


Annual Report 2008
Komerční banka, a.s.

In accordance with the strategy to simplify clients' access to the Bank's services, the branch network extension reached its medium-term objective.

Komerční banka's almost 1.63 million clients accessed its banking services via internet, telephone and mobile phone banking channels in 2008, as well as through 394 branches and 673 ATMs across the Czech Republic.

The number of customers of the entire KB Group exceeded 2.6 million. Some 8,800 employees of KB Group attended to the clients.

With over 264,000 clients, KB is
the leading bank for entrepreneurs
and small businesses
in the Czech Republic.

about people

In opening new branches, great emphasis is given to location. Branches are located in locations easily accessible for clients.

Net banking
income totalled
CZK 33.7 billion.
KB Group earned
net profit
of CZK 13.2 billion.

The Bank

for people

Komerční banka stands among the most prominent banking institutions both in the Czech Republic and in the region of Central and Eastern Europe. Companies of Komerční banka Financial Group offer further services such as pension insurance, building savings, factoring, consumer financing and insurance. Since 2001, KB has been a member of the Société Générale Financial Group, which is one of the largest banking groups in the euro zone.

Contents

Profile of Komerční banka

Komerční banka, a.s. (the Bank) is the parent Company of KB Group (the Group), which consists of nine companies. KB is also a member of the Société Générale Group and ranks among the leading banking institutions in the Czech Republic and Central and Eastern Europe.

History

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception and in the RM-System. Global depository receipts (GDRs) representing KB shares have been traded on the London Stock Exchange since 1995. In 2001, the state's 60% holding in Komerční banka was purchased by Société Générale. Following privatisation, KB began to significantly develop its activities for individual customers and entrepreneurs, in addition to building on its traditionally strong position in the enterprises and municipalities market. Part of the development of retail activities was its purchase of the remaining 60% of the shares in Modrá pyramida stavební spořitelna, a.s. (Modrá pyramida). Thereby, Komerční banka attained full control over the Czech Republic's third largest building society.

Komerční banka and KB Group in 2008

KB is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services – such as pension fund and building society schemes, factoring, consumer lending and insurance – accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks.
The Bank's almost 1.63 million clients can access its banking services through 394 branches and using 673 ATMs across the Czech Republic, as well as via internet, telephone and mobile phone banking channels. The Bank's branch network includes 20 specialised business centres designed for medium enterprises and municipalities, as well as 4 centres dedicated to large corporations.
The other KB Group companies also are trusted names. Modrá pyramida serves almost 747,000 clients, while Penzijní fond KB has registered more than 491,000 participants in its pension schemes. The number of active clients at the consumer finance company ESSOX rose to 226,000 during 2008. Through Komerční banka Bratislava, the Group is also active on the Slovak banking market.
The average number of employees within KB Group reached 8,804 during 2008.
Komerční banka's credit rating was in some cases higher than that of the Czech Republic itself, which reflects the Bank's capital strength, excellent liquidity and healthy management. As of the end of 2008, KB's long-term ratings stood at A1 in foreign currency and Aa3 in domestic currency from Moody's Investors Service, A+ from Standard & Poor's (A from March 2009), and A+ from Fitch Ratings. Penzijní fond KB held a national-scale rating of Aa1.cz from Moody's Investors Service, which is the highest possible rating for a pension fund in the Czech Republic.

Société Générale Group

Komerční banka has been a part of Société Générale Group since October 2001. Société Générale Group is one of the largest financial services groups in the euro zone. The Group employs 151,000 people worldwide in three key businesses:

- Retail Banking & Financial Services: Société Générale serves more than 30 million individual customers worldwide.
- Global Investment Management & Services: As of December 2008, Société Générale was one of the largest banks in the euro zone as measured by assets in custody (EUR 2,560 billion) and under management (EUR 336 billion).
- Corporate & Investment Banking: Société Générale ranks among the leading banks worldwide in euro capital markets, derivatives and structured finance.

Société Générale is included in three socially responsible investment indices: FTSE, ASPI and Ethibel. Komerční banka represents an important part of Société Générale Group's retail banking business.

Financial Highlights

Consolidated data CZK million	2008	IFRS[1] 2007[2]	2006
Financial results			
Net banking income	33,714	29,670	26,421
of which Net interest income	21,261	18,790	16,274
of which Net fees and commissions	8,050	7,756	8,769
Total operating costs	(14,507)	(13,629)	(12,400)
Net profit	13,233	11,225	9,211
Balance sheet			
Total assets	699,044	661,819	598,089
Loans to customers, net	364,040	304,938	252,505
Amounts due to customers	**554,570**	**540,229**	**481,294**
Total shareholders' equity	62,974	50,654	50,257

Consolidated data %	2008	IFRS[1] 2007[2]	2006
Ratios			
Return on average equity, ROAE	23.3	22.2	18.1
Return on average assets, ROAA	1.9	1.8	1.7
Capital adequacy – CNB[3]	12.1	10.1	11.9
Net interest margin	3.4	3.2	3.2
Cost/income ratio	43.0	45.9	46.9

Unconsolidated data	2008	2007	2006
Other data			
Number of employees, average	7,981	7,764	7,552
Number of points of sale	394	386	378
Number of clients (thousands)	1,629	1,577	1,515
Number of ATMs	673	661	649

Credit rating	Short-term[4]	Long-term[4]
Fitch	F1	A+
Moody's	Prime-1	A1
Standard & Poor's	A-1	A

1) IFRS – International Financial Reporting Standards
2) Restated to 2008 structure
3) Until 2007 according to Basel I, from 2008 according to Basel II
4) As of end of March 2009

Interview with the Chairman of the Board of Directors

In history, 2008 will be highlighted as a year when the appearance of the world's banking and financial system changed dramatically. Probably no publicly traded financial institution avoided a drop in its share price. In these difficult circumstances, when the key pillar of financial stability for the world markets – clients' confidence – suffered deep cracks, Komerční banka continued to do very well. Indeed, it generated a net profit of CZK 13,233 million, which was up by 17.9% in comparison with 2007.

The universal bank business model, prudent risk management, and high operating efficiency remain the basic preconditions for the Bank to succeed even in this period of economic slowdown, according to Laurent Goutard, Komerční banka's Chairman and CEO. Nevertheless, the question needs to be asked whether KB will need to profoundly reconsider its strategy when significantly slower economic growth can be expected in 2009.

Komerční banka certainly does not have to change its strategy, because it is precisely this period of slower growth that confirms that strategy's correctness. The broadly based business mix across all customer segments is exactly the kind of foundation that we can very confidently rely upon. Still, I would like to recall that, for a rather long time already, I have been drawing attention to the fact that the double-digit profits growth that banks in the Czech market have achieved in the past few years is not sustainable from a long-term perspective. While benefitting from the favourable macroeconomic development in recent years, all through those, shall we say, "good times" we were consistently attentive to prudent risk management and we were equally steadfast in regard to cost control. This is why we have long been among the best-run European banks. Over the short term, our approach may also have resulted in our missing certain business opportunities that perhaps seemed to be attractive from a short-range perspective. But our perspective on managing the Bank, on the relationships with our clients, and also on managing people is a long-term one. And this is also the answer to the question as to why we need not change our strategy. All of the elements that I've just mentioned are inherent in that strategy, and, if one applies this long-term view, then you have already reckoned upon the ups and downs in the economic cycle. Naturally, KB must adjust some parameters of its products to reflect developments on the market. But these are changes only in various particular details that are motivated by current developments in the market and in the client's behaviour.

In 2008, Komerční banka fundamentally reorganised its distribution network and also changed the opening hours of its branches. What was the motivation for these changes?

In the past few years, KB had markedly expanded its distribution network. Indeed, since 2002 the number of our branches has increased by more than 60 and at the end of 2008 the Bank had 394 branches. Our aim is to have a network of 400 points of sale. It is therefore obvious that we essentially have met this quantitative target. In 2008, therefore, we focused on qualitative development of the distribution network. At the beginning of 2008, our branches had had several dozen sets of business hours. It is obvious that the lifestyles of our clients in the various Czech towns and cities do not differ so dramatically, and we have therefore unified the opening hours. Or, more specifically, we allocated branches to three schemes of business hours.

Laurent Goutard
Chairman of the Board
of Directors and CEO

Putting into operation the second call centre, which we opened last year in Zlín, was also part of pursuing our strategy. It will support the development of direct banking and also contribute to proactive selling of KB's and other KB Group companies' products.

Does this mean that the call centres serve not just Komerční banka but also its subsidiaries?

Our call centres are currently situated in two localities, Liberec and Zlín, with 430 employees as of the end of 2008. The two call centres can back one another up. At the same time, our call centres serve the whole Group. This is entirely logical and makes it possible for us to promote synergies within the KB Group. A good example can be seen in our new credit card product that we have developed hand in hand with T-Mobile and with ESSOX, the KB subsidiary that provides consumer credit. Our phone bankers proactively offered this card, and therefore we did not have to use any external supplier for these services. This approach to proactive marketing has proven its value, and the T-Mobile Bonus card is a very successful co-branded product. Similarly, the call centres help to support the sales of other products across the Group.

As regards customer service, Komerční banka in general places a relatively strong emphasis on the role of its own network of branches. Are you not considering to strengthen sales through third parties precisely to be able to obtain more business opportunities – and particularly on the mortgage market?

Over the long run, we try to maintain a balanced proportion between our own production and third-party production. That means balancing both from the perspective of seizing business opportunities and from that of managing risk. For us, striking a mortgage deal is primarily an opportunity to create or reinforce a long-term relationship and, naturally, to improve the Bank's profitability. Both of these are very important for us. We want to attend to our clients from the day they are born, through their studies, throughout their working lives, and to support their needs – both personal and professional. Thus, it is primarily the relationship manager – who knows his or her clients and thanks to this knowledge can also anticipate those clients' needs – who must at all times be the face of the Bank, the Bank's representative. Clients are first and foremost for us at all times, and this, too, is an integral part of our strategy – no matter what turns the economic cycle may take.

Thinking of clients also means constantly offering new products. Did KB continue in product innovations during 2008 after the very successful 2007?
In 2007 we innovated our offer of products and services rather extensively, and in 2008 we made more innovations. I have mentioned the T-Mobile Bonus card as an example, but we also launched innovations in direct banking. Through direct banking, our clients can enrol online in building society schemes, apply for business loans, calculate their mortgage loans, and easily find such information as the contact details for their relationship managers and the opening hours of their branches. Other examples include our new advisory website, Moje-firma, that we offered to businesses and the offer of financing for small and medium-sized enterprises that was extended to include the new Profi úvěr FIX loan. So you see, innovations did not stop in 2008. As in the development of distribution, we just focused more on enhancing and improving the existing offer, the range of which is certainly satisfactory.

We should not forget, either, that KB is a leading bank in serving large corporations. At the beginning of 2008 you had declared that the Bank wanted to maintain and further underpin its position as the market leader. Have you achieved this goal?
Yes, definitely. According to an independent market survey KB is the main bank for 37% of large corporations in the Czech Republic. We have several times mentioned synergies in the Group – both within the Czech Republic and also globally in the Société Générale Group. They are also extremely important as regards services for corporate clients. Thanks to our subsidiaries and affiliates, we can offer genuinely full service to large corporate clients. This ranges from current accounts, short-term and long-term financing, acquisition and structured financing, as well as advice on the sale or acquisition of a company, to vehicle fleet and equipment financing, and to products for enhancing their employees' loyalty. In 2008, we also markedly innovated our offer of cash management services. The ability to provide comprehensive financial solutions is our remarkable competitive advantage, and we naturally will continue to leverage that advantage going forward.

> "KB will continue to rely on its excellent employees, a balanced business model and a well-designed strategy."

Despite its good business and financial results, KB's share price dropped in 2008. Why, then, should people continue to hold KB shares?
Because KB is a strong and healthy bank. Share prices fell on all the stock exchanges around the world. This is the reality within which we operate. If you compare the performance of the PX index with that of KB's share price, you will see that in 2008 the Bank's share price was sliding at a slower pace. This means that KB shares were still doing relatively well even at the time when prices generally were plunging dramatically. At the same time, I would like to recall that in the past few years KB shares have offered stable yields through the dividend, which amounted to CZK 180 per share in 2008. The Bank stands on good foundations and has all the prerequisites for emerging a winner from the hard times. KB will continue to rely on its excellent employees, a balanced business model, and a well-designed strategy. These are our key assets for the months and years ahead.

The Société Générale Group as a whole, of which KB is a part, is also facing the unfavourable macroeconomic situation. How did the parent company respond to these challenging conditions in 2008?
I have mentioned that KB relies on a universal business model. We have adopted this model from our parent, Société Générale. It is precisely this balanced universal banking model that helps the whole Group to stand strong in a deteriorated economic environment. At the beginning of 2008, the Société Générale Group had to deal with some hotly pressing issues. The approach that the Group took at that time – putting in place new and more consistent internal controls, then making a massive capital increase that included the employees' significant participation – showed that the Group was able to resolve this problem, too. I believe that our employees' professionalism and loyalty, our clients' confidence, and the well-designed business model will make it possible for the entire Société Générale Group to weather the present storm and in this difficult period to hold onto its position amongst the leading European banks.

The economic slowdown is very likely to continue in 2009, too. What, then, are Komerční banka's prospects?
In our planning, we fully take into account the deteriorated conditions that constitute the reality in which the banking business must operate. As in previous years, prudent risk management and cost control will be at the centre of our attention during 2009. We have been, and will continue to be, very consistent in pursuing these principles. This means we are ready to face this situation. I would also like to emphasise, however, that we will continue to seek out new business opportunities in 2009. This will place challenging demands on our employees, and I am convinced that they are ready to prove themselves well. I would like to thank them for their effort and commitment. I also want to thank our clients and shareholders for their confidence in our Group. Going forward, KB is ready to work hard to strengthen that confidence.

Zuzana Farníková,
Brno-Campus Branch

Prague,
Brno

Roman Kuták,
Prague Region

Komerční banka is adjusting its services to suit the clients' time schedules. Select branches have extended business hours, and some are open even on Saturdays. Clients have access to the information "green line" and the direct banking client line 365 days a year, 7 days a week, 24 hours a day.

understanding

care

Major Events in 2008

January

At the proposal of Komerční banka's Board of Directors, the Bank's Supervisory Board appointed Patrice Taillandier-Thomas a new member of the Board of Directors and Chief Administrative Officer with effect from 1 February 2008.

February

KB introduced a new version of the Guaranteed Service Level, extending its commitment to maintain the high quality of its products and services to ensure its clients' maximum satisfaction. The Guaranteed Service Level pertains to all Komerční banka clients and is based on the principles of security, reliability, speed, trustworthiness and individualised approach.

March

Komerční banka signed a framework credit agreement with Vietnam Development Bank. The new agreement makes it quicker and easier for Czech exporters to finance a wide variety of projects in Vietnam.

Clients having the Vital Invest product from Komerční pojišťovna may conclude insurance with ten times greater coverage in the case of accident insurance, thus providing for themselves and their families protection of up to 1 million Czech crowns.

Modrá pyramida launched a new product – the GARANT mortgage loan with guaranteed interest rates and a payment term of 20 years.

April

From 14 April, clients of Komerční banka and of Komerční banka Bratislava could take full advantage of the European unified payment system. The SEPA uniform European standards for non-cash payments eliminate differences between domestic and cross-border euro payments within the entire Single Euro Payments Area (European Economic Area countries plus Switzerland).

Komerční banka became the first bank in the Czech Republic to sign an agreement on taking Green Energy supplies. It thereby joined the ČEZ Group's project expressing responsibility for the environment and supporting the development and use of renewable energy resources that provide appealing and environmentally more friendly alternatives to burning fossil fuels.

The trial operation of the call centre in Zlín was officially completed. By 2010, the number of its employees will reach 230. The new call centre provides services to clients of Komerční banka and its subsidiaries, including Komerční banka Bratislava.

Komerční banka extended its offer of SG Asset Management (SGAM) foreign funds to clients investing in Czech crowns and who wish to grow their investments through global equity markets while taking no currency risk.

At the end of April, Moody's rating agency affirmed its rating of Penzijní fond KB at Aa1.cz. This is the highest rating that can be obtained by a pension fund in the Czech Republic. The rating assesses the ability of a fund to fulfil its obligations to pension insurers.

At the General Meeting held on 29 April, Komerční banka's shareholders approved paying dividends totalling CZK 6.8 billion. That represents CZK 180 per share. Furthermore, the Bank's shareholders appointed Bořivoj Kačena a member of the Supervisory Board and approved a proposal of the Board of Directors for amending the Articles of Association.

