prague 4, Czech Republic ("Penzijní fond ČS")
  Relation to the Company: directly controlled entity

- **RAVEN EU Advisory, a. s.,** Jakubské nám. 101/2, Brno, Czech Republic ("RAVEN")
  Relation to the Company: directly controlled entity

- **Realitní společnost České spořitelny, a. s.,** Vinohradská 180/1632 , Prague 3, Czech Republic ("Realitní společnost ČS")
  Relation to the Company: directly controlled entity

- **REICO investiční společnost České spořitelny, a. s.,** Antala Staška /2027/79, Prague 4, Czech Republic ("REICO ČS")
  Relation to the Company: directly controlled entity

- **s Autoleasing, a. s.,** Střelničná 8, Prague 8, Czech Republic ("s Autoleasing")
  Relation to the Company: directly controlled entity

- **s Autoúvěr, a. s.,** Střelničná 8, Prague 8, Czech Republic ("s Autoúvěr")
  Relation to the Company: indirectly controlled entity

- **Satpo Jeseniova, s. r. o.,** Plzeňská 3217/16, Prague 5, Czech Republic ("Satpo Jeseniova")
  Relation to the Company: indirectly controlled entity

- **Satpo Královská vyhlídka, s. r. o.,** Plzeňská 3217/16, Prague 5, Czech Republic ("Satpo Král. vyhlídka")
  Relation to the Company: indirectly controlled entity

- **Satpo Na Malvazinkách, a. s.,** Plzeňská 3217/16, Prague 5, Czech Republic ("Satpo Na Malvazinkách")
  Relation to the Company: indirectly controlled entity

- **Satpo Sacre Coeur, s. r. o.,** Plzeňská 3217/16, Prague 5, Czech Republic ("Satpo Sacre Coeur")
  Relation to the Company: indirectly controlled entity

- **Satpo Sacre Coeur II, s. r. o.,** Plzeňská 3217/16, Prague 5, Czech Republic ("Satpo Sacre Coeur II")
  Relation to the Company: indirectly controlled entity

- **Satpo Švédská, s. r. o.,** Plzeňská 3217/16, Prague 5, Czech Republic ("Satpo Švédská")
  Relation to the Company: indirectly controlled entity

- **Smíchov Real Estate, a. s.,** Rozkošného 1058/3, Prague 5, Czech Republic ("Smíchov RE")
  Relation to the Company: indirectly controlled entity

- **Stavební spořitelna České spořitelny, a. s.,** Vinohradská 180/1632, Prague 3, Czech Republic ("Stavební spořitelna ČS")
  Relation to the Company: directly controlled entity

- **Tavaresa a. s.,** Vodičkova 710/31, Prague 1, Czech Republic ("Tavaresa")
  Relation to the Company: indirectly controlled entity

E. TRANSACTIONS WITH THE RELATED ENTITIES

Česká spořitelna identified relations with the related entities listed in Section C and Section D and aggregated them into the following categories.

Related Party Transactions on the Assets Side of Česká spořitelna's Balance Sheet

Loans and Advances to Financial Institutions

Česká spořitelna provided within approved general limits (see page 293) the related entities – financial institutions, with funding under contracts for the provision of loans, term placements, maintenance of current accounts and overdraft loans under standard business terms and conditions in the aggregate amount of CZK 28,812 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Loans and Advances to Customers

Česká spořitelna provided within approved general limits (see page 293) the related entities – non-financial institutions, with funding under contracts for the provision of loans, overdraft loans, etc. under standard business terms and conditions in the aggregate amount of CZK 9,683 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Securities at Fair Value through Profit or Loss

Česká spořitelna holds bonds and similar securities of related entities measured at fair value through profit or loss which were purchased under standard market conditions in the aggregate amount of CZK 73 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Securities Held to Maturity

Česká spořitelna holds own bonds and similar securities of related entities which were purchased under standard market conditions in the aggregate amount of CZK 594 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Positive Fair Value of Financial Derivative Transactions

Česká spořitelna entered into trading or hedging financial derivatives under standard market conditions with related entities, the positive value of which was CZK 10,380 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Assets

Other assets include other receivables from business transactions of Česká spořitelna with related entities on the asset side of the balance sheet in the aggregate amount of CZK 501 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Related Party Transactions on the Liabilities Side of Česká spořitelna's Balance Sheet

Amounts Owed to Financial Institutions

In the accounting period, Česká spořitelna provided related entities – financial institutions, with monetary services relating to the maintenance of current accounts, term bank accounts, received loans, loro accounts, etc. based on the contracts for the opening and maintenance of accounts under standard business terms and conditions, in the aggregate amount of CZK 15,134 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Amounts Owed to Customers

In the accounting period, Česká spořitelna provided related parties – non-financial institutions, with monetary services relating to the maintenance of current accounts, term bank accounts, received loans, credit balances on overdraft facilities, etc. based on the contracts for the opening and maintenance of accounts under standard business terms and conditions, in the aggregate amount of CZK 3,909 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Česká spořitelna's Bonds in Issue