May

On 26 May, upon the proposal of KB's Board of Directors, the Supervisory Board appointed Vladimír Jeřábek a new member of the Board of Directors with effect from 1 June.

The mobile network operator T-Mobile and Komerční banka jointly introduced an exceptional product to the Czech credit cards market: the T-Mobile Bonus card. This new product is intended for T-Mobile's contract customers and is associated with the T-Mobile Bonus loyalty scheme. Among other benefits, it offers the longest interest-free grace period on the Czech market.

June

Responding to the needs and expectations of Komerční banka's clients, the Bank changed the opening hours at its branches. The most important changes include the unification of morning opening hours for all KB branches and longer business hours on Mondays and Wednesdays.

Komerční pojišťovna launched a new, toll-free information line (+420 800 10 66 10).

July

To satisfy market demands, Komerční banka extended its product portfolio with savings products that provide an above-standard earnings potential. The first new product in this area was KB Guaranteed Deposit, with a guaranteed interest rate. In addition, the Bank introduced KB Savings Account. This account is intended for clients having any account package who want to grow the value of their funds while also having access to their money at any time.

August

The number of Mojebanka internet banking's users exceeded 500,000.

September

On 30 June, the General Meeting of Komerční pojišťovna, a.s. elected Laurent Dunet as a new member of the company's Board of Directors with effect from 1 September. Komerční pojišťovna's Board of Directors then appointed Mr Dunet as the company's CEO with effect from 1 September and, at the same time, elected him as its Chairman with effect from 16 September.

October

A new business loan, Profi Loan FIX, was added to the offer for small and medium enterprises. The main advantages of the new loan compared to traditional products on the market are its fixed interest rate throughout the loan term and repayment in the form of annuity instalments. This means that the regular payments remain unchanged throughout the term of the loan.

November

The new Mojeplatba service enables Komerční banka's clients to make easy and secure online payments for goods and services. Mojeplatba provides retailers immediate information about the payment and Komerční banka's guarantee that the payment will be made.

Modrá pyramida offered to its clients Rychloúvěr (Fast Loan), which is a quick and simple solution for common residential modernisation and reconstruction. Clients can borrow up to CZK 300,000. The main advantage is rapid processing of the loan – within 24 hours – with only a minimum of required documents and no requirement for a guarantor.

December

Komerční banka and the trade unions representing KB employees concluded a new Collective agreement for the years 2009–2012.

Subsequent Events

On 1 January 2009, Komerční banka Bratislava migrated successfully to the single European currency, the euro. The domestic accounts of Komerční banka's clients maintained in Slovak crown were automatically converted to euro on 1 January 2009.

In January 2009, the Board of Directors approved the intention to transform Komerční banka Bratislava from a subsidiary to a foreign branch.

Komerční banka won the prestigious Global Trade Review Best Deal 2008 award for a buyer export credit it provided to finance the delivery and installation of medical equipment for a VIP private clinic in Almaty, Kazakhstan.

Komerční banka Share Price

Komerční banka's share price was influenced through the year by the gradually worsening global financial crisis, but its development was relatively good in comparison to both the overall Czech market and with indices of European banking shares. Also in 2008, KB remained one of the most important issues traded on the Prague Stock Exchange.

Trading in Komerční banka Shares

Komerční banka shares trade under ISIN CZ0008019106 on public capital markets in the Czech Republic organised by the Prague Stock Exchange (PSE) and the RM-SYSTEM. The shares are listed on the PSE's prestigious Main Market and rank among the most liquid issues. Moreover, Komerční banka shares are traded in the form of global depository receipts (GDRs) on the London Stock Exchange.

Share Price Development

The development of Komerční banka's share price in 2008 was significantly influenced by the gradually worsening global financial crisis. The share's price performance was relatively good, however, both in comparison with the overall Czech market and with indices of European banking shares. Komerční banka shares closed out 2008 at a price of CZK 2,970. The total return on KB shares was a negative 28%, consisting of a price decline of 32% and a dividend yield of 4%. At the same time, the PX index measuring the Czech equity market had decreased by 53% while the Dow Jones Stoxx Eastern Europe banks index, of which KB is a constituent, had lost almost 69%.

In January, equity markets worldwide reacted to a new set of figures indicating that the American economy would be unable to escape recession. At the same time, investors' hopes that economic activity outside the United States would be less dependent on the American economy than it has been in the past were eroded. KB's share price recovered somewhat when the Bank announced its successful results for the first quarter (and also for subsequent quarters), and the share reached its maximum for 2008 of CZK 4,475 on 20 May. But the continuing flow of bad news about the state of the world economy kept the price under strong pressure. The filing for bankruptcy protection by Lehman Brothers on 15 September triggered further rise in trading volatility and significant repricing of risk in financial markets. On 27 October the price was its lowest for 2008, at CZK 2,185. At the end of 2008, Komerční banka's market capitalisation stood at CZK 113 billion, and, with average daily trading volume of around CZK 439 million, KB remained one of the most important issues traded on the PSE.

Development of KB share price in 2008 (% change)

Development of KB share price vs. PX Index during 2003–2008

Information on Komerční banka Shares

		2008	2007	2006	2005	2004
Number of outstanding shares[1]		38,009,852	38,009,852	38,009,852	38,009,852	38,009,852
Market capitalisation (CZK billion)		112.9	166.1	117.8	130.8	124.4
EPS (CZK)[2]		348.7	295.3	242.5	234.4	235.2
BVPS (CZK)[3]		1,656.8	1,332.7	1,322.2	1,350.4	1,179.0
Share price (CZK)	maximum	4,475	4,509	3,663	3,754	3,452
	minimum	2,185	3,119	2,815	2,673	2,418
	closing price at the end of period	2,970	4,371	3,099	3,441	3,272

[1] Nominal value per share CZK 500
[2] Earnings per share (IFRS consolidated)
[3] Book value per share (IFRS consolidated)

Dividend Payment

In April 2008, the Komerční banka Annual General Meeting (AGM) approved a dividend payment for 2007 of CZK 180 per share before tax, which amounted to 61.0% of consolidated net profit. According to the Bank's Articles of Association, shareholders holding KB stock on the thirtieth calendar day following the date of the AGM are entitled to receive the dividends.

Dividend from the result of the year	2007	2006	2005	2004	2003
Dividend (CZK)[1]	180.0	150.0	250.0	100.0	200.0
Payout ratio (%)[2]	61.0	61.9	106.6	42.5	87.7

[1] Dividend per share before tax, the statutory tax rate applicable in the Czech Republic is 15%.
[2] Dividend / Earnings per share (IFRS consolidated)

Report of the Board of Directors

Vision and Mission

Long-term Profitable Relationships with Clients

Komerční banka is a universal bank based on a multi-channel model. KB offers its clients a comprehensive range of financial products and services. Through constant innovations, the Bank endeavours to meet its customers´ evolving needs and to tailor its offer to suit specific clients.

To Create Value for Shareholders, Customers and Employees

KB focuses on continuously developing its business activities. Co-operation with other members of the KB Group, with companies from the SG Group, and with other, independent partners allows the Bank to provide highly sophisticated products and gives it a flexibility that is indispensable in a constantly changing environment. The excellent know-how and experience of the Group's employees ensure that the products portfolio is fully competitive.

Komerční banka is aware that its position as a fully integrated and leading Czech financial institution brings with it certain responsibilities, as well.

Strategy

Komerční banka, together with its subsidiaries, is a leading financial group in the Czech Republic recognised for its solidity and stability. A universal bank based on a multi-channel distribution model, KB's ambition is to develop long-term and profitable relationships with its clients while offering them a comprehensive range of financial products and services. The Group's 8,804 employees stand among its key assets, and the management continues in promoting KB as a desirable employer.

The Group's strategy in the retail segment focuses on further organic growth that will be driven by both product cross-selling possibilities to the existing Group client base and significant medium-term market growth potential that has been identified in some product segments (e.g. loans, alternative investment products). The strategy recognises that business conditions will be very challenging in the coming quarters. As the size of the KB branch network is considered sufficient for the time being, the main efforts shall be put into further developing alternative sales channels (internet and phone banking) and intensifying co-operation across KB Group with the aim to maximise distribution synergies.

KB aims to maintain its leading position on the small and medium enterprises market while retaining its unique position in serving large corporations in the Czech Republic. Working with its clients to facilitate their funding needs in the current economic downturn is considered essential for building long-term relationships. Stabilising the situation in the corporate segment is seen as a precondition for future increase in cross-selling of advanced products where KB identifies growth potential. Carefully managing costs of risk – which are expected to grow in the near term – continues to be one of KB's key concerns.

Already one of the operationally most efficient banks in Central Europe, Komerční banka continues to optimise its processes and functions.

In order to achieve these strategic targets, Komerční banka will emphasise the following areas:

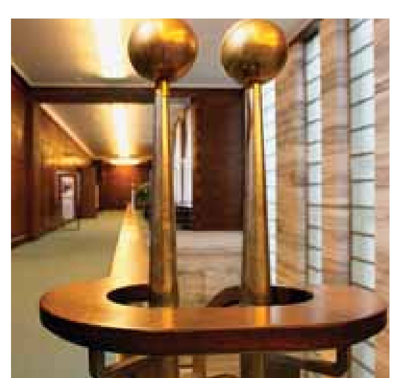
- Continuously building trust with clients, employees and financial markets through fair, open and transparent communication.
- Properly identifying and prudently managing all types of risks in order to maintain strong capital adequacy and liquidity ratios.
- Enhancing the individualised approach to clients and emphasising the development of tailor-made products and services based on the relationships developed by dedicated relationship managers in the retail branch network, business centres and Top Corporate divisions.
- Developing investment banking activities and sales to corporate clients.
- Enabling the clients to easily access the Bank via the full range of classic and direct banking channels.
- Further improving efficiency of sales through interconnecting all distribution channels and capitalising on alternative sales channels, including the agent network, internet and call centres.
- Exploiting synergies and expertise arising from co-operation within the KB and SG groups.
- Stepping up efforts to achieve operational efficiencies in such areas as back office centralisation, IT services optimisation and support services.

Komerční banka greatly values its clients' confidence, and therefore it has undertaken to uphold the principles of all-inclusive protection for clients' personal data. KB aims to continually develop methods for providing personal data protection. The Bank's clients can always be sure that their personal information is thoroughly protected.

Radek Basár,
Hradec Králové Region

trust

Josef Němý,
Investment Banking



Pardubice,
Prague

Client Services

- To effectively meet clients' needs, Komerční banka endeavours to offer a wide range of sophisticated products developed by KB itself, by companies within the KB/SG Group, and by external partners.
- Komerční banka's branch network expansion was largely finalised during 2008. In the coming quarters, KB will focus on developing alternative distribution channels, such as the ATM network, telephone and internet sales channels, as well as sales through the acquired network of Modrá pyramida agents. Increased emphasis will be put on cross-selling KB Group products to the clients of individual Group companies.
- The Bank strives continuously to improve the quality of services and transparency in the relations with its clients. With the start of 2008, KB extended its commitment to provide a guaranteed level of services based on principles of security, reliability, speed, trustworthiness and an individualised approach.

Main Challenges for the Bank

- Extremely challenging global macroeconomic conditions have begun to affect the open Czech economy. Difficulties in industry are mounting as crumbling global demand for manufactured goods has caused exports to decline sharply. Reversing the trends from the first half of 2008, the Czech crown has considerably depreciated since September against both the euro and US dollar.
- Despite KB's prudent lending and risk management policies, significant deterioration was seen in the cost of risk for the corporate segment during the last quarter of 2008. That compares to favourably low risk costs in the previous few years. While KB's management is keen to tightly oversee the Bank's risk profile, business conditions are expected to remain unstable for the foreseeable future.
- In the retail segment, the effect of the economic downturn is expected to come with some delay. Rising unemployment will, however, begin to constrain customers' financial situations. Given the perceived uncertainties and negative sentiment, the demand for loans dropped notably towards the end of 2008 and early in 2009. Nevertheless, costs of risk stemming from the retail segment remain at a satisfactory level.
- Growing the number of clients will remain of strategic importance for the Bank. Special emphasis will be directed to cross-selling of products within the 2.6 million KB Group client base, complemented by selective new client acquisition in the mass market and youth sub-segments.
- Enhancement of cross-selling projects will continue, and not only with Modrá pyramida but also between other companies of KB Group. The comprehensive offer of the integrated KB Group, complemented by the sophisticated products and services from SG Group and external partners, is aimed at boosting clients' satisfaction and loyalty.
- The Bank will continue to build its lending activities in both the retail and corporate segments while maintaining a prudent risk profile. In mortgage lending, KB's medium-term objective remains to acquire and maintain a 25% share on the individual mortgage market while holding portfolio yield and cost of risk within acceptable levels.
- In order to retain its leading market position in the corporate segment, the Bank will concentrate on developing tailor-made products and services while promoting its individualised approach to the clients. Solid groundwork for reaching this goal was laid through an extensive reorganisation within the distribution network for the business segments that was carried out with effect from January 2007.
- Given the prevailing uncertainties in the banking sector and wider economy, KB Group will seek to impose tight control in the overhead cost area so that the company remains flexible in case of further possible deterioration of business conditions.

Expected Developments in the Financial Situation

Due to its consistently prudent risk and capital management policies in the past, and even though the external environment became increasingly challenging after October 2008, KB Group posted very solid financial results for 2008 in terms of both revenues and net profit. By increased focus on risk management and tightly controlling overhead costs, the management expects that KB's business strategy will provide:

- sustained revenue generation capacity at around 2008 record levels,
- some enhancement in the already high level of efficiency thanks to implementation of further efficiency measures,
- gradual increase in the loans/deposits ratio but while remaining well below levels that could be termed as risky,
- the ability to endure the economic downturn, albeit with expected significant increase in cost of risk, and
- a continued very good liquidity position and strong capital base, as reflected in the Tier 1 capital-adequacy ratio's being targeted close to 10%.

Comments on the IFRS Consolidated Financial Results

Komerční banka Group earned a consolidated and audited net profit of CZK 13,233 million for 2008 under International Financial Reporting Standards (IFRS). Compared to CZK 11,225 million in 2007, that represents an increase of 17.9%. Despite a worsening economic environment towards the end of 2008, it is a favourable result and can be attributed to rising revenues, operational efficiency and low exposure to risky assets. Thanks to that low exposure, Komerční banka was not more substantially affected by the global drop in the prices of risky assets. The Group maintained its sound liquidity, as expressed by its ratio of loans to deposits, which was just under 66%, as well as by its strong capital position. Capital adequacy stood at 12.1% and the Tier 1 ratio was 10.8% (not including net profit from 2008).
Net banking income rose by 13.6% while operating expenses grew by 6.4%. As a result, gross operating profit climbed by 19.7% relative to 2007 to reach CZK 19,207 million. The cost-income ratio further improved to 43.0%. The return on equity advanced from 22.2% in 2007 to 23.3% for 2008.

Profit and Loss Statement

Net interest income

Net interest income, which has the biggest share in total revenues, rose by 13.2% to CZK 21,261 million. KB's standalone share in the consolidated net interest income declined to 79.3%. Net interest income grew fastest (by 33.6%) at Modrá pyramida. Net interest income from loans increased by 15.0%, driven primarily by increased lending volumes (the volume of gross loans rose by 18.9% during the same period). Despite the gradual reduction in the Czech National Bank's repo rate from 3.50% at the start of the year to 2.25% by the end (changing a total of four times during 2008: increased by 25 basis points on 8 February, decreased by 25 bps on 8 August, cut by 75 bps on 7 November, and further decreased by 50 bps on 18 December) and the slower growth rate in client deposits (2.7%), net interest income from deposits increased by 17.0% thanks to hedging. Net interest income from investment banking was negative for 2008, amounting to CZK 427 million. This was more than compensated, however, by the net income from financial operations.
The result was affected by one-off dividend income related to an initial public offering of VISA shares. An improved asset mix led to a slight increase in the net interest margin, which reached 3.4% (on interest bearing assets).

Net fees and commissions

Total net fees and commissions reached CZK 8,050 million, gaining 3.8%. This figure was supported by a reimbursement of fees incorrectly charged among banks in previous years, which amounted to CZK 205 million. Transaction fees, benefiting from increased numbers of direct banking transactions and the aforementioned reimbursement among banks, increased in comparison to 2007 by 8.5% to CZK 3,977 million. In contrast, fees from cross-selling decreased by 23.4% to CZK 353 million due to the decline in income from the sales of mutual funds, affected by the global financial crisis. Fees for life insurance sales moderately increased. Account maintenance fees grew by 1.8% to CZK 2,010 million, even though customers continued to switch to more favourably priced financial packages. The moderate growth was caused by an increase in the number of customers and by higher fees for certain more expensive items, such as, for example, account statement mailing. Fees for loan services rose by 3.8% to CZK 1,074 million, mainly in the business loan segment and in the company ESSOX. On the other hand, commissions paid to mortgage intermediaries increased by 19%. Other fees grew by 2.9% compared to the previous year to reach CZK 637 million. They benefited mainly from the high demand for trade finance instruments, i.e. guarantees and documentary payments. By contrast, fees for loan syndications and brokerage decreased year on year.

Net profit from financial operations

Net profit on financial operations gained 41.6% against 2007 to reach CZK 4,223 million. It was significantly influenced by the net gain on the sale of Prague Stock Exchange shares in the amount of CZK 485 million. At KB, the results from trading both on the Bank's own account and for the customers developed favourably. This figure was negatively impacted, however, by the net loss from the financial operations of Penzijní fond amounting to CZK 146 million. According to Czech law, a minimum 85% of the net profit from pension funds must be distributed among the pension scheme's participants, and, at the same time, the annual appreciation of their pension assets cannot be negative.
Treasury operations were particularly successful in the second half of the year due to the downward shift in the yield curve. In the accounting statements, the effect was seen in all categories of profit from financial operations, as well as in net interest income from investment banking activities.
Net profit from foreign exchange operations totalled CZK 2,838 million, which represents an increase of 36.2%. From this, net fees and commissions from foreign payments and transfers, which were reclassified in 2008 from the category "Net fees and commissions" in order to best reflect the economic character of this income, grew by 6.5% to CZK 1,626 million. The above-average demand from clients for foreign currency risk hedging was particularly evident in the second half of the year. This was related to the increasing volatility of exchange rates, including those of the Czech crown. Towards the end of the year, clients began adjusting their hedging strategies in anticipation of a decelerating economy and depreciation of the Czech currency.
Net profit from commodity derivative operations rose by 230.0% and reached CZK 33 million.

Other income
Other income grew by 26.8% to CZK 180 million. Property rental income accounted for a large part of this item.

Net banking income
Net banking income, which contains the items stated above, rose by 13.6% to CZK 33,714 million.

Operating costs
The controlled growth of costs in 2008 led to further improvement in the cost-income ratio from 45.9% in 2007 to 43.0% in 2008. Total operating costs were higher by 6.4% and reached CZK 14,507 million. Personnel expenses climbed by 6.9% to CZK 6,320 million, driven by the increase in the average number of employees by 3.2% in connection with the branch network expansion, opening of a second call centre, strengthening of sales and consulting capacity, and increase of the average salary. On the other hand, the newly instituted cap on yearly payments of social and health insurance had a positive impact compared to 2007.

General administrative expenses recorded a rise of 5.8% to CZK 6,606 million, which was influenced by the growth in marketing expenditures and by general inflation.

Depreciation, impairment and disposal of fixed assets rose by 7.3% to CZK 1,581 million. Depreciation itself increased slightly. The entire line was also influenced by the somewhat lower gain from sales of buildings compared to 2007.

Gross operating income
The favourable trend in revenues and successful cost control brought an increase in net operating income of 19.7% to CZK 19,207 million.

Cost of risk
Development in the cost of risk was affected towards the end of 2008 by the current world financial and economic recession and its influence on the Czech economy. Total cost of risk in 2008 increased by 128.8% to CZK 2,970 million, as compared to the very low level achieved in 2007. Overall, consolidated cost of risk grew from 37 basis points for 2007 to 53 bps for 2008. At KB itself, the corresponding values stood at 31 bps and 49 bps. The relative level of KB's cost of risk thus increased from the extraordinarily low values reached in 2007. KB expects that the economic slowdown will cause further increase in the cost of risk during 2009.

Net creation of provisions for loan losses amounted to CZK 2,815 million, a figure 80.1% higher than the CZK 1,563 million as of the end of 2007. So far, the increase has concerned several large corporate clients.

Creation of provisions for impairment of securities reached CZK 152 million, as compared to the release in 2007 representing a positive value of CZK 15 million. KB created provisions of CZK 152 million to fully cover its exposure from bonds issued by Icelandic banks.

Creation of provisions for other risks mainly related to legal disputes and certain operational risks and amounted to CZK 3 million in 2008, compared to the net release of CZK 250 million in 2007, which was influenced by the successful closure of disputes with former clients.

Share of profit of pension scheme beneficiaries
The share in the profit of pension scheme beneficiaries decreased by 72.9% to CZK 142 million from CZK 524 million in 2007. This item represents an amount for which participants in the PF KB pension schemes are eligible under Czech regulations and is calculated as 85% of the pension fund's net profit. The fund's general meeting may decide to distribute among participants an even higher share. The fall in profit was primarily caused by the decrease in the value of securities due to the financial crisis and by the creation of provisions for the value of Icelandic bonds.

Profit before taxes
As a result of the aforementioned developments, consolidated profit before income taxes rose by 13.5% year on year to CZK 16,257 million.

Tax charge
Income tax totalled CZK 3,024 million, down 2.5% compared to 2007 due to lower income tax rates in 2008.

Net profit
KB Group's net profit for 2008 amounted to CZK 13,233 million, which represented a gain of 17.9% from 2007.

Balance Sheet
The Group's total assets as of 31 December 2008 had reached CZK 699.0 billion, which represents a 5.6% increase year on year.

ASSETS
Amounts due from banks
Compared to 2007, amounts due from banks decreased by 27.3% to CZK 146.1 billion. The largest component of this item comprises loans provided to CNB as part of reverse repo operations, which declined by 21% from the same date in 2007 to CZK 94.9 billion.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss grew by 37.9% year on year to reach CZK 44.0 billion. The portfolio is comprised of the Group's proprietary trading positions.

Loans and advances to customers
Total net loans and advances expanded by 19.4% to reach CZK 364.0 billion. Gross loans grew by 18.9% to CZK 374.0 billion. KB itself had a share of the loan portfolio of more than 84%. Modrá pyramida had a share exceeding 10% in the consolidated portfolio.

Lending to individuals made up 42% of the loan portfolio, increasing by 19.7% from the year earlier. Mortgages to individuals (gross) rose by 20.6% to reach CZK 90.5 billion. The Modrá pyramida loan portfolio grew by 19.1% year on year to CZK 39.3 billion. Consumer loans provided by KB and ESSOX expanded in the same period by 17.7% to CZK 28.8 billion.

The Group's business loans reached CZK 209.0 billion, which represents an increase of 17.3% year on year. Loans to entrepreneurs and small businesses recorded the fastest growth. Their volume climbed by 29.9% to CZK 20.1 billion. Loans to corporations (provided by KB and KB Bratislava) increased by 16.5% to CZK 185.8 billion. Factoring receivables decreased by 6.0% to CZK 3.0 billion.

The loan portfolio quality registered the first signs of the economic slowdown. The total share of standard loans as of 31 December 2008 comprised 91.2% of the gross loan portfolio, and their volume increased by 18.5% year on year. The share of KB's subsidiaries in total standard loans stood at 16.4%.

The share of watch loans in the total portfolio further decreased compared to 2007 to 3.9%. Subsidiaries contributed 10.3% to the volume of watch loans. At the end of the year, watch loans were provisioned on average at 7.6%.

On the other hand, the share of loans under special review (substandard, doubtful, loss) grew to 4.9% (4.2% at the end of 2007) and their volume increased year on year by 41.9% to CZK 18.1 billion. The share of subsidiaries in the loans under special review was 12.1%, with a relatively high share from ESSOX that reflects its exposure to consumer finance. At the end of December 2008, 60.2% of the loans under special review were covered by specific provisions (down from 69.1% at the close of 2007).

Securities available for sale

The portfolio of securities available for sale grew by 20.0% year on year to CZK 98.2 billion. The major part of the portfolio consists of debt securities issued by banks and governments that were acquired to achieve relatively advantageous yield coupled with limited risk. The investment portfolio of Protos as well as KB's shareholding in the Czech and Moravian Guarantee and Development Bank are included in this line. At the end of 2007, shares of Prague Stock Exchange had also been part of this portfolio. These were sold by the Group in the last quarter of 2008.

The net book value of the remaining CDO portfolio in the Group was USD 9 million, compared to USD 11 million at the end of 2007.

Investments held to maturity

The portfolio of securities held to maturity, which is comprised of bonds issued by government institutions from the Czech Republic and countries within the European Monetary Union, declined by 52.2% to CZK 1.4 billion compared to the previous year. No additional securities were purchased for this portfolio in 2008.

Tangible and intangible fixed assets

The net book value of tangible fixed assets at the end of 2008 was CZK 8.0 billion and was thus almost at the same level as at the close of 2007. The value of intangible fixed assets increased year on year by 18.6% to CZK 3.5 billion.

Goodwill

As of 31 December 2008, goodwill totalled to CZK 3.6 billion. That was the same level as at the end of 2007. Goodwill from the acquisition of Modrá pyramida in 2006 stood at CZK 3.4 billion.

LIABILITIES AND SHAREHOLDERS' EQUITY

Amounts due to banks

In 2008, amounts due to banks decreased by 9.4% to CZK 11.1 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amounts due to customers

Amounts due to customers totalled CZK 554.6 billion, an increase of 2.7% compared to the end of 2007. The proportion of deposits from individuals stood at 44%. Deposits of individual clients at KB rose by 5.9% to CZK 154.3 billion. Building society savings in Modrá pyramida climbed by 2.0% to CZK 65.3 billion. Clients' pension assets are also included in this category under Czech accounting regulations, and they grew by 13.5% year on year to CZK 25.7 billion. Deposits from businesses increased by 0.6% to CZK 305.8 billion.

Volumes on current accounts in Komerční banka decreased by 2.0% to CZK 294.0 billion. On the other hand, term and saving deposits increased by 9.4% to CZK 192.2 billion.

Securities issued

The Group's certificated debt decreased by 13.6% to CZK 24.1 billion. The majority of this item is comprised of mortgage bonds issued between 2003 and 2007. The nominal value of securities issued in 2008 was CZK 0.3 billion. Interest income from mortgage bonds issued within issuance programmes approved before 2008 is exempt from income tax in accordance with the Income Tax Act. Compared with the market yields of other instruments, investors could accept lower yields on mortgage bonds because they are more or less compensated by the tax advantage. Following a change in the law, it is no longer possible to benefit from the tax advantage for yields from mortgage bonds issued within issuance programmes approved in 2008 and thereafter.

Provisions

Provisions increased by 19.4% to CZK 2.0 billion. This line item does not include provisions for loan losses, which are reflected in the line item "Loans and advances to customers". It includes provisions for contractual commitments and provisions for other credit commitments, which are comprised of provisions for off balance sheet commitments and provisions for undrawn loan facilities.

Shareholders' equity

In 2008, the Group's shareholders' equity increased by 24.3% to CZK 63.0 billion. This growth was mainly influenced by the creation of attributable net profit for the current year (CZK 13.2 billion), a dividend payment of CZK 6.8 billion (approved at the 2008 Annual General Meeting) and the changes in the value of financial instruments booked into shareholder's equity. KB's share capital remained stable at CZK 19.0 billion.

The hedging revaluation reserve, which reflects changes in the fair value of hedging derivatives, increased from the negative value at the end of 2007 (CZK 0.8 billion) to a positive balance of CZK 3.6 billion at the end of 2008. Similarly, revaluation of securities available for sale increased during the same period from a negative CZK 0.7 billion to a positive CZK 0.8 billion.

Revaluation of hedging derivatives and the portfolio of securities available for sale provides only a limited picture for determining the balance sheet value, as, in accordance with accounting standards, assets and liabilities hedged by derivatives are valued on an accrual basis. Therefore, the book value of the hedging reserve and the value of the hedged assets and liabilities are generated on the basis of different accounting regulations. Similarly, the portfolio of securities available for sale is managed to correspond with the development of liabilities having stable interest yields. These, however, are not revalued on a mark-to-market basis.

The regulators are aware of these limitations and thus, for the purposes of capital adequacy, they do not include revaluation of the hedging reserve when calculating the capital. The regulatory capital of the consolidated Group according to the CNB methodology (Basel II) reached CZK 40.8 billion.

In 2008, the Group's shareholders' equity increased by 24.3% to CZK 63.0 billion. This growth was mainly influenced by the creation of attributable net profit totalling CZK 13.2 billion.

Macroeconomic Trends in 2008

The macroeconomic development in 2008 was not steady. The second half of 2008 brought a further weakening of economic activity in the Czech Republic, with a very sharp drop in the fourth quarter. GDP rose by 0.7% year on year in the final quarter, while the revised growth figures were 2.9% year on year for the third quarter and 4.5% for the first half. Overall economic growth for 2008 reached 3.1%. The figures thus confirm the economy's deceleration: the dynamics peaked in 2006 and the economy has been in a downturn since then. Despite considerable slowing by the end of the year, the Czech economy registered a rather high and stable pace of growth in 2008 compared to the struggling euro-area countries. Convergence of the Czech economy towards those of developed European countries continues, and Czech GDP per capita reached 80% of the EU-27 average.

The sluggish performance of the Czech economy was mainly determined by external factors. Most important, there was a general deceleration of growth – and in some cases even recession – in the economies of the Czech Republic's main trading partners as a consequence of the global financial crisis and resulting drop in demand. This factor hit the highly open Czech economy very hard. Exports of goods and services reached 77% of Czech GDP in 2008, and the share of the country's exports directed to the declining euro area amounted to almost 66%. The global financial crisis and resulting economic downturn hit the Czech economy with full strength in 2008's second half. The last quarter of the year witnessed considerable declines in the trade balance, output in construction and industry, and industrial orders. This resulted in higher unemployment and a reduced number of job vacancies. Prices fell and the Czech crown depreciated rapidly. Moreover, the structure of economic growth changed in the course of the year, as the dynamics of household consumer spending slowed and firms' investment activities weakened. Foreign trade, the key driver of growth in the first three quarters, deteriorated substantially towards the end of the year and, finally, the fourth quarter witnessed a negative contribution of net exports to overall economic growth.

Overall year on year growth in industrial production was a weak 0.4% for 2008, and monthly growth rates decelerated considerably through the course of the year. The overall industrial dynamics were being driven in both directions predominantly by the manufacturing industry.

Construction exhibited a similar trend, as the sector's total output grew by 0.6% year on year with notable fluctuations during 2008. Czech construction was mainly driven by expanding infrastructure projects, even as housing construction was falling. The situation on the Czech labour market sharply worsened at the turn of 2008 and 2009.

Reduction of the production resulted in a considerable rise in the number of unemployed. At the same time, the number of vacancies fell. The unemployment rate, which had stagnated at 5.3% in 2008's third quarter, rose significantly to 6.0% in December 2008. The average rate of unemployment for 2008 was 5.4%. The general growth in unemployment, however, eased tensions in the labour market caused by labour shortage and dampened the pressures for higher wages.

Marie Petrovová,
Communication

Komerční banka regards social responsibility as one of the key factors for long-term success. Naturally, therefore, it incorporates social responsibility into its business strategies and endeavours to generate value for clients, employees, business partners, shareholders, investors and the entire Société Générale Group.

Liberec,
Kolín

Petra Slaninová,
Call Centre Liberec

communication

The dynamics of retail sales continued to fall through 2008 and their growth was 0.5% year on year. Households' more cautious behaviour is also clearly visible in substantially slower growth in loans, which was also affected by a tighter credit market and higher interest rates. The volume of loans to households provided by financial institutions reached CZK 877.5 billion in December 2008, having grown by an average 28.9% in 2008 (albeit with a sharp growth deceleration in the fourth quarter). Meanwhile, households were tending to save more, as the growth of deposits accelerated during the final quarter. The volume of new mortgages decreased compared to the boom prevailing in 2007, and the structure of housing loans shifted more towards credit under building savings plans. The number of new mortgages provided to individuals declined more than did their value: 2008 witnessed only 77% of the number of new mortgages provided in 2007 but their value reached 80% of 2007's value. Household indebtedness increased to 27.8% of GDP in 2008, having grown by 3 percentage points compared to 2007. Nonetheless, its pace of growth decelerated moderately. The level of household indebtedness is still relatively low by international comparison and represents no serious economic threat. Adverse economic developments might nevertheless curb households' abilities to repay debt and push up the default rate. A slight increase in the proportion of classified loans was registered in the second half of 2008.
Foreign trade developments took an unfavourable turn, largely reflecting the European downturn. Czech exports were hit seriously, and monthly trade balances declined rapidly. In 2008, exports fell by 0.7% while imports increased by a faint 0.1% year on year. The trade balance came to CZK 68.8 billion. The worsening situation in foreign trade and underlying factors was also reflected in the balance of payments development. The current account deficit increased year on year to CZK 113.9 billion representing 3.1% of GDP, which was more than outweighed by a surplus on the financial account at 4.1% of GDP. The financial account ended in a surplus of CZK 151.2 billion. The current account deficit is thus fully covered by an inflow of capital, which enhances the economy's resistance to adverse external factors.