Related entities hold bonds and similar securities issued by Česká spořitelna that were purchased under standard market conditions in the aggregate amount of CZK 12,479 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Negative Fair Value of Financial Derivative Transactions

Česká spořitelna entered into trading or hedging financial derivatives under standard market conditions with related entities, the negative value of which was CZK 13,017 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Subordinate Debt

Related parties hold subordinate bonds issued by Česká spořitelna that were purchased under standard market conditions in the aggregate amount of CZK 407 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Liabilities

Other liabilities include other liabilities from transactions between Česká spořitelna and related entities on the liabilities side of the balance sheet in the aggregate amount of CZK 599 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Transactions with Related Parties Having an Impact on Česká spořitelna's Profit and Loss Account

Interest Income

In the accounting period, Česká spořitelna generated total interest income of CZK 2,019 million, including dividends, from banking transactions with related entities under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Interest Expenses

Česká spořitelna incurred total interest expenses of CZK 1,218 million in respect of banking transactions with related entities under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Fee and Commission Income

In the accounting period, Česká spořitenla received, as part of the transactions with related entities, under standard market or business terms and conditions, fee and commission income that predominantly includes fees and commissions for asset management, depository services, sale of the products of subsidiaries, etc. in the aggregate amount of CZK 1,630 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Fee and Commission Expense

In the accounting period, Česká spořitelna incurred, as part of the transactions with related parties, under standard market or business terms and conditions, fee and commission expense that predominantly includes transaction fees, in the aggregate amount of CZK 49 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Net Trading Result

Česká spořitelna, as part of securities transactions, foreign currency transactions and similar transactions with related entities, including income and expenses from changes in fair values of non-hedging derivatives, incurred a net profit of CZK 14 million in the accounting period under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period. This amount does not include an amount of CZK (4,485) million arising from the revaluation of currency derivative transactions which reflects unrealised foreign exchange rate gains and losses from transactions entered into with Česká spořitelna's clients and simultaneously in the mirror opposite position with the related entities. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

General Administrative Expenses

In the accounting period, Česká spořitelna incurred CZK 1,387 million in general administrative expenses in respect of related entities, namely for the purchase of goods, material, insurance, advisory, professional, consulting and maintenance services, under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Operating Income/(Expenses)

In the accounting period, Česká spořitelna had, as part of other transactions with related entities, specifically in providing outsourcing services and client centre services, under standard market or business terms and conditions, a positive balance of other operating income and expenses in the aggregate amount of CZK 870 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Bank-Business Transactions with Related Entities

General Limits

Česká spořitelna has approved general limits in place for transactions with related entities in respect of current and term deposits, loans, repurchase transactions, own securities, letters of credit, and issued and received guarantees in the aggregate amount of CZK 125,176 million. Under these limits, the aggregate exposure to the related entities was CZK 88,333 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Provided and Received Guarantees

Česká spořitelna provided guarantees based on the contracts for the provision of guarantees to related parties under standard terms and conditions. The aggregate amount of the provided guarantees was CZK 19,696 million. Česká spořitelna received guarantees from related parties based on the contracts for the receipt of bank guarantees under standard business terms and conditions in the aggregate amount of CZK 1,176 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Fixed Term Contracts

In the accounting period, Česká spořitelna entered into fixed term contracts with the related entities under standard market conditions. At the accounting period-end, the nominal values of receivables and payables arising from fixed term contracts were CZK 492,848 million and CZK 495,783 million, respectively. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Equity Transactions with Related Entities

In the accounting period, Česká spořitelna, as a market maker, purchased and sold shares of related entities, under standard market conditions, with an aggregate turnover of CZK 18,394 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Paid Dividends

Following the decision of the General Meeting of 23 April 2008, Česká spořitelna paid dividends of CZK 4,468 million to related entities in the accounting period. Česká spořitelna incurred no detriment as a result of this transaction in the accounting period.

F. NON-BANKING TRANSACTIONS WITH RELATED ENTITIES

In the previous accounting periods, Česká spořitelna entered into contracts with related parties listed in sections C and D, concerning non-banking relations, the financial details of which are included in section E. In the accounting period, Česká spořitelna entered into new contracts with related entities listed in C and D concerning non-banking relations, the financial details of which are included in section E. The below list includes significant non-banking contracts entered into with related entities in the accounting period. The immaterial contractual arrangements under which Česká spořitelna received or provided performance as part of non-banking contractual arrangements with related entities, the financial details of which are also included in section E, and no detriment was incurred in relation to these contractual arrangements are not included in this report.