The worsening payments balance and fundamental picture of the Czech economy, negative sentiment towards CEE markets, increasing risk aversion, and the CNB's low rates were the major factors determining the Czech crown's development. The currency rapidly depreciated in the second half after a period of robust appreciation in the first half. The exchange rate witnessed extremely high volatility. The crown reached its strongest value in July, when it averaged 23.50 CZK/EUR, and then weakened rapidly to the average of 26.10 CZK/EUR in December 2008. The weaker crown might ease the situation for Czech exporters. On the other hand, it makes imports more expensive and this effect might be projected into rising prices. The end of 2008 witnessed substantial deceleration of inflation. Czech prices are following the worldwide decline in commodity and food prices. The slowdown in inflation was apparent already from August 2008, and this trend continued through the rest of the year. Overall, inflation averaged 6.3% in 2008. The development at the end of 2008 was mainly driven by substantial decline in prices for food, transport, and clothing and footwear.
The Czech National Bank considerably eased its monetary policy in 2008's second half in reaction to weakening inflation pressures and increasing risk of undershooting the inflation target. The Bank Board cut the basic 2-week repo rate three times in the second half – by 25 bps, 75 bps and finally by 50 bps – leaving the rate at 2.25% with effect from 18 December 2008. The transmission mechanism for Czech monetary policy was very weak, and especially so in September and October, as PRIBOR rates did not follow the changes in the repo rate due to a lack of trust on the interbank market. This situation improved after November, however, and PRIBOR began once again roughly to copy the direction of the repo rate. Three-month PRIBOR reached its maximum monthly average value of 4.2% in October and November and then declined to 3.9% in December. A tight credit market is limiting the growth prospects for the economy.
We expect continuing unfavourable development of the macroeconomic situation in the first half of 2009 with a potential for gradual recovery by the end of the year, the speed of which will depend on the depth of the crisis in our trading partners' economies, the timing of their recoveries, and the flexibility of Czech exporters.

The volume of loans to households in the Czech Republic reached CZK 877.5 billion, having grown by an average 28.9%. The level of indebtedness is still relatively low by international comparison. Czech households practically do not borrow in foreign currencies.

Corporate Social Responsibility

Komerční banka is fully aware of the responsibilities that ensue from its position as a large and important corporation, as well as from its desire to build long-term relationships with all its stakeholders. The principles of corporate social responsibility constitute an integral part of KB's strategy, as does that of transparency in relations with all its partners. Rigorous internal controls, prudent risk management, and adherence to all regulatory requirements are indispensable prerequisites of social responsibility.

Ethical Requirements for KB Group Employees

Great attention is given to developing our employees (the tools for which are described under Employees). In accordance with KB Group's vision of corporate responsibility, employees and representatives of the Group must adhere to strict principles, both in terms of professional conduct and risk prevention. Top-notch employees conducting business in a first-class manner create a positive image for the Bank, and their assistance in preventing dishonest business practices is a key asset of the Group.

The Ethical Code defines the general rules of behaviour and conduct for all of the Bank's employees. Employees confirm their personal commitment to respect the Ethical Code by signing this document, and the Compliance Department regularly monitors and evaluates its fulfilment. The Ethical Code consists especially of rules on adhering to legal regulations and internal policies, not abusing one's position, avoiding impermissible activities, preventing abuse of confidential information, the obligation to avoid conflicts of interest, as well as the duty to act professionally towards clients.

Compliance with the Ethical Code is expected from every employee of the Bank.

The Ethical Code adheres also to the principles taken over from the Société Générale Group's Code of Conduct. This Code provides an orientation in the main principles governing corporate conduct, which are based on the ethical requirements and expectations of employees, clients, shareholders, business partners, regulators and other stakeholders. The framework established by this Code is operative throughout the SG Group.

KB subsidiaries have been inspired by KB's Ethical Code and have created their own regulations that are adapted to their particular conditions.

Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism

Komerční banka puts strong emphasis on operating a stringent system to fight money laundering in relation to earnings from criminal activities and misuse of the Bank by persons or entities against whom the international community has adopted sanctions. Above all, the latter include those suspected of involvement in terrorism.

The main principles of this system include:

a) clearly established and written rules, their effective operation, and regular training for employees in regard to them;

b) refusing to co-operate with clients and counterparties not providing proper identification or data to evaluate the risks of legitimisation of proceeds of crime and financing of terrorism and to identify persons or entities which are unreliable or whose transactions do not meet standards of transparency.

Toward these ends, the main task for 2008 was to incorporate a new law on selected measures on anti-money laundering and the financing of terrorism into the Bank's internal processes and training materials, as well as to further strengthen control mechanisms.

Sustainable Development

In accordance with the concept of sustainable development, Komerční banka adopts appropriate measures having two main aims: first to eliminate the Bank's negative effects on the environment and secondly to help in protecting and improving it. To achieve these aims, KB regularly monitors environmental and social indicators providing a practical overview of the company's impacts on its surroundings.

The Bank's most urgent challenges in this area are in conserving paper and energy. Therefore, all its employees and managers are motivated to identify potential for savings.

Among its services to customers, Komerční banka's direct banking services provide good opportunities for clients to behave in an environmentally friendlier manner. It offers the possibility to process all orders electronically, thus enabling, for example, to arrange consumer loans to be arranged or process credit card applications to be processed online and without having to print out a single paper document.

KB regards use of renewable energy sources as a promising and environmentally more sensitive alternative to burning fossil fuels.

In 2008, Komerční banka joined in the Green Energy project initiated by the ČEZ Group and pledged to take 10% of its overall annual electricity demand in the form of green energy. Contributions of Komerční banka and ČEZ from the price of green energy support projects for research, education and utilisation of renewable energy sources.

Charity

Its obligations to clients, employees and shareholders are for Komerční banka on a par with its responsibility to assist the broader society in which the Bank develops its activities on the Czech market. KB Group thus devotes great attention to charitable projects, the goals of which are to support the development of civil society, education, health and social causes, and environmental projects.
The KB – Jistota Foundation has long attended to developing Komerční banka Financial Group's charitable activities. In 2008, the Jistota Foundation helped in protecting those who are most vulnerable of all – our children. Thanks to financial support from the Foundation, seven Baby Boxes were built on the territory of the Czech Republic. A mother in distress can leave her newborn in one of these special boxes at a designated care centre without jeopardising the baby's health. Another project supported by Komerční banka and that helps children is the "Children's Accounts" of the Endowment Fund of Livie and Václav Klaus. The KB – Jistota Foundation acquired computer equipment and play time equipment for SOS Children's Villages. It also contributed to constructing a new playground and to purchasing furniture at the Oliva Children's Medical Institution in Říčany u Prahy. The Institute for the Care of Mother and Child in Podolí is a traditional partner of the KB – Jistota Foundation. In 2008, the Foundation financed the acquisition of a modern MEDISON X8 ultrasound machine. Among other projects in co-operation with domestic hospitals, of particular significance was the purchase of an apparatus for detecting early stages of cancer that is unique in the Czech Republic and which is located at Prague's Central Military Hospital.
Because of support from the KB – Jistota Foundation, visitors to the National Library in Prague can view a copy of the rare 13th-century encyclopaedia "Liber de natura rerum".
Donations from the Jistota Foundation are all the more precious because they come not just from Komerční banka itself, in fact many of the Bank's employees also contribute significantly from their own salaries to these socially vital projects.

Sponsoring

Support for education, amateur sport and the arts comprises a significant part of the daily activities for Komerční banka and other companies in the KB Group.
One of the most important cultural projects in which Komerční banka was involved was French Season 2008. This series of more than 50 cultural events arranged by the French Institute in Prague on the occasion of France's presidency of the Council of the European Union presented the general public with contemporary French culture, and it notably enriched the cultural calendars in Prague and other cities. Some of the most prominent representatives of French culture, such as Comédie-Francaise, Les Arts Florissants and Ballet Preljocaj, garnered well-earned success in the Czech Republic.
For eight years, Komerční banka has co-operated closely with the National Theatre in Prague as a general partner. The Bank brought its clients top cultural experiences not only in Prague but also in other regions of the Czech Republic. Prize-winning performances of "The Servant of Two Masters" attracted several hundred viewers in Hradec Králové and Brno. And even though our co-operation is long-term in nature, we are not afraid to experiment and to present viewers unique artistic experiences, such as, for example, the presentation of Tom Stoppard's "Rock'n'Roll". The play presents a non-traditional confrontation between Marxism as viewed by the Cambridge elite during their tea parties with its true reality in Czechoslovakia's normalisation period after August 1968.
In 2008, the tour of Jiří Pavlica's project "Vibration – Dialogue Suite" ("Chvění – Suita Dialogů") continued to great success. This unique musical project, which has received an enthusiastic reception from concert hall audiences, was presented in 2008 to viewers in Pilsen and Liberec.
Also in the year just past, several noted musical performances received support from Komerční banka. The previous year's performance by Elina Garanča in the Smetana Hall of Prague's Municipal House was followed up in 2008 with a singing concert by the top Italian soprano Barbara Frittoli, who was accompanied by the Czech National Symphony Orchestra.
Komerční banka was once again in 2008 the main partner also of the Prague Zoo. The Bank organised the now traditional celebration of Children's Day at the Zoo, as well as an entertaining afternoon for thousands of KB employees and their families from all over the Czech Republic. During the year, Komerční banka also became the main partner of the Ostrava Zoo.
For the sixth time, Komerční banka co-operated with the organisers of the French Film Festival. The Bank also continued supporting university education. The Bank's partnership with nine universities and colleges was complemented by the support to the international student organisations AIESEC, IAESTE and the CEFRES research institute established by the French Ministry of Foreign Affairs.
Support for rugby also has a solid footing in Komerční banka's sponsoring strategy. Rugby symbolises amateur sport in its purest form in the Czech Republic. KB is a partner of the Czech Rugby Union and sponsors the rugby extra-league.

The main pillars of Komerční banka's sponsoring strategy have long been culture, amateur sport and education. The KB – Jistota Foundation attends to developing Komerční banka Group's charitable activities.

partnership

Jitka Pantůčková,
Operations

KB was one of the first banks on the Czech market to begin offering SEPA non-cash transfers, whose share in euro payments was 13% at the end of the year and which were preferred by practically all client segments.

proximity

Luboš Krůta,
Investment Production
Management

Brno,
Kladno,
Jihlava

Clients and Markets

In 2008, Komerční banka focused on strengthening long-term relationships with its customers by offering them comprehensive services, tailor-made solutions and professional financial advisory.
The expansion of the branch network continued toward the target of some 400 branches. The number increased by eight year on year to reach 394. Among these was a new type of branch – a kiosk – which are mobile branches located near high-traffic locations and providing a full range of services and easy access (including parking). Along with placing new branches in new commercial and residential areas, existing branches are continuously modernised to provide a more comfortable environment to clients. The number of ATMs grew by twelve to 673. The telephone centre in Zlín launched its full operation, and two mortgage loan centres were opened in Brno and Hradec Králové to handle the administrative demands concerning mortgage loans for their respective regions.
Ten KB branches were relocated during 2008. In accordance with ongoing rationalisation of the Bank's building usage, nine buildings were sold during 2008 for a combined price of CZK 214 million. Selling processes for another 42 buildings were not yet finalised and are continuing in 2009.
In October 2008, the Bank substantially reorganised its distribution network in relation to both retail branches and business centres. It had become difficult to build further upon the original model's potential, and especially as KB is also nearing the end of its phase of rapidly expanding the branch network. The new model brings greater efficiency as well as new possibilities. The change includes the creation of new jobs that will enable improving the quality of services and effectiveness while maintaining an acceptable level of costs. The new organisation provides for better serving small business clients. It also ensures comparably sized individual business regions, thus facilitating and increasing the transparency of distribution network management and performance measurement.
KB is also aiming to rationalise the current processing of transactions in the distribution network through a higher level of centralisation. This project will create two types of back-office centres: Passive product centres (designed to process mainly deposits and current account transactions) and Active product centres (for processing credit-related products). Passive product centres will be attached to the operations arm while active product centres will remain under the distribution network organisation.

In addition to the change in organisation, KB has launched a programme to adjust the selling approach that should improve sales results by increasing both activity and productivity. The programme directs the relationship managers to take a proactive approach in relation to clients and to better identify both their needs and responses to those needs. The relationship managers were provided with new tools for that purpose, such as the Map of Needs. The Bank strengthened the coaching in sales skills for relationship managers, and the relationship managers for retail clients were trained in selling mutual funds and other investment products. On the other hand, only specialised relationship managers trained especially for shares and more complex investment instruments are partners to clients investing in these products.

Individuals

Komerční banka strengthened its position during 2008 as the third largest bank on the Czech market in the Individuals segment, acquiring more than 173,000 new clients in this segment and thus surpassing the total of 1,344,000. KB continues moreover to retain its leading position in the children and youth segment. Currently, KB maintains more than 171,000 child accounts.
Despite a difficult economic situation, the Bank was very successful in developing its lending activities in the Individuals segment, thus confirming the favourable trend of previous years. The portfolio of consumer loans grew by 13% year on year, while the volume of credit card borrowings rose by 24%. The volume of mortgage loans to individuals increased by 21%, and KB improved its market share in the declining market for new mortgages.
As a result of the financial crisis, mutual funds sales decreased considerably (35%). Responding to the situation on the market, KB rolled out an offer of deposit products that included new term and savings accounts and allowed the Bank to maintain growth in clients' assets.
KB provided its clients a further broadening of the Guaranteed Service Level, extended branches' business hours, and simplified the price list.
Komerční banka's exceptionally dynamic growth in 2008 is confirmed by many synergistic projects, such as the unrivalled co-branded credit card with a mobile phone operator and the further involvement of Modrá pyramida in the KB Financial Group. KB also prepared new products in both the deposit and loan areas – Savings Account, Guaranteed Deposit, five innovations in the Flexible Mortgage, and many other enhancements. As a complement to distribution,

KB (Bank) – segment Individuals	2008	2007	Change
Number of mortgages	76,700	66,600	15.2%
Volume of mortgages (CZK billion)	90.5	75.0	20.7%
Number of consumer loans	219,200	192,300	14.0%
Volume of consumer loans and current account debits (CZK billion)	17.3	15.3	13.1%
Volume of credit card loans (CZK billion)	2.6	2.1	23.8%
Number of active credit cards	181,900	154,500	17.7%
Number of active packages	974,400	932,500	4.5%
Number of children's accounts	171,500	163,600	4.8%

KB launched the cash-back service that allows payment cardholders to draw money in cash when paying for their shopping.
The exceptional Flexible Mortgage, which was recognised as the Mortgage of the Year 2008, helped to achieve the considerable success on the market. Its latest improved version, called the Back and Forth Mortgage Loan, makes it possible to obtain a mortgage loan without having first selected a specific property (the client obtains a guarantee of conditions before selecting the real estate) or to reimburse outlays already made to purchase or reconstruct a property using the client's own funds. A unique component of the new Loan without Risk is its insurance for both the applicant and a co-applicant against non-repayment in case of, for example, loss of employment or long-term inability to work.
Komerční banka has extended its offer for its youngest clients, now providing a Maestro payment card for a child account free of charge.
KB continued in 2008 to develop UNIcard, a uniquely combined payment and university identification card.
The Bank expanded its offer of "classic" deposit products with the KB Guaranteed Deposit that has a one-year deposit period and a guaranteed interest rate and with the KB Savings Account and Top Savings Account, which complement KB's package accounts.
In the card products area, KB and T-Mobile jointly presented the T-Mobile Bonus card that is a component of the T-Mobile Bonus loyalty scheme. In addition to other advantages, it offers an interest-free grace period of up to 76 days, which is the longest in the Czech market. A cardholder can transfer funds from the card to a current account and work with cash similarly as when using a normal bank loan.
KB extended clients' investment options in relation to guaranteed funds from SGAM/IKS by offering the guaranteed fund KB Ametyst Flexi with unlimited liquidity. Moreover, KB introduced to the market the guaranteed funds KB Ametyst 4 and 5 that grow investors' funds in the case of either rising or declining equity markets. KB also extended its offer of foreign funds denominated in Czech crowns.
In 2009, Komerční banka will focus especially on acquiring new clients through product innovations as well as on deposit and loan products.
Great potential exists in the client base of other members of KB Group. In 2008, KB concluded 28,000 building society loan contracts for Modrá pyramida in its own network, while, on the other hand, Modrá pyramida representatives intermediated the sale of 21,000 KB products, such as current accounts, credit cards, and others. Selected pension fund clients were offered a credit card with a preset limit.