Name	Party to the Contract	Description of the performance	Detriment incurred, if any
Contract for the provision of advisory services	Procurement Services CZ, s. r. o.	Performance under individual contracts for the provision of advisory services and purchase of goods	None
Contracts for the provision of services, contracts for work	s IT Solutions AT Spardat GmbH	Services within various projects	None
Service contracts	s IT Solutions SK, spol. s r.o.	Servicing and support of SW	None
Lease and sub-lease agreements	s IT Solutions SK, spol. s r.o.	Leases of non-residential premises	None
Additional contracts to the mandate contract	s IT Solutions CZ, s. r. o.	Servicing and support of SW under individual contracts	None
Implementation contracts for the provision of advisory services	Consulting České spořitelny, a. s.	Advisory services and valuation of assets	None
Implementation contracts for the provision of advisory services	Informatika České spořitelny, a. s.	Provision of IT maintenance services	None
Mandate contract	Erste Corporate Finance, a. s.	Provision of advisory services	None
Contract for the subscription of shares	s Autoleasing, a. s.	Subscription for 272 shares of CZK 1,000,000, per share upon the increase in the share capital	None
Contract for the sale of shares	s Autoleasing, a. s.	Sale of a 100% equity share in Leasing České spořitelny, a. s.	None
Contracts for the offset of receivables	s Autoleasing, a. s.	Offset of receivables of Česká spořitelna from s Autoleasing under the Contract for the sale of shares and the Contract for the subscription of shares	None
Contract for the subscription of shares	Penzijní fond České spořitelny, a. s.	Subscription for 100 shares of CZK 2,000,000 per share at the issuance rate of CZK 6,000,000 per share upon the increase in the share capital	None
Contract for the subscription of shares	Penzijní fond České spořitelny, a. s.	Subscription for 25 shares of CZK 2,000,000 per share at the issuance rate of CZK 40,000,000 per share upon the increase in the share capital	None
Contract for the subscription of shares	REICO investiční společnost České spořitelny, a. s.	Subscription for 10 shares of CZK 1,000,000 per share at the issuance rate of CZK 5,000,000 per share upon the increase in the share capital	None
Contract for the subscription of shares	Realitní společnost České spořitelny, a. s.	Subscription for 10 shares of CZK 1,000,000 per share at the issuance rate of CZK 10,000,000 per share upon the increase in the share capital	None
Sublease agreement	brokerjet České spořitelny, a. s.	Lease of non-residential premises	None
Lease agreement	Erste Corporate Finance	Lease of non-residential premises	None
Lease and sublease agreements	Informations-Technologie Austria CZ, s. r. o.	Lease of non-residential premises	None
Sublease agreement	Informations-Technologie Austria GmbH	Lease of non-residential premises	None
Sublease agreement	RAVEN EU Advisory, a. s.	Lease of non-residential premises	None
Contract for future lease contract	CPDP Shopping Mall Kladno, a. s.	Contract for future lease	None
Lease agreement	Penzijní fond České spořitelny, a. s.	Lease of non-residential premises effective from 2009	None
Contract for the provision of outsourcing services	Stavební spořitelna České spořitelny, a. s.	Outsourcing services in the area of finance accounting, controlling, asset management, purchase administration, human resources, marketing and corporate communication	None

Legal title	Party to the Contract	Description of the performance	Detriment incurred, if any
The Employee Erste Bank Stock Ownership Programme ('ESOP') and the Management Erste Bank Stock Option Programme ('MSOP')	Erste Group Bank AG	Payment of a 20% discount on the subscription for shares by employees who made use of the option	None

G. OTHER LEGAL ACTS

In the accounting period, Česká spořitelna adopted or made no other legal acts in the interest, or at the initiative, of the related entities.

H. OTHER FACTUAL MEASURES

Česká spořitelna participates in the group programmes within the Erste Bank Group. The programmes are designed to fully utilise the business potential of Central European markets in all segments, to benefit from economies of scale and cost synergies, to concentrate support activities in the group, and to ensure transparency and comparability in performance measurement. The programmes include business projects (Card Strategy, Group Capital Markets, Financial Market Web Portal), IT projects (Data Centre Transition, s IT Solutions Transition, Core Banking Initiative, Enterprise Service Bus), performance and risk management projects (Group Performance Model, Group Risk Management) and service activities projects (Group Payment Initiative, Group Operation/Processing, Core SAP, PARIS, Learning Management System). In the IT area, the projects are expected to bring about savings as a result of the sharing of operational and development activities, merging of IT procurement, and standardisation of hardware. Česká spořitelna incurred no detriment as a result of its participation in the Group-wide projects referred to above.

I. CONCLUSION

Our review of the legal relations put in place between Česká spořitelna and the related entities indicates that Česká spořitelna incurred no detriment as a result of contractual arrangements, other legal acts or other measures implemented, made or adopted by Česká spořitelna during the year ended 31 December 2008 in the interest, or at the initiative, of individual related entities.

Dušan Baran
Vice Chairman of the Board of Directors
and First Deputy CEO

Jiří Škorvaga
Member of the Board of Directors
and Deputy CEO

Česká spořitelna Financial Group

FIGURES ARE STATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), UNLESS INDICATED OTHERWISE.

STAVEBNÍ SPOŘITELNA ČESKÉ SPOŘITELNY, A. S.

Stavební spořitelna České spořitelny, a. s., with its registered office at Vinohradská 180, Prague 3, was incorporated on 22 June 1994. Its principal business is the provision of financial services under Act No. 96/1993 Coll. The shareholder structure consists of Česká spořitelna, a. s., which owns a 95 percent shareholding and the remaining five percent is held by Bausparkasse der österreichischen Sparkassen AG. Stavební spořitelna ČS offers its clients construction savings with state support and statutory rights to loans from construction savings.

Its mission "Funding Better Housing for Everyone" motivates Stavební spořitelna ČS to improve the quality of its products and services on an ongoing basis, placing the emphasis on simplicity, speed and a reasonable price. Stavební spořitelna ČS is consistent in focusing on providing loans; it has launched a brand-new TREND loan in its loan portfolio which is a bridging loan with a variable interest rate. In 2008, Stavební spořitelna ČS paid close attention to saving clients.

In 2008, Stavební spořitelna ČS provided more than 35,000 new loans totalling over CZK 13.5 billion. As of 31 December 2008, Stavební spořitelna ČS maintained more that 200,000 loan accounts, which represents year-on-year growth of seven percent, and lent its clients CZK 42.7 billion for housing improvements, i.e. 28 percent more than at the 2007 year-end.

The sale of construction savings contracts grew immensely in 2008. Compared to 2007, the number of contracts grew by 45 percent which was the largest year-on-year change of this indicator on the construction market. As of 31 December 2008, Stavební spořitelna ČS administered 1,174 thousand construction savings accounts. The amount of the target value grew substantially year-on-year. In 2008, clients entered into deposit contracts with the aggregate target amount of CZK 64.8 billion, which represents an increase of almost 53 percent compared to the previous period.

In 2008, for the first time, Stavební spořitelna ČS closely approached the point of CZK 1.5 billion in generated net profit. The increase in net profit amounts to 33 percent. The record profit was predominantly driven by the increase in net interest income arising from client loans. The cost/income ratio continued to fall from 22.5 percent in 2007 to 16.3 percent in 2008 year-on-year. The increase in the proportion of loans to deposits from 38.5 percent in 2007 to 47.4 percent in 2008 confirmed once again that Stavební spořitelna ČS is heading in the right direction.

	2008	2007	2006	2005	2004
Share capital (CZK million)	750	750	750	750	750
Total assets (CZK billion)	98.2	96.2	90.8	84.3	73.7
Loans and advances to clients (CZK billion)	42.8	33.4	24.2	19.5	15.5
Client deposits (CZK billion)	93.2	89.8	83.8	77.6	67.4
Net profit (CZK million)	1,465	1,105	938	649	351
Number of clients (million)	1.2	1.1	1.2	1.2	1.3
Average headcount	209	206	215	234	281

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PENZIJNÍ FOND ČESKÉ SPOŘITELNY, A. S.

Penzijní fond České spořitelny, a. s. was formed on 24 August 1994. The company's registered office is located at Poláčkova 1976/2, Prague 4. Česká spořitelna has been the company's sole shareholder since March 2001. The company is primarily engaged in the provision of retirement benefit schemes under Act 42/1994 Coll.

The number of clients of Penzijní fond ČS increased by over 174 thousand in 2008 and its total exceeded 750 thousand at the end of 2008. Penzijní fond ČS ranks as the second largest pension fund in the Czech Republic based on the number of clients. Penzijní fond ČS saw dynamic growth in the volume of funding on clients' personal accounts, which amounted to CZK 29.6 billion, a 22 percent increase year on year.

As of 31 December 2008, the net profit of Penzijní fond ČS amounted to CZK 127 million, which represents a decrease of 84 percent compared to the previous year. The amount of profit can be seen as a positive result given the low interest rates and adverse development on financial markets. The amount of profit was driven by the volume of financial assets under management, which grew by CZK 5.2 billion in 2008. Česká spořitelna as the sole shareholder of Penzijní fond ČS increased the share capital by CZK 250 million in 2008 and generally strengthened the equity of Penzijní fond ČS by CZK 1.6 billion.

The business performance of Penzijní fond ČS was notably driven by the development of cooperation with employers. As part of its corporate programme, Penzijní fond ČS entered into business arrangements with 8,447 employers. The growth of business dynamics was supported by a further extension of the sales network covering all branches of Česká spořitelna and its external sales network, which also includes the insurance company Kooperativa.

In financial assets management Penzijní fond ČS followed its stated strategic objective to achieve the greatest possible return on clients' assets while maintaining a low rate of financial risk. Penzijní fond ČS invested funds principally in Czech, largely government debt securities that carry a low risk of non-payment, government treasury bills and to a lesser extent also share certificates.

	2008	2007	2006	2005	2004
Share capital (CZK million)	350	100	100	100	100
Total assets (CZK billion)	30.6	25.2	20.3	16.5	12.9
Capital funds (CZK billion)*	29.6	24.4	19.2	15.1	12.0
Net profit (CZK million) under CAS**	127	776	531	630	408
Net profit (CZK million) under IFRS	127	776	531	630	644
Number of participants (thousand)	750	634	550	480	410
Average headcount	56	53	52	54	55

**This figure indicates the balance of funds in clients' personal accounts.

** Under the Retirement Benefit Schemes Act the pension fund allocates no less than 85 percent of the profit made under CAS to its clients.