Number of clients – Individuals (thousands)

Private Banking

The percentage growth of KB Private Banking clients and assets under management reached double-digit figures in 2008. The service provided by Private Banking branches is designated for clients whose assets under management exceed CZK 20 million. The growth in activities was accompanied by an increase in the number of private bankers and other expert positions and by the opening of a new Private Banking branch in Ostrava. In 2009, a new branch will be opened in Brno.
Clients whose assets exceed CZK 8 million are now served by private consultants at KB's regional branches. These specialised consultants are under the direct management of the Private Banking branch.
They provide clients a full range of consultation, services and products. Overall, these changes increased by threefold the capacity designated for serving wealthy clientele.
The negative impact of the financial crisis on clients was mitigated by the long-term conservative approach to allocating clients' assets. Also contributing to the development of Private Banking was the fact that the number of wealthy customers seeking the best options for managing their assets has grown in the Czech Republic. The owners of companies that also use KB services comprise an important part of the Private Banking clientele.
Synergies with the Société Générale Group provide Private Banking clients exclusive access to the Group's know-how, analytic coverage of the financial market, and innovative investment opportunities and solutions. In serving clients, KB also takes advantage of its co-operation with SG Private Banking Suisse, which has operated in Switzerland since 1922.

Small Businesses

As a traditional partner for entrepreneurs and small businesses, Komerční banka currently serves more than 264,000 clients classified as small businesses. Entrepreneurs are able to use the services of their relationship managers at all of KB's 394 points of sale and to obtain information about financial services provided in the area of day-to-day banking, financing of business activities, or possibilities of support from EU structural funds. Another advisory instrument is a new information web site for entrepreneurs, www.moje-firma.cz.
Increased lending was again a strategic objective for this segment. The provision of loans continued its successful dynamics of 2007. KB grew its portfolio of loans to small businesses by 30% while extending the average loan payment terms. The necessary ongoing improvement in the quality of advisory and services provided to clients was supported by boosting the ranks of specialised relationship managers.
Among the main innovations in the product offer in 2008 were Profi Loan FIX and the cash-back service. Profi Loan FIX presents entrepreneurs with a simple and transparent form of financing thanks to its fixed interest rate and repayment through so-called annuity instalments, the amount of which does not change for the entire payment term.
Merchants can offer their customers the cash-back service enabling a safe withdrawal of cash along with payment for goods or services using a payment card.

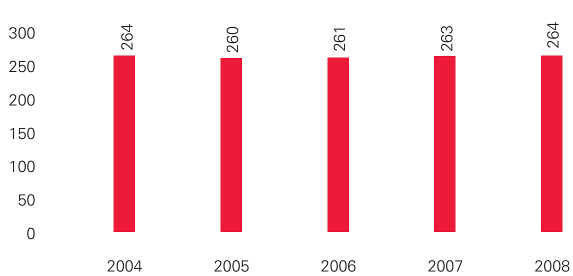
KB extended the offer of the Residential House Program, which provides financing services to housing societies and associations of housing unit owners for repairs, reconstruction and modernisation of housing units or entire residential buildings. The option to personalise a payment card with one's own design through the Mojekarta service is now available also to entrepreneurs. A card with an individualised design can thus be a tool that entrepreneurs can use to represent themselves and their companies.

From 1 January 2009, Komerční banka has extended the range of services available within the account packages for small business even as the price of those packages has remained unchanged. Moreover, the Bank significantly reduced the price for the special Efekt Start business account intended for start-up businesses and entrepreneurs.

In 2009, the Bank will focus on ways to mitigate the consequences of the financial crisis that is considerably affecting entrepreneurs and small businesses. Quality advisory in the economic sphere will hence be an essential part of the financial services provided. A more substantial increase in the volume of funding in relation to grants from the European Union may be expected.

As a result of a segmentation adjustment, several thousand business clients will be moved from the business centres to the care of Top Small Business relationship managers working in the entire distribution network. The Bank will thus operate closer to the place of these clients' businesses and will better adjust the service format to the needs of entrepreneurs of a given size.

Number of Small Business clients (thousands)



Enterprises and Municipalities

Komerční banka maintained its leading position on the banking services market for enterprises during 2008, as it was, according to a survey conducted by an independent agency, the main bank for 37% of medium-sized and large enterprises. KB's popularity and the use of its services rise as the level of enterprises' turnover increases – 46% of enterprises with turnover of CZK 60–300 million and 57% of enterprises with turnover of CZK 300–1,500 million are KB clients, according to the survey. The Bank achieved dynamic growth especially in its share of the volume of loans provided to clients (rising by 17% year on year as of 31 December). KB's emphasis on building long-term relationships with clients was reflected in a significant increase in their overall satisfaction with the Bank. In 2008, enterprises gave KB an 8.4 out of 10 (10 points being the best mark) as compared to 7.9 in the previous year.

In 2008, the distribution network for enterprises and municipalities was especially strengthened in the support area. The number of middle office workers, who handle administrative processes, increased, thus reducing the time that relationship mangers must dedicate to these tasks. The network was equipped with a new customer relationship management (CRM) application that simplified the processing of clients' data and improved its accessibility for relationship managers, managers and support specialists, who now will be able to adjust services according to the clients' specific needs.

In such specialised areas as financing through EU support, financing for developers, projects for utilising renewable resources, and preparing large and structured transactions, the Bank considerably increased the number of specialists and analysts who work directly in the distribution network or at headquarters.

Komerční banka provided systematic support to clients who have decided to execute their projects with financing from EU funds.

An entire new offer of financial and advisory products, KB EU POINT, met great acclaim from grant applicants. During the year, nearly 2,000 projects in a total volume of more than CZK 45 billion were consulted with KB's clients. Most public sector projects were aimed at the renewal of cities and towns and at environmental protection. Private companies most often requested grants for purchasing technologies, research and development, restoring real estate, or investing in human resources development.

KB (Bank) – segment Small Business	2008	2007	Change
Number of loans	32,200	26,400	22.0%
Number of authorised overdrafts and credit lines	63,100	65,600	-3.8%
Number of credit cards	59,600	51,900	14.8%
Volume of loans, current account debits and credit card loans (CZK billion)	20.1	15.5	29.7%
Number of financial packages	179,100	170,600	5.0%

Pavel Henzl,
KB Financial Group Administration and Support

Developing synergies with other companies in the Group, optimising processes, and controlling overhead costs are important for maintaining KB's flexibility in the face of a potential worsening in the business environment. The effort to continuously improve the quality of services provided to customers thus remains unquestioned.

Prague – Eden,
Brno

Sylva Floríková,
Compliance

openness

The Bank financed numerous projects using renewable energy sources while also focusing on projects concerning innovations. In the area of business loans, Komerční banka extended its offer of overdraft and revolving loans with loans for an indefinite period. A change that further deepens KB's partnership with its clients is the overall simplification of lending and loan security documentation. Further adjustments were made in the parameters for discounting domestic bills of exchange.
In co-operation with the Export Guarantee and Insurance Company (Exportní garanční a pojišťovací společnost – EGAP), the Bank provided to exporters among small and medium-sized companies insured pre-export loans and guarantees subject to a simplified procedure that minimises administrative demands upon the client. KB's partnership with the Czech and Moravian Guarantee and Development Bank (CMRZB) brought to its clients a quality security instrument for the providing of business loans.
Thanks to successful introduction of the uniform European standard non-cash payment system known as SEPA for payment transfers within the European Economic Area and Switzerland, KB now can settle cross-border payments faster. That reduces the costs incurred by clients for administering and executing payments.
Among deposit products, the Bank now offers variable accounts with fixed or floating interest rates that bear interest in accordance with the volume of the deposit. Clients have thus obtained a new and flexible tool for making payments.
As a part of its partnership with clients, KB continued providing "best practices" advice for a wide range of corporate clients. One format included discussion breakfasts with clients on current topics. During 2008, breakfasts on the theme "Financing from EU Funds" were held most often and were organised in co-operation with the EU Point department and advisory companies. Other popular topics presented in collaboration with specialists from the Bank's individual departments included trade finance, investment banking (hedging against currency risk), products for employees, and products of KB's subsidiaries and affiliates. Clients responded very positively, too, to discussion breakfasts conducted throughout the Czech Republic by the Bank's experts on such current topics as impacts of the financial crisis, the Czech crown's exchange rate volatility, and preparation for membership in the European Monetary Union. The Bank will continue to pursue these activities in 2009.
Among the products of KB's subsidiaries and affiliates, the most successful in the enterprises segment were the offers of leasing and factoring services. Several large transactions ensured that the sales targets for Komerční pojišťovna life insurance and KB Penzijní fond pension insurance were successfully achieved. The International Desk made considerable progress in supporting the provision of services to SG multinational clients' member companies active in the Czech Republic.
A priority in the Enterprises and Municipalities segment in the coming year is to present KB as a reliable and stable partner that provides its customers unwavering support and professional advisory in their business activities. The Bank regards these values as especially important in the difficult and uncertain conditions of the global and local economies expected for 2009.

Furthermore, KB plans to expand its eTrading internet application that is used for currency exchange under individual conditions and to pay interest on clients' deposits at individual rates depending on the currency and volume of deposit. In addition to FX spot and deposit products, business clients will have access to other investment banking products (e.g., FX orders and FX forwards).
In the renewable resources area, the Bank will aim in 2009 to simplify communication with clients and to provide advisory especially in relation to solar cell projects. The offer of payments services and payment cards will also be innovated.

Top Corporates

Komerční banka succeeded in 2008 to maintain its dominant position in the segment of top corporates, i.e. companies and financial institutions with turnover exceeding CZK 1.5 billion. These clients have thus shown their trust in the Bank's products and services. KB has used a reputable international agency over a long period to monitor indicators of client satisfaction and loyalty, and these have recorded continual improvement.
The Top Corporations Arm provides services to top corporate clients through four business divisions that cover the entire territory of the Czech Republic. The activities of this arm help Komerční banka to be a strategic partner for the largest corporations in the Czech Republic. The specialised relationship managers prepare tailor-made products and services that reflect clients' needs according to the specific characteristics of their industries.
The business results for 2008 confirmed the successful business policy of Komerční banka in this segment. The loan portfolio grew by 15%. Komerční banka maintained its leading position among Czech banks in the area of trade and export finance, and especially in providing bank guarantees. The success in selling trade and export finance products, which recorded 16% growth, resulted especially from an increase in the volume of newly issued bank guarantees and documentary letters of credit by more than 50%. A leading role in this effort was played by the expert advisory provided directly in the regions. Clients appreciate not only information about suitable products but also advice on the particularities of individual countries. In the product area, KB is preparing to introduce a new TF Online application that will enable electronic processing of trade finance products that include guarantees, letters of credit and documentary collections.
In the cash management area, Komerční banka continued developing new functionalities for cash pooling products. The number of clients using cash pooling structures grew considerably. In 2008, the Top Corporations Arm significantly increased its activity on the market for structured financing, executed primary issue of eurobonds, and participated on significant transactions related to financing projects for alternative sources of energy production.
The development of co-operation with Komerční banka's affiliates was especially successful with SGEF, ALD, ECS and Penzijní fond KB. The business volumes also increased in co-operation with Komerční banka Bratislava as that subsidiary developed its services in Slovakia.

Investment Banking

The global financial crisis that had begun already in the middle of 2007 worsened significantly during 2008. Around the world, stock markets continued to fall, large financial institutions collapsed or were bought out, and governments in even the wealthiest nations had to come up with rescue packages to bail out their financial systems. The collapse in September 2008 of Lehman Brothers, a major player in the securitisation and derivates business, certainly represented an important milestone as the crisis became truly global and the reality became clear that major economies would be hit severely along with many others. Banks stopped lending to one another and became much more cautious in financing their clients. Credit spreads very quickly widened and reached their largest at the end of 2008.

Through the entire year, Komerční banka's investment banking operations were again very successful as the Bank increased the volumes of transactions with its clients and took advantage of growing market volatility and a sharp drop in interest rates.

Derivatives

Business in the foreign exchange area was affected by the Czech crown's continued strong appreciation during the first half of 2008, as it reached record levels of around CZK 23 against the euro during the summer. Exporters responded by continuing to pursue their hedging strategies against further strengthening of the crown.

In the second half of 2008, there was a sharp reversal in the appreciating trend for the crown and for all other currencies in the region as the risk appetite diminished and there was an unwinding of balance sheet leverage by financial institutions, asset managers and corporations. The crown fell more than 20% off its peak of July 2008 and left many exporters with unprofitable and/or overly hedged positions due to the economic slowdown. Consequently, after a very active year of client transactions, KB expects FX hedging activity to slow in 2009.

Komerční banka has further developed its activities in niche markets, such as commodity and emissions trading (carbon dioxide (CO_2) allowances).

On the interest rate side, Komerční banka's Treasury Department took full advantage of the widely increased interest rate volatility. In particular, the exceptionally sharp drop in interest rates during the second half created an opportunity to generate additional profits from trading book positions. The risk profile of such positions was progressively reduced towards the end of the year, taking into account the growing lack of liquidity in the markets. Trading spreads widened on all instruments and in particular market-making in Czech government bonds was disrupted. So long as uncertainty and liquidity risks persist in the markets, the Bank will continue to keep its risk profile at an appropriately low level.

Debt Origination and Corporate Finance

Despite the difficult market environment, Komerční banka remains a leader in arranging large debt financings for Czech and international borrowers. In 2008, KB's Debt Capital Markets Department completed a record 23 transactions for corporate, municipal and institutional clients. These were predominantly club deals, but the list also includes an increasing number of complex debt structures, acquisition financings and structured financings.

In the advisory business, KB's Mergers & Acquisitions team focuses on cross-border transactions. In addition to a series of smaller and medium-sized transactions, the team, together with SG Group, is involved on the buy side in the privatisation of Czech Airlines and is preparing for the future potential privatisation of Prague Airport.

Direct Banking

The number of clients using at least one direct banking channel rose to 951,000 by the end of the year, and that represents 58% of all the Bank's clients. The Expresní linka plus service recorded the highest growth – by almost 50% – and reached 47,000 users. The number of Mobilní banka mobile telephone banking customers grew by more than 23% to a total of 25,000. The Mojebanka internet banking service welcomed its 535,000th client at the year's end, and the number of its clients rose by more than 22% for the all of 2008. KB's clients conduct 90% of all non-cash transactions by internet or telephone.

Komerční banka implemented additional key innovations in its direct banking channels. Among the most significant was the opening of the second telephone centre in Zlín. The call centre has successfully developed synergies within the KB Group by providing for operation of the KB Bratislava information line, sale of Modrá pyramida products, and co-operation on the T-Mobile Bonus cards project with the companies ESSOX and T-Mobile.

New functionalities were launched in the Mojebanka internet banking application. Through the internet, clients can now conclude building savings contracts, calculate their mortgage loans, and find their relationship managers' contact information and the business hours of their branches. Entrepreneurs may start the loan process by filing their applications over the internet. The security of internet banking was again strengthened, and additional information was added to the authorisation text message sent in relation to executed transactions.

Clients selling or buying over the internet were provided a new tool for accepting payments. Known as Mojeplatba, it permits simple and secure purchases of goods and services through the internet. For merchants, Mojeplatba means immediate information on the executed payment, a payment guarantee from KB, and simple implementation. Another innovation is the possibility to set up the delivery of electronic account statements, which fully replace statements in paper form and thus save not only money but also the environment.