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INVESTIČNÍ SPOLEČNOST ČESKÉ SPOŘITELNY, A. S.

Investiční společnost České spořitelny, a. s. was incorporated on 27 December 1991 as a wholly-owned subsidiary of Česká spořitelna. The company's registered office is at Na Perštýně 342, Prague 1.

Investiční společnost ČS manages a wide range of mutual funds; at the end of 2008, the company offered 29 funds (including special qualified investor funds). The volume of assets managed by Investiční společnost České spořitelny dropped by 37 percent to CZK 51.4 billion in 2008.

2008 featured a global financial crisis and the mutual funds industry was unable to avoid it. Although mutual funds remained fully liquid, they saw an outflow of funds mainly because investors no longer wanted to watch dropping values particularly in conservative funds. However, owing to diversification, declines in values of assets held in mixed funds and bond funds were not as significant as declines of isolated investments in bonds. Equity funds did not report any major sell-offs. The CZK exchange rate fluctuation did not substantially impact the performance of funds because most of the funds of Investiční společnost ČS are currency hedged.

While 2008 did not particularly favour short-term investments, mainly investments in risk assets, the future will show the advantages of collective investment. One of the advantages is the concept of the absolute yield fund which Investiční společnost ČS has offered in the private banking sector to date. The structure of the funds limits the risk of loss with high participation in growth. Unlike fixed time to maturity instruments, this fund is always liquid.

Another advantage is regular investments even in small amounts. The cost-average effect means that shareholders can buy a larger number of share certificates for the same invested amount benefiting from the expected change in prices. The life cycle funds offered by Investiční společnost ČS won a stable position among regular investors. The funds are structured as follows: the proportion of risk carrying assets, mainly shares, decreases as the investor's retirement age approaches.

In 2008, the economic indicators of Investiční společnost ČS did not meet the expected values. The reasons included worse, lower than expected business performance and the revaluation of own investment portfolio. The main trend was selling share certificates due to underperforming financial markets and competing deposit products. Investiční společnost ČS reported net profit of CZK 26 million in 2008.

	2008	2007	2006	2005	2004
Share capital (CZK million)	70	70	70	70	70
Equity (CZK million)	196	296	289	261	597
Total assets (CZK million)	280	381	358	325	654
Net profit (CZK million)	26	126	119	91	85
Assets under management (CZK billion)	51.4	81.8	74.1	71.6	58.9
Average headcount	23	21	15	23	32

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S AUTOLEASING, A. S.

s Autoleasing, a. s. was formed on 6 October 2003. Since May 2004, the company has been wholly owned by Česká spořitelna. Its registered office is located at Střelničná 8, Prague 8. The company had no employees until 31 December 2006. All services relating to business and administrative activities were purchased from the company's fellow subsidiary, Leasing České spořitelny. As of 1 January 2007, employees of Leasing ČS were transferred to s Autoleasing. Česká spořitelna as the sole shareholder increased the company's share capital to CZK 372 million in 2008.

In 2008, s Autoleasing took a stable position on the Czech lease market in terms of the value of newly leased assets. The company's business focuses primarily on finance leases of transport equipment covering a wide range of commodities, primarily composed of passenger and utility vehicles.

For the year ended 31 December 2008, s Autoleasing incurred a loss of CZK 23 million. During 2008, the company completed transactions worth CZK 4.3 billion, the share of transport equipment was 64 percent. s Autoleasing creates provisions to cover all known risks arising from the portfolio of concluded lease contracts. The material facts that can have a positive impact on s Autoleasing's meeting its business targets in the future include more intensive cooperation with the parent bank.

s Autoleasing is the sole shareholder of s Autoúvěr, whose principal activities include the provision of consumer loans for vehicles to individuals and legal entities. During 2008, s Autoúvěr financed new transactions worth CZK 1.7 billion; however, the company reported a loss of CZK 48 million for the year eneded 31 December 2008.

	2008	2007	2006	2005	2004
Share capital (CZK million)	372	100	100	2	2
Total assets (CZK billion)	8.7	8.6	6.4	2.9	0.2
Number of new transactions (CZK billion)	4.3	5.5	5.2	3.1	0.2
Net profit or loss (CZK million)	−23	−90	−13	−22	−13
Number of new contracts	4,383	6,488	6,017	4,380	237
Number of own points of sale	1	1	1	1	1
Average headcount	73	98	–		–

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FACTORING ČESKÉ SPOŘITELNY, A. S.

Factoring České spořitelny, a. s. was formed in November 1995. In 1997, the company was transformed into a joint stock company and Česká spořitelna acquired a 10 percent equity holding. In 2001, Česká spořitelna became the sole owner of the company. The company's registered office is at Pobřežní 46, Prague 8. The company's focus is on domestic, export and import factoring, and debt management serving corporate clients operating in a wide range of industries including metallurgy, automobile and consumer industry, media, advertising, the food industry, suppliers for retail chains, fuel distributors, etc.

2008 saw a market revival for factoring companies in the Czech Republic, and hence also for Factoring České spořitelny which helped the company reinforce and strengthen its leading position on the Czech factoring market, holding a share of 25.1 percent.

In 2008, the company continued in implementing several major projects focused on more profound and effective cooperation with the parent bank in business and risk management and in implementing new IT-intensive products so as to offer clients the widest possible care of receivables and customer portfolio. One of the key success factors is close cooperation with Česká spořitelna, high quality and professional risk management, flexible response to market needs through extended product offering and, and last, but not least, the high standard of services provided to the clients of Factoring České spořitelny.

For the year ended 31 December 2008, Factoring ČS generated net profit of CZK 19 million. The volume of contracts increased by 13 percent and amounted to CZK 33.1 billion.

	2008	2007	2006	2005	2004
Share capital (CZK million)	84	84	84	84	84
Equity (CZK million)	137	138	136	112	109
Total assets (CZK billion)	6.7	7.0	7.1	5.3	6.0
Net profit (CZK million)	19	30	21	9	16
Contracted amounts (CZK billion)	33.1	29.3	27.3	21.6	21.4
Average headcount	31	36	33	31	31

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BROKERJET ČESKÉ SPOŘITELNY, A. S.

Brokerjet České spořitelny, a. s. was established on 17 September 2003 by Česká spořitelna as a subsidiary (51 percent share) and by ecetra Internet Services AG (49 percent share). Ecetra Internet Services AG is a subsidiary of Erste Group Bank operating as one of the most important internet securities traders in Austria. brokerjet České spořitelny has its registered office at Evropská 2690/17, Praha 6. The shareholder structure provides brokerjet ČS with a unique combination of a strong background, an extensive sales network as a member of the Česká spořitelna Financial Group, and top technologies and ecetra Internet Services' several years of experience.

In 2008, brokerjet ČS faced adverse developments on global capital markets for the first time. While the major drop in share prices, greater volatility and the attention of the media helped the client base to grow, the average volume of deals dropped which reduced the income from trading fees. Greater avoidance of risk resulted in a lower volume of loan drawing and lower interest income than expected. Through its expedient cost cuts, the company managed to generate reasonable profit under the said conditions although year on year the profit dropped by almost one-third to CZK 37 million. The financial crisis tested the company's technical as well as organisational capabilities. The company demonstrated its strong risk management and cost management discipline.

In 2009, the company will introduce a new business platform focused on professional dealers and expand its business activities to Slovakia. Thus, in cooperation with the Austrian shareholder, the company will take active part in expanding to the Central European region.

	2008	2007	2006	2005	2004
Share capital (CZK million)	160	160	160	160	160
Subordinated debt (CZK million)	60	60	60	0	0
Total assets (CZK million)	2,039	3,023	2,420	1,434	256
Volume of managed assets (CZK million)	5,776	8,828	6,998	4,106	438
Net profit (CZK million)	37	52	41	4	−28
Average headcount	23	23	19	12	8

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REICO INVESTIČNÍ SPOLEČNOST ČESKÉ SPOŘITELNY, A. S.

REICO investiční společnost České spořitelny, a. s. was formed on 13 June 2006. Česká spořitelna, a. s. has been its sole shareholder since its formation. The company's registered office is located at Antala Staška 2027/79, 140 00 Prague 4.

REICO has completed its second year of managing a special real estate fund. In 2008, the fund's equity increased by CZK 400 million, amounting to CZK 1.6 billion as of 31 December 2008. In 2008, REICO also managed a special qualified investors' fund REICO Global I.; however, in December 2008, the company requested the withdrawal of the permission to establish the fund. The overall volume of investment in commercial real estate in the Czech Republic dropped by 45 percent in 2008 due to declining demand of foreign funds and the global crisis on financial markets.

In June 2008, ČS real estate fund successfully completed the first foreign acquisition of a real estate asset by acquiring a 100 percent share in DAF Slovakia, s. r. o. which is a real estate company. Thus, the ČS real estate fund expanded its real estate portfolio with an office building in Bratislava whose value amounts to EUR 10 million. The performance of the fund in 2008 amounted to 4.39 percent, which is an excellent result in the period of the culminating financial crisis.

The economic indicators of REICO investiční společnost reflect the initial phase of the business. In 2008, the company incurred a loss of CZK 29 million mainly due to a lower than expected volume of funds managed by the investment company in 2008. The company's share capital was increased by CZK 10 million late 2008.

	2008	2007	2006
Share capital (CZK million)	90	80	30
Equity capital (CZK million)	71	51	29
Total assets (CZK million)	89	62	29
Net profit (CZK million)	−29	−28	−2
Volume of managed assets (CZK billion)	1.6	1.2	0.0
Average headcount	10	7	3

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RAVEN EU ADVISORY, A. S.