Payment Cards

Payment cards issued by Komerční banka in 2008 included VISA, VISA Electron, MasterCard, Maestro, and American Express. By the year's end, the total number of active cards was 1,694,000. The number of active credit cards grew by nearly 17% during the year, and by the close of 2008 there were 241,000 active credit cards in the Bank's portfolio.
Komerční banka has retained its leading position on the Czech market for payment card acceptance. The Bank enables its merchants to accept VISA, MasterCard, American Express, Diners Club and JCB payment cards. The new cash-back service has been extended to a substantially higher number of points of sale, where all holders of KB cards as well as other banks' clients can withdraw cash.
All of Komerční banka's ATMs accept chip payment cards. In addition to cash withdrawal, the Bank's ATMs enable a cardholder to recharge mobile phone cards, check his or her account balance, and change the card's PIN number. The entire ATM network is secured by numerous safety features, such as a Fraudulent Device Inhibitor (FDI), which protects a payment cardholder against payment card skimming and other frauds. Komerční banka places great emphasis on the security of its ATM network, and it is continuously improving and developing this security.
In the cash processing area, KB's entire ATM network was completely outsourced. The total number of cash withdrawals came to 30.4 million for 2008, representing a gain of 5.4% year on year. ATM withdrawals account for 90% of the total number of cash withdrawals at KB.

Employees

Komerční banka's human resources focus during 2008 was especially on boosting motivation, loyalty and retention of its employees. The Bank began using another tool for communicating with employees: internal surveys focused on employee satisfaction. These concerned either feedback from the entire staff or simply the opinions of those employees to whom a given topic directly related. Thus, in 2008, employees provided feedback in 10 internal surveys.
As of the 2008 year and the Bank's total number of employees stood at 8,073. Of these, 3,130 (39%) worked at headquarters and 4,943 (61%) in the distribution network. The Prague region accounted for 873 staff members, while 1,012 were in South-west Bohemia, 968 in Hradec Králové, 1,007 in Ostrava and 1,083 in Brno. Compared to the previous year, the total number of employees had risen by 257 (3.2%).
As of 31 December 2008, the number of employees at Komerční banka's subsidiary companies was 832. This number scarcely changed in comparison with the same date in the previous year, as the staff at the subsidiary companies increased by 35 employees.

Human Resource Management Strategy, Mobility and Co-operation in the KB/SG Group

KB's human resource strategy is established with a long-term perspective. Thus, the basic mission – to foster with its employees, as with its clients, a long-term professional relationship based on open and transparent reciprocal communication – has not changed.
As an employer, KB aims to provide all its employees with continuous professional development. Certain categories of employees, however, are in specific situations or life phases that temporarily disadvantage them in their career development. One group of employees to which KB has given particular attention as part of the CARMEN programme (Career Management) is that of employees on maternity/parental leave. Through this special programme featuring attractive motivational tools, KB supports faster return from maternity/parental leave, easier integration into the work environment, and more fluid resumption of one's career path. KB seeks to resolve how to connect the Bank's interests with those of its employees, and thus to harmonise employees' professional and personal lives. Alternative work-time commitments present a set of options: if possible from an operational point of view, the Bank can offer work on a part-time basis, a flexible work schedule, work from home, a shared work schedule, and other systems. For its conception of this programme, KB last year was awarded third place in the Firm of the Year: Equal Opportunities 2008 competition.

co-ordination

David Formánek,
Human Resources

Chomutov,
Kladno

Martin Chemišinec,
Petra Slaninová,
Martina Špeldová,
Liberec Call Centre

As an employer, KB aims to enable the continuous professional development of all its employees. Nevertheless, some categories of employees are disadvantaged at certain times in their career development. Through the CARMEN programme, KB devotes particular care to the group of its employees on maternity or parental leave. The Bank thus supports their faster return from maternity or parental leave, easier integration into the work environment, and smoother continuation on their career paths.

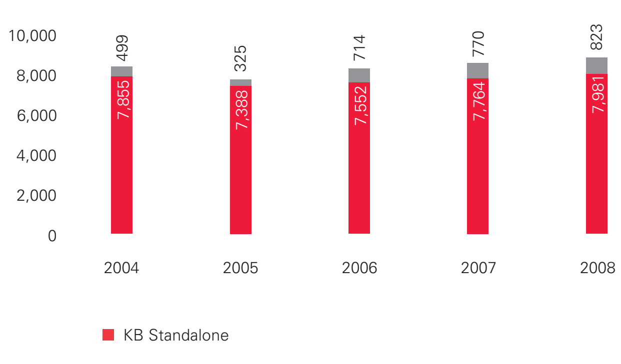
teamwork

Within the Société Générale Group, Komerční banka actively participates in the international mobility of employees, which it considers a tool for exchanging knowledge and experience, professional development of employees, and motivation. At the end of 2008, 17 foreign employees were guests in Komerční banka, primarily from Société Générale headquarters. Four expatriates from SG were working in the subsidiaries as of the year's end. Meanwhile, Komerční banka sent five employees abroad in 2008 (all of whom had been identified by the Bank the previous year). The total number of employees sent abroad thus totalled 27 by year's end. Two employees returned from their foreign positions, bringing their new experience back to KB. Moreover, KB enabled three employees to participate, short term or long term, in international projects within SG Group.

In 2008, KB continued intensively to develop co-operation with subsidiaries and affiliates with the goal of increasing activities' effectiveness, reducing expenses, and strengthening the solidarity of employees in the KB/SG Group. A year of intensive co-operation between Komerční banka and the companies of Société Générale in the Czech and Slovak republics brought very good results. In the area of employee benefits, for example, several joint benefits were successfully introduced for employees of KB/SG Financial Group.

The key component for supporting synergy in the human resources sphere is the internal mobility of employees. Its goal is to use the experience and knowledge of employees to fulfil business objectives of the entire financial group. At present, approximately 30 employees of Komerční banka work in KB subsidiaries. Internal mobility is supported in the opposite direction, as well.

Average recalculated number of employees – KB Group



Recruitment and Co-operation with Students

Quality recruitment of new employees has remained a very important goal for KB. With the opening of new branches and establishment of a telephone centre in Zlín, the need to fill newly created positions grew. In 2008, a total of 1,491 new employees – of which 1,073 work in distribution and 418 at headquarters – strengthened Komerční banka's ranks.

The Bank resumed the successful external communication campaign begun in 2007, the goal of which was to present KB to the labour market as a stable, solid and, at the same time, progressive employer. As in the previous year, the campaign was received positively again this year among external job applicants, and the number of responses to available positions was thereby successfully doubled. The Bank will continue to support this communication concept in 2009.

As part of its support of university graduates and their further career development, KB continues to collaborate with prominent student organisations (AIESEC, IAESTE, CEMS) and selected universities. In addition to financial support, lectures and participation in job fairs, KB offers students the opportunity to discover a suitable job while gaining work experience during their studies as well as employment following graduation from university. Also thanks to this intensive co-operation, Komerční banka for the sixth time stood among the top companies in the jobpilot.cz Employer of the Year 2008 competition, "Most Desired Employer for University Graduates".

In addition to the international project VIE (Volontaires Internationaux en Entreprise), Komerční banka also participated during 2008 in the "50 Passports for the Future" project. Oriented to university students and graduates alike, it helps them to acquire professional work experience in international companies both in the Czech Republic and abroad. Another international student project in which KB participates is the student business game Citizen Act, organised by SG.

Building Long-term Relationships and Commitments to Employees

In 2008, Komerční banka modified its system of fixed and variable remuneration with the goal of making it more transparent and understandable. This adjustment also responds to the changing needs of the company and to the labour market. With this step, KB hopes to strengthen the loyalty and retention of its current employees while also supporting the recruitment of new colleagues.

The employer fulfilled its obligations for 2008 under the collective agreement concluded for 2006–2008. At the end of the year, a new collective agreement was agreed for 2009–2012. Modifications in the new collective agreement ensure employees continue to receive above-standard working and social conditions and thus meet a prerequisite for fulfilling the Bank's strategic objectives. KB Group's employees also had an opportunity to subscribe for shares under the Société Générale Group global share plan for its employees.

Training

The main tasks in 2008 included not only deepening and broadening employees' skills and qualifications, but also adjusting training programmes to fully reflect the Bank's current needs and corporate values. The changes involved further expansion of e-learning instruction (including in the area of obligatory training), preparation of programmes tailor-made to meet KB's needs, and greater utilisation of internal trainers (especially for training in the School Branches). The average number of training days per employee in 2008 was 8.1.

KB successfully operated School Branches for a third year to improve the quality of services provided to clients and the sales skills of relationship managers. These branches provide all internal sales skills training at five training sites. In 2008, new versions of the seminar for new relationship managers in the Individuals and Entrepreneurs sub-segments and the seminar for new level-1 branch directors and teams management were launched at the School Branches. A special integration programme was also created for newly established positions of sales skills specialists in the distribution network. In 2008, a total of 2,035 participants underwent training in the School Branches.

The most significant activity of KB in the managerial development area was a finalisation of the Evolution programme, which started the end of 2006. The goal of the programme was to develop know-how in the areas of leadership and motivation as well as to conform managerial approaches and conduct to KB's business model and strategy.

The programme also contributed to communication across individual managerial levels and to building relationships between managers of the entire Group.

A professional welcome and quick integration of new employees into the KB/SG Group is the objective of the StartinG programme, which commenced in June 2008 in a modified form.

Risk Management

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies. In its policies, the Bank takes into consideration developments regarding all types of risk, i.e. credit, market and liquidity risks, as well as regulatory, concentration, operational and environmental risks.

Credit Risk Management

As in previous years, risk management units closely co-operated with the business units in order to support Komerční banka's business activities and to make the credit process more efficient while closely monitoring the quality of Komerční banka Group's risk portfolio. Attention was increasingly given to strengthening the credit risk management framework within Komerční banka Group while specifically focusing on policies, tools, processes and staff expertise to support retail segment lending activities. Special emphasis was also given to enhancing organisation and processes for managing credit fraud prevention.

In order to better address changing trends in the Czech economy, Komerční banka revised its internal approach to conducting sector analyses, which will be more selective and oriented to riskier sectors.

Loan origination and credit risk monitoring

With regard to the credit decision-making and monitoring processes, risk management units continued to develop and regularly improve internal risk management processes and tools in all of the Bank's activity areas. The enhanced credit risk management has played a role not just in preventing risk, but it has also significantly supported the Bank's business activities, including to further utilise business synergies within the Group. Last but not least, the Bank has continued to integrate new means of managing risk as a consequence of bringing Basel II into its credit risk management processes.

Principal activities in 2008 were focused on:

- further enhancing approval and monitoring processes,
- taking corrective measures to prepare the Bank for economic and market deterioration,
- proactively preventing credit fraud,
- supporting KB Group synergies, and
- integrating Basel II components and results.

Further enhancement of approval and monitoring processes

In 2008, the Bank continued in the process of enhancing its rating models with the aim to increase comprehensiveness of the evaluated data, to extend the use of advanced statistical methods, and to reflect current trends in developing the risk profiles for portfolios of particular clients and transactions.

In the mass retail sub-segment, KB updated its behavioural scoring model in order to also reflect data regarding clients from other KB Group entities. This update increased the precision and potential of the behavioural approach to providing credit, which then became a key driver of growth in retail exposure while preserving a good risk profile. At the same time, KB performed a detailed analysis of criteria for granting loans and of pricing algorithms in order to further optimise the risk/return ratio in the mass retail sub-segment. This analysis was based not only on updated scoring models but also on enhanced Loss Given Default (LGD) models, Exposure at Default (EAD) models, and stress-testing results. In accordance with the intention to extend the usage of statistical models to a wider range of risk management processes, KB has also focused on further improving its models for estimating expected losses for provisioning purposes.

In the corporate clients segment, a special effort was made to update the rating model for municipalities, with the aim of increasing the completeness of evaluated client data, and to update the model used for continuously monitoring corporate clients (prediction of short-term delinquencies). Both models are to be implemented in the first half of 2009.

All KB scoring, rating, LGD and EAD models were back-tested quarterly, their quality was carefully monitored, and any deterioration triggered corrective measures.

As in previous years, special efforts were also dedicated to improving portfolio monitoring activities. Using statistical techniques for mass retail and an expert system for corporate clients, the main goal was to maintain the Bank's capacities to prevent or predict deteriorating risk characteristics. The monitoring of critical indicators in approval processes at the point-of-sale level contributed to maintaining a good risk profile for the Bank's mass retail credit portfolio.

Corrective measures to prepare the Bank for economic and market deterioration

In reaction to the worsening economic and market conditions, KB began at the end of the year to revise its rules for granting loans, and especially in connection with mortgage loans. Revising rules and tools for granting and monitoring loans that are sensitive from both the risk management and commercial viewpoints is also a key objective for 2009.

Proactive credit fraud prevention

During 2008, KB was focused on boosting the efficiency of processes dedicated to preventing and reacting to cases of credit fraud. The Bank has concentrated co-ordination of these processes under a new credit fraud prevention team, and it has clarified responsibilities for their individual components. The Bank has initiated a wide-ranging project aimed at developing an automated system integrating algorithms for verifying clients' application data against external registers, algorithms for signalling increased risk of credit fraud, and a centralised system for notification and reacting to suspicion of credit fraud. The new system will be fully integrated with the Bank's key applications in future and will be utilised across the entire KB Group.

Support to KB Group synergies

In 2008, KB continued to support the further development of cross-selling activities among KB Group entities. The Bank updated its behavioural scoring model evaluating data about clients from Modrá pyramida. The model's original purpose of enabling the active offer of small consumer loans and credit cards from Komerční banka to Modrá pyramida clients was extended to the offer of a new Modrá pyramida product (a small unsecured loan for construction purposes).

The Bank has also continued in using a behavioural scoring model to evaluate data from clients of PF KB. Three marketing campaigns in 2008 directed to offering KB credit cards were based on the outcome of running the PF KB scoring model.

Further development of scoring models based on client data from other KB Group entities is one of the main tasks for 2009, as it represents an excellent opportunity to ensure favourable growth in the mass retail portfolio while maintaining its good risk profile.

Integration of Basel II components and results

KB Group had completed the implementation of advanced methods under the Basel II regulatory framework in 2007. The Czech regulator (Czech National Bank) for KB Group and the French regulator of Société Générale Group in France (Commission Bancaire) validated two advanced approaches for calculating risks: the "Advanced Internal Rating Based" (AIRB) approach for credit risk and the "Advanced Measurement Approach" (AMA) for operational risk.

Komerční banka began reporting under Basel II standards in January 2008. Implementation of new regulatory standards under Basel II improved the Bank's capital adequacy compared to Basel I standards. From the business viewpoint, the implementation of Basel II standards has the following key benefits:

- broader usage of behavioural rating models in mass retail,
- implementation of the Loss Given Default (LGD) indicator into internal risk management systems, and
- implementation of more proactive operational risk management.

These advantages provide a solid foundation for monitoring profitability and capital management.
Moreover, the implementation of Basel II in KB Group enhanced synergies within the whole Société Générale Group. KB Group began using SG models for measuring credit risk of government institutions, banks and financial institutions, as well as for measuring operational risk. The other Basel II models were developed internally by KB. Komerční banka confirmed its excellent and ground-breaking risk management by becoming the first bank on the Czech market, as well as the first universal bank within Société Générale Group outside of France, to apply these most advanced risk management techniques. In 2009, KB will focus on more deeply integrating Basel II components and results into its business processes within both the Bank itself and its subsidiaries. KB will endeavour to further optimise its capital allocation while improving the Bank's overall efficiency.

Provisions

The Bank classifies all its assets arising from financing activities into five categories according to Czech National Bank Decree No. 123/2007, taking into account both quantitative criteria (payment discipline and financial statements) and qualitative criteria (in-depth client knowledge, as well as the client's behaviour and history). In July 2008, the Bank newly implemented the contagion principle into co-applicant and guarantor classification on defaulted receivables in compliance with Basel II rules.
All significant impaired exposures are assessed individually, and at least every quarter, by three levels of provisioning committees or, whenever required, by recovery specialists. Provisions are established based upon the present value of estimated future cash flows to the Bank and after considering all available information, including the estimated value of collateral and the expected duration of the recovery process.

The remaining receivables are provisioned based on statistical EL (Expected Loss) and ELBE (Expected Loss Best Estimation) models that reflect the specifics of the given receivables (client segment, product type, risk classification). These models were developed based on Basel II requirements and were implemented in August 2007.
In July 2008, the provisioning models were made more precise, in particular by fine-tuning the EL and ELBE models, including additional statistical history, and adding expert assessment. This provided for an improved preventive framework in consideration of economic developments anticipated for 2009.