RAVEN EU Advisory, a. s. was formed on 18 April 2000 and has been included in the Česká spořitelna Financial Group since June 2007. The registered office of the company is at Jakubské náměstí 2, 602 00 Brno, and it has branches in Prague, Zlín, Plzeň, Hradec Králové and Ostrava; the company operates throughout the Czech Republic. The company has offered its services in Slovakia since 2007 through the subsidiary Euro-Dotácie, s. r. o. The company implemented and certified a quality assurance system according to the ISO 9001:2001 norm in 2005.

The company offers complex services in the area of subsidy policies of the European Union and the Czech Republic for clients of all legal forms, with an emphasis on the municipal sector and business entities, and it is a market leader in this respect. The company's services include the preparation of applications for subsidies in terms of operating programmes and other subsidy programmes, advisory for the realisation and management of projects, including tender procedures and ensuring the subsequent monitoring and technical support for public administration institutions in implementing operating programmes.

In 2008, the company realised a total of 750 orders for 580 clients in preparing applications for subsidies from the EU structural funds and providing subsequent advisory services.

In 2008, the company become a wholly-owned subsidiary of Česká spořitelna; the company's management was changed, its branch and business network was developed and it launched activities aimed at its full rebranding to clearly show that it is part of the Česká spořitelna's Financial Group.

In 2008, the company generated net profit of CZK 3 million; sales from principal activities more than doubled year on year to CZK 62 million.

	2008	2007	2006	2005	2004
Share capital (CZK million)	7	7	7	7	7
Net profit (CZK million)	3	–15	8	5	0
Income from principal activities (CZK million)	62	25	37	28	14
Added value (CZK million)	46	9	25	18	9
Average headcount	50	46	34	25	20

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REALITNÍ SPOLEČNOST ČESKÉ SPOŘITELNY, A. S.

Realitní společnost České spořitelny, a. s. with its registered office at Vinohradská 180/1632, Prague 3 was incorporated on 4 December 2002. Its sole shareholder is Česká spořitelna which increased the share capital to CZK 30 million on 27 October 2008. The company is primarily engaged in undertaking real estate activities, i.e. mediation of sale and lease of residential and commercial real estate and provision of related advisory services, so as to complement and expand the comprehensive services of the Česká spořitelna's Financial Group in real estate and advisory services in respect of the sale and lease of real estate owned by Česká spořitelna.

The company dealt with classic mediation of real estate sales and leases in 2008 through its branch network in 50 towns across the Czech Republic at the end of 2008. In 2008, Realitní společnost ČS generated income from 1,679 real estate transactions totalling CZK 4.4 billion, which supported its dominant position among real estate agencies and development companies. The company generated revenues from real estate activities in the aggregate amount of CZK 30 million and incurred a net loss of CZK 110 million.

	2008	2007	2006	2005	2004
Share capital (CZK million)	30	20	4	4	4
Total assets (CZK million)	54	140	95	68	38
Income from real estate activities (CZK million)	30	75	48	56	35
Net profit (CZK million)	−110	0	5	5	1
Average headcount	24	23	22	25	23

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ERSTE CORPORATE FINANCE, A. S.

Erste Corporate Finance, a. s. was formed on 19 July 1995; its registered office is at Evropská 2690/17, Prague 6. Erste Corporate Finance is a joint venture of three members of the Erste Group Bank: Česká spořitelna, Slovenská sporiteľna and Erste Corporate Finance Gmbh. Česká spořitelna holds 50.17 percent of the company's share capital. Erste Corporate Finance provides its clients in the Czech Republic with professional investment banking and financial advisory services, primarily in mergers and acquisitions, privatisation, MBO, valuation of companies or their parts, economic advisory, due diligence, investment opportunity analysis and restructuring.

In the Czech Republic, Erste Corporate Finance is a renowned advisory company, ranking among market leaders. In 2008, Erste Group Bank's management decided to start integrating the individual investment banking and financial advisory practices in the Central and Eastern European region to improve the quality of services provided not only in the Czech Republic but also region-wide. In compliance with the strategy of the Erste Group Bank's Financial Group and as part of Erste Corporate Finance's restructuring, the advisory activities regarding public-private partnership projects were transferred to Česká spořitelna. The restructuring efforts also resulted in closing the Erste Corporate Finance practice in Slovakia.

2008 saw the global financial crisis fully develop resulting in a major drop in market liquidity which adversely impacted the number and success of mergers and acquisitions and investment projects. And yet, Erste Corporate Finance managed to win a number of important advisory engagements in 2008, thus creating a good foundation for future development. The most important projects in 2008 included providing advisory services to: ČEZ, Telefónica O2 Czech Republic, the Vienna Stock Exchange, the Ministry of Finance of the Czech Republic and a company from the Erste Group Bank.

Erste Corporate Finance generated a net profit of CZK 8 million under Czech Accounting Standards (CAS) for the year ended 31 December 2008. Income from advisory services amounted to CZK 71 million.