Recovery activities

In order to manage the growing portfolio of retail loans, the Bank further improved the efficiency of its pre-recovery and recovery processes. The recourse to external recovery channels was further enhanced and intensified. Preparations continued throughout 2008 for implementing new bankruptcy procedures to bring these into line with the new insolvency law, which is expected to have a significant impact on credit activities in both the corporate and retail client segments. The Bank has implemented the necessary enhancements, thereby improving the recovery processes by way of streamlining new processes and increase labour forces. The Bank has applied new recovery procedures to more effectively deal with its corporate portfolio.
With the growth in the volume of unsecured retail credit, it became necessary to develop and implement new standard processes for the valuation of small unsecured non-performing loans. These processes will pave the way for standardised objective decisions concerning the selling of selected retail claims. Therefore the Bank has created a new set of assessment tools and procedures to support its ongoing sales of small unsecured non-performing retail claims. These new processes will be put into operation and launched as a routine part of the Bank's loan recovery activities in 2009.

Credit Risk Control

To ensure independent supervision over the quality of the credit portfolio in compliance with Basel II requirements, the Credit Risk Control Department conducts transversal and periodic control missions with a focus on credit granting and monitoring processes. With respect to the economic slowdown, the department directed its 2008 reviews to such sectors as real estate developers and the automotive industry that are sensitive to the business cycle.

Capital adequacy (as of 31 December 2008 in CZK billion)	Capital ratio	RWA (risk weighted assets)	Credit RWA	Market RWA	Operational RWA
KB Group under Basel II (new)	12.13%	336.1	287.4	11.4	37.3
KB solo under Basel II (new)	14.19%	300.9	257.1	11.4	32.4
KB Group under Basel I	9.85%	434.7	409.9	24.8	N/A*
KB solo under Basel I	10.41%	421.6	396.8	24.8	N/A*

Note: * Operational risk is not calculated within Basel I.

In 2009, Credit Risk Control will further strengthen its co-operation with other audit departments within the KB and SG Groups (by means of joint assignments or providing support to other audit department assignments). A new procedure for controlling the follow-up of issued recommendations will be implemented. There will be a heightened emphasis on control activity in the distribution network.

Capital Markets Risks Management

The Capital Markets Risks Department is responsible for managing market risk and counterparty risk in the KB Group's capital markets activities. In order to ensure proper segregation and independence of its activities, this department reports directly to the Bank's Chief Risk Officer. The processes are co-ordinated with the Société Générale Group's Market Risk Division. Market risks in Komerční banka are managed in accordance with the following principles, which are regularly reviewed by the Board of Directors:

- All risks are systematically and regularly monitored, and they are reported independently from business units.
- Methods for measuring risks and control procedures are defined and approved by Komerční banka's management and Société Générale Group's Market Risk Division.
- Limit applications are processed based on requests from business units and within the global limits established by the Board of Directors.
- All regulatory requirements are meticulously controlled.

Prior to launch, new capital market products are comprehensively analysed by all relevant units of the Bank, the objective being to identify all associated risks. Following this analysis phase, and provided that all risks are deemed acceptable, formal approval is granted by the New Product Committee. This committee's mandate is to ensure proper preparation, as well as internal co-ordination and controls, prior to offering new products to the Bank's clients.

Counterparty risk on capital markets activities

In the field of counterparty risk from capital markets activities, the principle of pre-authorisation (ensuring there is authorisation prior to executing any trade with a counterparty) is systematically applied for all capital markets transactions. Daily monitoring of limits encompass all KB subsidiaries participating in capital market activities, including Modrá Pyramida and Komerční banka Bratislava. Front office dealers are provided daily with available limits for clients. Any breach of limit is immediately reported to the relevant levels of management within the Bank. The Board of Directors is ultimately informed of all limit breaches on a monthly basis.

As a consequence of financial sector deterioration during 2008, Komerční banka has been applying a more restrictive and careful approach in setting counterparty limits for banks and financial institutions. In addition, more frequent reporting to the Bank's senior management has been implemented for these counterparties.

The measurement of counterparty risk arising from derivative products sold to the Bank's clients is based on the Credit Value at Risk (CVaR) indicator. CVaR simulates the potential replacement costs associated with a client of the Bank in case of the client's possible future default, under the given market conditions and taking into consideration such specific parameters as the type of derivative product, time to maturity, nominal amount of the transaction, and volatility of the underlying asset. With a confidence interval of 99%, CVaR measures the Bank's maximum risk arising from its derivative deals concluded with a specific client. Therefore, it reflects counterparty risk levels in cases of adverse market scenarios.

Methods for measuring market risk and defining limits

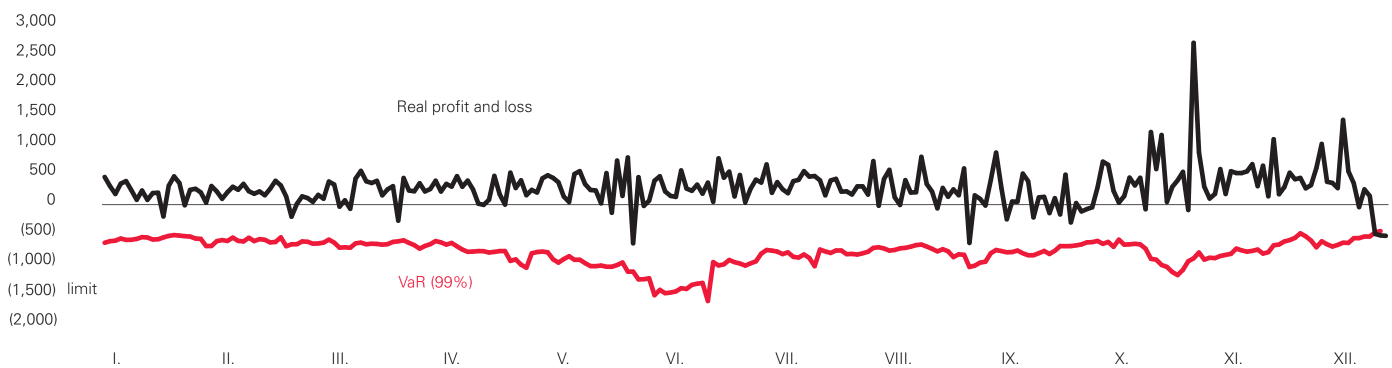
Assessment of market risks is based on three main types of indicators that are used to quantify limits and measure corresponding exposures:

- The Value-at-Risk (VaR) historical simulation method (see below for details), calculated with a 99% confidence level and a one-day time horizon, allows the Bank to consolidate its own market risks into Société Générale Financial Group's Value-at-Risk. All open positions of trading portfolios (including those of Komerční banka Bratislava) are subject to VaR computation.
- Measurement using crisis scenarios (stress-testing) takes into account low-probability events not covered by VaR. The Bank performs several types of stress tests for underlying assets and exposures in the foreign exchange, interest rates and equity areas. Shock scenarios simulate very significant movements in parameters of such underlying assets. These scenarios are calibrated based on historical studies or hypothetical analysis and are regularly updated.
- Additional limits are used in order to reflect interest rate sensitivities, FX positions and credit spread sensitivities, therefore providing the Bank's staff and management with a comprehensive picture of market risks and strategies.

Value-at-Risk method

Komerční banka has been using the VaR method ("historical simulation") since 2003. This method expresses correlations between various financial and capital markets and their underlying instruments. The method uses scenarios simulating one day variations of relevant market parameters over a period taking in the last 250 business days. The time sequence of these scenarios is based on an uneven (not normal) distribution. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable scenarios. This loss is calculated as the average of the second and third largest possible losses out of the 250 scenarios considered.

VaR back-testing – real and theoretical P&L (EUR thousand)



Back-testing

The accuracy of the VaR model is regularly monitored. This back-testing consists of comparing trading results (both on reported and hypothetical bases, i.e. excluding intraday profit and loss) with the VaR results in order to report the number of exceedances, which shall not exceed a maximum 1% of days over a given time period. In 2008, daily losses (real or hypothetical) exceeding 99% VaR reached the level of 1% over a 1-year time.

Stress test exposures (worst case) as of 31 December 2008

	EUR thousand
Adverse stress test (IR)	(5,280)
Historical scenario	(1,904)
Hypothetical scenario	(6,082)

Asset and Liability Management (financial risk and liquidity)

ALM and ALCO in KB Group

Komerční banka's Asset and Liability Management (ALM) designs measurements and manages the Bank's interest rate, liquidity and foreign exchange risks and, as an intermediary, also those of the Group. This is because KB ALM methodically oversees the processes and procedures of asset and liability management within the individual entities of KB Group, as well. ALM aims to achieve stability of financial results by minimising the impacts from changes in interest and exchange rates while ensuring at all times a sufficient availability of liquid funds. Thus, ALM provides this optimisation of KB Group's financial performance by means of transactions approved by the Assets and Liabilities Committee (ALCO).

The ALCO, whose members are, among others, members of the Bank's senior management and as observers, SG Group representatives, approves rules and methods used in managing the aforementioned risks. The ALCO oversees the level of risk taken on and the proposed hedging transactions that the Bank executes in order to reduce risk. All ALM activities fully comply with rules of the Czech regulatory authorities and with relevant international banking regulations.

Funding of KB Group

Client deposits comprise a crucial part (approximately 85%) of the Group's total liabilities and shareholders' equity, and these include current and savings accounts, term deposits, and deposits of pension scheme subscribers. This figure remained stable throughout 2008. Within the Group, Komerční banka, a.s. holds – at around 80% – the largest proportion of these accounts (of which around 50% is current accounts), followed by Modrá pyramida with more than 10% (building savings) and Penzijní fond KB with approximately 5% (deposits of pension scheme subscribers).

In addition to the broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues (presently comprising around 4% of the balance sheet) and loans taken. Komerční banka continued to issue debt securities during 2008, which totalled CZK 0.3 billion in nominal value. As of the end of 2008, the total nominal amount of mortgage bonds and other debt securities placed reached CZK 34.1 billion, of which CZK 23.1 billion is placed outside KB Group.

The Bank's liquidity and capital adequacy continued to be positively influenced by a subordinated loan in the amount of CZK 6 billion with an interest rate tied to 1M PRIBOR. This subordinated loan was taken at the end of 2006 in order to strengthen KB's capital and, thereby, to support its long-term growth potential while optimising its capital structure.

Incorporating KB Bratislava as a foreign branch into the KB structure will bring especially improved possibilities to develop business and optimise back-office operations. Certain restrictions given by regulatory limits will be relaxed, and the Slovak branch will have the same credit rating as the rest of Komerční banka. It will be possible to further develop banking applications and begin selling certain new products.

Jana Hanibalová,
Group Financial
Management

Bratislava,
Brno

professionalism

Mário Milan,
KB Bratislava

KB Group's liquidity – monitoring and management

Liquidity risk management is primarily designed to ensure that KB and the entire Group can meet their payment obligations at all times. This includes maintaining adequate volumes of cash as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily increasing the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management, which minimises the occurrence of unforeseen payment demands during a given period. This primary objective is achieved by way of managed coverage of the Bank's maximum anticipated cash-out with a very high confidence level of 99% over a sufficiently long future period (one year).

A liquidity snapshot broken down by currency – CZK, USD, EUR and others – is monitored on two levels of market behaviour: normal and stressed scenarios. Sufficient liquidity is controlled using a system of limits. To achieve these, KB uses on-balance sheet instruments (e.g. bond issues, loans taken) and off-balance sheet instruments (cross currency swaps, foreign exchange swaps). Both normal and stressed liquidity scenario methodologies are updated as needed in order to achieve more precise liquidity measurement with the goal of maximising correspondence – and especially in the key deposits area – between the modelled estimated product maturities and actual payments.

The Group continually records high liquidity. During 2008, it covered all its liabilities from its internal resources without great problems, and thus it had no need to obtain secondary funding in financial markets (e.g. by issuing securities). The ratio of client loans to client deposits came to just short of 66% at the end of 2008. This level of liquidity reflects, among other facts, a preference for assets with shorter maturities when reinvesting client deposits. By using interest rate derivatives, the Bank achieves greater independence between liquidity management and managing interest income (interest rate risk) even as it achieves a stable interest margin while holding bonds with short maturities. The level of liquidity is clearly demonstrated by the Bank's ability to cover a ca 50% outflow of all client liabilities during the course of one year without great problems. CNB adopted a new provision at the end of 2008 that the Bank perceives as strengthening the banking sector's liquidity. The central bank implemented delivery repo operations through which it lends cash to banks against a pledge of specifically enumerated securities.

Structural interest rate risk of KB Group – monitoring and management

KB Group has divided its business activities according to their nature into the Structural Book and Market Book. Transactions executed with clients through the branch network typically fall within the Structural Book, whereas operations on the interbank market belong in the Market Book. Interest rate risk is measured and managed separately for the Structural Book and Market Book.

Structural interest rate risk is defined as the risk to the Group of potential loss due to changes in market rates.

With regard to structural interest rate risk, Modrá pyramida and KB are the most significant members of the Group. The Group manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity analysis) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of the volatility of future interest income. Komerční banka also has implemented an asset and liability management system supplied by SUNGARD. In 2008, the system was implemented in Modrá pyramida as well.

The Bank uses such standard market instruments for hedging against interest rate risk as interest rate swaps (IRS) and forward rate agreements (FRA), as well as investing in securities. These securities are held by the Group in the available-for-sale (AFS) portfolio, even though the Group does not acquire them with the intention to sell them before maturity. The reason for this choice of portfolio lies in the fact that the held-to-maturity (HTM) portfolio, which would be more appropriate in terms of accounting (as the bond is maintained at amortised cost, and mark to market valuation does not occur), has strong restrictions with potential negative impacts of a fundamental nature and therefore it is a strategy of the SG Group overall to minimise use of the HTM portfolio. All deals are immediately entered into the front office system, where they are recorded and priced.

As the overall aim of ALM is to ensure stable interest income in the future, these hedging transactions are acquired mainly against liabilities with stable interest rates. We purposely use the term "stable" rather than "fixed" interest rates, because the rates of some deposit products are neither floating nor fixed, in the true sense of the word, but do correlate with market rates in some way, and the Bank's aim, moreover, is to put together assets so that they correlate with market rates in a similar manner.

From an accounting viewpoint, bonds in the AFS portfolio and the majority of hedging derivatives are revalued by marking to market only in the balance sheet (directly to equity accounts) and thus without impact on the profit and loss statement. Only in the case of a sale, or the termination of a hedging relationship (for derivatives), of these instruments would such an impact occur. As a result of the accounting treatment for bonds in the AFS portfolio and of hedging derivatives, the equity account will be affected by the impact of revaluation of both types of instruments to market value. The special nature of the equity account for the revaluation of these instruments, however, is such that it does not represent relevant information about the influence on the value of the Bank, as only selected types of instruments are revalued and not all of them as a whole. That is given by the fact that only a selected group of instruments (a group of instruments for which there exists general agreement in how to measure their market values) is represented in this account and an outright majority of the balance sheet is exempt from revaluation on the mark to market principle and continues to be recorded according to the accrual principle.
Because only a single side of the interest rate position is revalued and the other remains based on the accrual principle, with increasing rates in the market the value of this capital account will decline and may even acquire negative values. As can be seen from the regulators' approach, they consider the revaluation of derivatives and bonds in the AFS portfolio to the capital accounts solely as a bookkeeping operation, as do the banks themselves, and they do not include these values in the calculation of regulatory capital.
Interest rate derivatives (derivatives for hedging risk in the Structural Book) are accounted for in accordance with the valid accounting regulations (including IAS 39) in order to achieve the most accurate accounting presentation. KB has worked out a detailed strategy of interest rate risk management that includes descriptions of which derivatives are allowed, how these may be used, and the procedures for their accounting valuations.

Structural foreign exchange risk of the KB Group – monitoring and management

Structural foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis. The Group's position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in KB itself.

Price setting

Client interest rates, and the methodology for setting them, are established by the Commercial Committee, in which members of the company's senior management are represented. ALM provides for issuing KB's foreign exchange rate list, sets or proposes the external interest rates for deposit products, and determines the Bank's base lending rates from which loan rates are derived.
By means of a special intranet application, ALM also supports the distribution network in carrying out KB's internal loan-pricing policy. This application provides the Bank's relationship managers with a direct connection to ALM experts who provide them with exact pricing for individual loan transactions.
The price-setting strategy is to offer clients products bearing competitive interest rates while always still taking into account costs connected with the price of hedging against interest rate risk and so that the margins and financial stability are preserved even in case of possible changes in market conditions.