	2008	2007	2006	2005	2004
Share capital (CZK million)	6	6	6	6	6
Equity under CAS (CZK million)	58	50	50	67	37
Net profit under CAS (CZK million)	8	0	13	30	8
Average headcount	19	21	17	13	12

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INFORMATIKA ČESKÉ SPOŘITELNY, A. S.

Informatika České spořitelny, a. s. was formed on 11 December 1997 by Česká spořitelna as a wholly-owned subsidiary with the objective of providing Česká spořitelna and/or other subsidiaries of Česká spořitelna's Financial Group with auxiliary banking services. Informatika České spořitelny is involved in providing technical servicing and administration of information technologies and purchasing of goods for sale in the IT area for Česká spořitelna and other members of the Česká spořitelna Financial Group.

In 2008, Informatika České spořitelny focused on providing warranty and post-warranty services of IT equipment owned by the Group members, installation and servicing of ATMs for Česká spořitelna, technical support in IT servicing for the Česká spořitelna Financial Group, and support to traders equipped with POS and FlexiPad terminals. The company was also involved in HW business activities for the Česká spořitelna Financial Group and provided technical support through its HW specialists in implementing Česká spořitelna's development projects. Informatika České spořitelny holds the status of an authorised HP business and service partner and the ISO 9001 – 2000 certificate.

	2008	2007	2006	2005	2004
Share capital (CZK million)	10	10	10	10	10
Total assets (CZK million)	82	86	95	123	57
Net profit (CZK million)	7	9	16	8	10
Sales (CZK million)	239	253	279	281	247
Average headcount	90	92	93	98	101

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Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

Having its registered office at: Prague 4, Olbrachtova 1929/62, 140 00
Identification number: 452 44 782
Principal activities: Retail, corporate and investment banking services

SEPARATE FINANCIAL STATEMENTS

Based upon our audit, we issued the following audit report dated 24 February 2009 on the financial statements which are included in this annual report on pages 187 to 282:

"We have audited the accompanying separate financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements
The Statutory Body is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the separate financial statements give a true and fair view of the financial position of Česká spořitelna, a. s. as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

CONSOLIDATED FINANCIAL STATEMENTS

Based upon our audit, we issued the following audit report dated 10 March 2009 on the financial statements which are included in this annual report on pages 77 to 184:

“We have audited the accompanying consolidated financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Česká spořitelna, a. s. as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.“

REPORT ON THE RELATED PARTY TRANSACTIONS REPORT

We have also reviewed the factual accuracy of the information included in the related party transactions report of Česká spořitelna, a. s. for the year ended 31 December 2008 which is included in this annual report on pages 283 to 295. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on atest basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Česká spořitelna, a. s. for the year ended 31 December 2008 contains material factual misstatements.

REPORT ON THE ANNUAL REPORT

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company’s Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 26 May 2009

Deloitte

Audit firm:
Deloitte Audit s. r. o.
Certificate no. 79

Represented by:

Petr Pruner, authorised employee

Petr Pruner, certificate no. 2138

Česká spořitelna Selected Consolidated Financial Performance

figures in 1. Quarter 2009 according to International Financial Reporting Standards (unaudited)

CZK mil.	31. 3. 2009	31. 3. 2008
Interest income and similar income	10,852	10,750
Interest expense and similar expense	−3,092	−3,625
Net interest income	**7,760**	**7,125**
Provisions for credit risks	−1,710	−655
Net interest income after provisions for credit risks	**6,050**	**6,470**
Fee and commission income	3,181	2,993
Fee and commission expense	−554	−361
Net fee and commission income	**2,627**	**2,632**
Net profit on financial operations	895	673
General administrative expenses	−5,016	−4,749
Other operating expenses, net	−149	−140
Results from financial assets	−634	−892
Profit before taxes	**3,773**	**3,994**
Income tax expense	−766	−886
Profit after taxes	**3,007**	**3,108**
Net profit from discontinued operations	0	77
Minority interest	−3	40
Net profit for the year	**3,004**	**3,225**
Total Assets	**874,732**	**844,571**
Loans and advances to clients	464,520	421,964
Amounts owed to clients	661,185	624,663
Shareholders' equity	66,943	58,347

Conclusions of the Annual General Meeting of Shareholders

Held on 29 April 2009

At the Annual General Meeting of Česká spořitelna held in Prague on 29 April 2009, the shareholders, inter alia, approved the Board of Directors' Report on the Bank's Performance and Financial Position as of and for the year ended 31 December 2008. The shareholders present at the General Meeting were presented with the Supervisory Board's Report for 2008 and approved the annual unconsolidated financial statement, consolidated financial statement, and a proposal for the allocation of profit. The distributable funds amounted to CZK 43,967 million. CZK 15,504 million was allocated to the payment of dividends, which amount to CZK 102 per share. The balance of retained earnings from previous years amounts to CZK 28,463 million. The Annual General Meeting approved the reduction in the number of Supervisory Board members from 12 to 9. The shareholders also re-elected Manfred Wimmer as a member of the Supervisory Board of Česká spořitelna.

Index

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