Influence of the financial crisis and recession on KB Group's market risk and the outlook for the future

KB Group is governed by a conservative investment policy, thanks to which it did not invest funds into so-called "toxic assets". Consequently, it was unaffected by the immediate impacts arising from the first phase of the financial crisis. Nevertheless, it must, like all other economic entities, face up to the secondary impacts ensuing from the substantial decline in GDP dynamics, which was followed by paralysis of the interbank market wherein only short-term trading and the derivatives market continued to function.
From the viewpoint of market risk, KB Group is generally overcoming these impacts without substantial problems, and neither does it expect future problems in this area. KB's liquidity is at a very good level, which is manifestly documented by its ratio of client loans to client deposits that is less than 66%.

KB Group is governed by a conservative investment policy. Consequently, it was unaffected by the immediate impacts of the first phase of the financial crisis. Its ratio of client loans to client deposits is less than 66%.

Compliance Risk

Ensuring compliance with legal regulations as well as ethical and professional standards is a concern of all managers and Bank employees. With respect to the complexity of regulatory requirements and with the goal of increasing the coherence and effectiveness of managing compliance risks, responsibility for managing the compliance system has been assigned to Komerční banka's Corporate Secretary unit, and in particular to the Compliance Department.

Established in 2000 with a focus on managing regulatory risk, the Compliance Department's role has since been broadened to take in control over risks to the company's image and reputation in specified banking activities. Among the Compliance Department's important tasks are to define the principles and procedures for the compliance function and for preventing money laundering and the financing of terrorism, as well as to ensure that these are implemented.

The department also is tasked to make certain that financial market regulations, banking laws, consumer protection laws (including the protection of clients' personal data), and the anti-monopoly rules are upheld. Moreover, the Compliance Department is responsible to formulating ethical standards and rules for KB employees. Clear rules and responsibilities have likewise been defined for KB's subsidiaries. As their parent company, then, Komerční banka is providing advice and conducting surveillance over how effectively they manage compliance risks.

As a bank of an EU member state and also as a part of SG Group, KB is subject to certain EU regulations and rules in addition to Czech regulations and supervision.

Important among these are the MiFID regulations that came into force in the Czech Republic through the amended Act on Capital Market Undertakings from 1 July 2008. Komerční banka successfully completed implementing the new law's provisions into its internal procedures and documents even prior to the amended law's effective date. As a consequence of implementing the MiFID directive, KB improved the process for selling investment products and offering investment services. It also increased employees' professional knowledge in this area through organised professional training events.

During the year, teams of specialists worked intensively on projects implementing EU directives (the Payment Services Directive and Consumer Credit Directive). Komerční banka welcomes European Union initiatives on consumers' behalf and believes that the new regulations will contribute to better awareness among clients while strengthening the accountability of non-banking financial institutions providing financial services.

These projects included extensive modification of client documentation. The new rules will have substantial impact, as well, on the Bank's information systems and corresponding internal processes.

In consideration of some new client rights (especially in cases of lost funds for payments or their unauthorised use), the Bank will have to strengthen its security and risk management systems.

KB's banking and financial market activities, as well as its anti-money laundering measures, are subject to regulation by the Czech National Bank. Stock exchange operations are overseen by the Prague Stock Exchange. Komerční banka also has memberships in several professional organisations that commit it to uphold specific professional or ethical standards.

As part of compliance activities in 2008, training was provided at headquarters and in the distribution network with regard to protecting economic competition. Among the main compliance tasks for 2009 are to address issues regarding employees in the area of detecting and preventing internal fraud, as well as to co-ordinate the implementation of new rules for the payment orders system and in providing consumer loans. There will be preparations, too, for implementing the law on electronic communication.

Operational Risk

In view of the impending financial crisis, effective management of operational risk is becoming one of the key pillars of risk management in the Bank.

Since 1 January 2008, Komerční banka has been using the most advanced method, known as AMA (Advanced Measurement Approach), for calculating the capital requirement for operational risk. This method facilitates optimal allocation of capital for covering eventual losses related to operational risk in the extent of the defined tools and instruments, which are: Loss Data Collection, Risk Control Self Assessment, Scenario Analysis, and Key Risk Indicators. Vigorous risk management is ensured by means of the Operational Risks Committee, which determines the Bank's overall strategy in the area of operational risk management and takes appropriate steps and/or action plans where the regular monitoring process detects an increase of operational risk.

During 2008, there were recorded 464 operational risk losses in a total gross amount of EUR 6.4 million. Based on the year on year basis in the terms of gross losses, the Bank recorded an improvement of 30%.

The Operational Risks Department also actively supports KB's subsidiaries in all of their activities (e.g., business continuity planning, insurance, permanent control) with a goal of strengthening the management of operational risks. In 2008, two of the subsidiaries, ESSOX and Modrá pyramida, focused intensively on improving all instruments of operational risk toward implementing the AMA approach.

In the operational risk area, the Bank strengthened its internal control system by implementing formalised supervision into the first level of the control system. Formalised supervision represents documented audits carried out at the management level. The objective of implementing this model of supervision is to further reduce operational risks in the Bank's processes.

Implementation of formalised supervision was completed during 2008 in every division of the Bank. The system of established controls is being continuously re-valuated in order to reflect changes in Komerční banka's processes.

Effective management of business continuity is a priority both for the Bank and for the members of the KB Group. An important part of operational risk management, business continuity management is a comprehensive approach that includes a methodology and processes ensuring the continuation or timely recovery of designated business activities in case of their disruption. Its objective is to minimise operational, financial, legal, reputation and other substantial consequences of such a disruption. Essential aspects of achieving and sustaining these goals include the processing of the business continuity plan, as well as its subsequent implementation, testing and updating. Business continuity management comprises the analysis of business cases, a recovery strategy and a business continuity plan, as well as testing, training and crisis communication. The system of business continuity management is an inseparable part of day-to-day operations. All main business and supporting activities are covered by an appropriate business continuity plan. The majority of these plans also include establishing a back-up work place. Continuity plans are continually tested.

Legal Risk

The Legal Department provides support to KB's individual units in concluding and executing trades; evaluates contracts, products and the Bank's procedures with respect to the law; participates in formulating contract documentation for new products; and creates new documentation templates while making sure these comply with the respective regulations.
The Legal Department provides information about presently valid law, draft or pending legislation, and significant court decisions affecting Komerční banka. It represents KB before the courts, the financial arbiter, and the police apparatus. Moreover this department manages co-operation with external legal offices and collaborates with other KB Group companies in the field of legal services.
In 2008, the Legal Department's activities were impacted most by implementation of the new bankruptcy law and the MiFID directive as well as by changes in the Commercial Code. The department was deeply involved in revising contract documentation in relation to the properties used by the Bank and also to the financing of development projects.
During 2009, the Legal Department will actively co-operate with the Czech Banking Association regarding the comment proceedings for new legislation (the Civil Code, Commercial Code, modification of the legal relationship with consumers, SEPA). The Legal Department will likewise participate in commenting on legal documents for the European Banking Federation and will further revise document templates used in the Bank to bring them into line with the valid legislation of the Czech Republic and EU.

Internal Audit

Internal Audit constitutes within KB an independent and objective assurance and consultancy function delivering support to the management. The audit team was stabilised during 2008 due to external recruitment but also thanks to internal mobility of experienced colleagues from the Bank. Internal Audit's activities were strongly supported by KB's management and responsible bodies (i.e. the Audit Committee and Supervisory Board). The quality of the Internal Audit function was also evaluated by an audit mission conducted by Société Générale (BDDF/AUD) at the end of 2007. The overall evaluation was "pass" and only minor recommendations were proposed.
In order to enhance the quality of work during audit assignments and to better follow the international professional practices framework and related standards and best practices for internal auditing, Internal Audit created and implemented its own Internal Audit Manual where the main and obligatory principles are stated. Moreover, implementation of the supporting Galileo software system for documenting all assignments was completed in 2008. The system is now fully functional within KB and Internal Audit continues to broaden its usage within KB Group entities (currently in Penzijní fond KB).
Standard work during the year followed the approved plan covering all the largest risks and the principle of rotational coverage of all processes and organisational units. Some 84 audit assignments (including 38 special assignments) were performed and completed during the year, and the planned schedule and scope of audit assignments were achieved. Audit work was equally distributed between verification of main risks and processes, KB's distribution network, and compliance with CNB regulations. A considerable part of the audit work was conducted in KB subsidiaries, namely in Modrá Pyramida, Penzijní fond KB, KB Factoring and ESSOX.
At the beginning of 2008, Internal Audit concluded its consulting role in implementing the process of first level controls across all KB's organisation units. Responsibility for day-to-day co-ordination and supervision of the controls was assumed by the Operational Risks Department. These controls were also implemented within Internal Audit itself as from 1 April 2008.
In the second half of the year, Internal Audit launched a regular annual risk mapping procedure in co-operation with respondents from within KB's organisation structure.
Preparations for changes in Internal Audit's organisation and processes intended to further improve its effectiveness and capacity were made during 2008. The resulting adjustments were implemented as from the beginning of 2009.

KB's Internal Audit successfully completed implementation of the Galileo software system for documenting all assignments.

Komerční banka Financial Group

As of 31 December 2008, KB Financial Group consisted of nine companies. Of these, the Bank held majority interests in eight companies and a 49% share in Komerční pojišťovna, a.s.
In addition to its ownership interests in the Group, KB has maintained strategic interests where it has ownership of 20% or less, including in Czech Banking Credit Bureau, a.s. (20%) and Českomoravská záruční a rozvojová banka, a.s. (13%).
During 2008, KB Financial Group continued to co-operate closely with other companies from the Société Générale Group that operate on the Czech market, especially in product development and selling through the distribution networks of KB and other companies within the Group. Particular emphasis is given to utilising the well-established know-how and market position. The result of such co-operation is a comprehensive offer of products for both private and business clientele.

Changes in Ownership Interests in 2008

In May 2008, the Bank, as the sole shareholder, increased the equity of Penzijní fond Komerční banky, a.s. (PF KB) by CZK 300 million in the form of additional paid-in capital. PF KB's owner's equity was increased especially in order to strengthen the company's financial position. This increase, paid into other capital funds, is not subject to registration in the Commercial Register.
In June 2008, the equity of Bastion European Investments S.A. was decreased by EUR 3.6 million, as planned in the company's long-term strategy. Only KB, as the majority shareholder of Bastion European Investments S.A., participated in this decrease.

In December 2008, KB, along with a group of other selling shareholders of Burza cenných papírů Praha, a.s. (BCPP, Prague Stock Exchange), sold its stake in BCPP to Wiener Börse AG (Vienna Stock Exchange). The stake sold by KB represented 11.51% of BCPP's registered capital. The net impact of the sale on KB's profit was CZK 485 million.

Business Co-operation within KB Financial Group

The co-operation in distribution was broadened with other members of KB Financial Group, and especially by integrating the products of those companies into Komerční banka's offering, using KB's extensive distribution network, integrating the products of KB and other companies (e.g. ESSOX) into KB Group's offering, and mutually using one another's distribution networks. This co-operation especially involved Modrá pyramida.
During 2008, there also continued co-operation with other Société Générale Group companies active in the Czech market. This included, for example, the areas of asset management, building savings contracts and related products (or cross-selling of KB and Modrá pyramida products and synergies relating mainly to servicing Modrá pyramida clients), life insurance, and pension insurance.

Expected Development in 2009

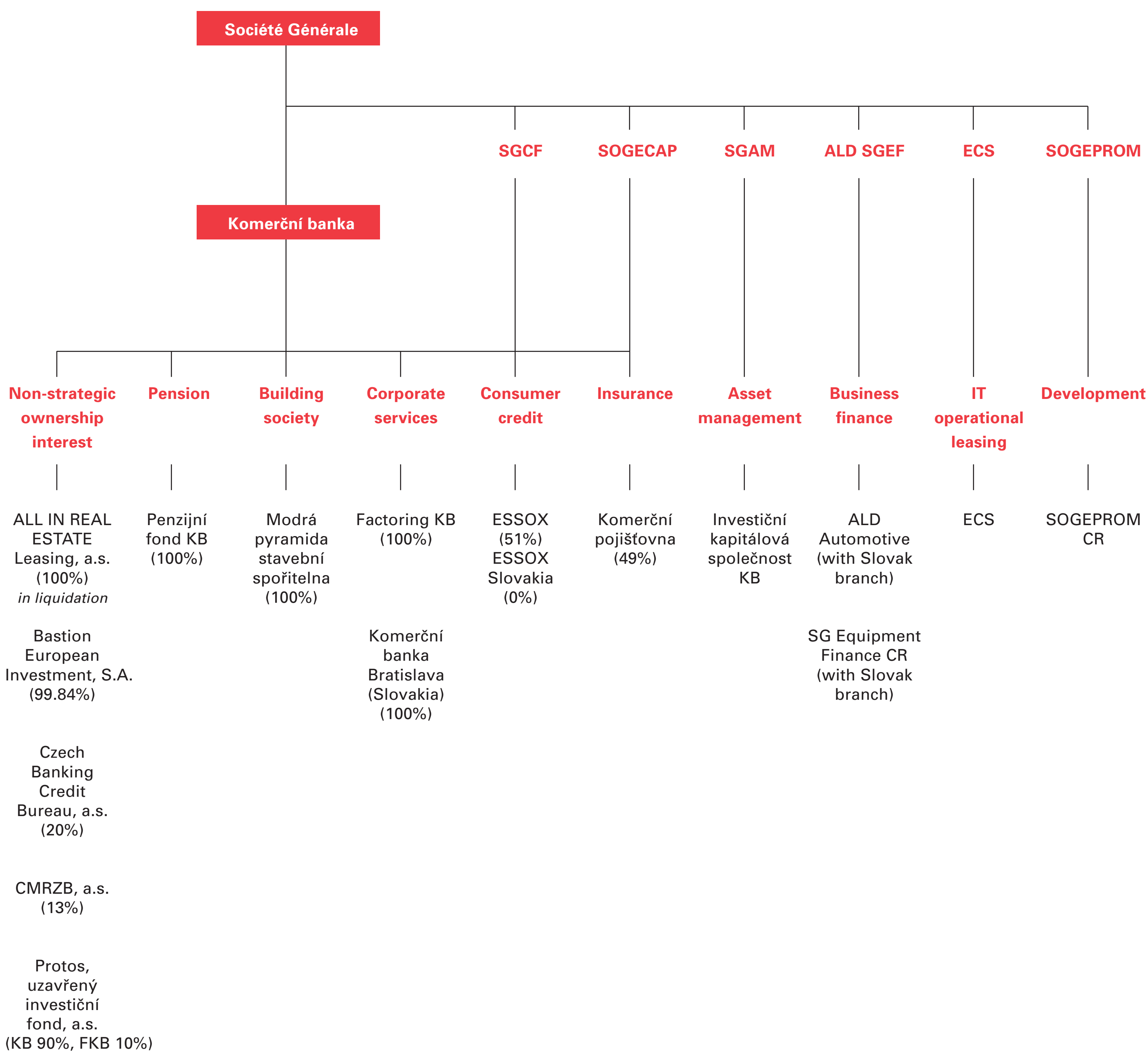
In 2009, KB launched a project for integrating KB Bratislava into the parent company structure as a foreign bank branch. This change will strengthen business capacities for activities in Slovakia and optimise back-office procedures. Regulatory limits for transactions on the Slovak market will be increased and the entire bank will have KB's rating. Further development of banking applications is expected, as well as introduction of several new products.

Subsidiaries and associate companies in the KB Financial Group

Company	Share capital CZK thousand	KB participation in the share capital – nominal CZK thousand	KB participation in the share capital – relative %	Net book value CZK thousand	Nominal value per share CZK thousand	Consolidation method
DOMESTIC PARTICIPATION						
Modrá pyramida stavební spořitelna, a.s.	500,000	500,000	100	4,322,282	100	Full
Penzijní fond Komerční banky, a.s.	200,000	200,000	100	530,000	100	Full
Factoring KB, a.s.	1,184,000	1,184,000	100	1,190,000	1,000, 100 and 10	Full
ALL IN REAL ESTATE Leasing, a.s.	2,000	2,000	100	4,170	100	None
Protos, uzavřený investiční fond, a.s.	5,000,000	4,482,000	89.64	11,705,000	1,000	Full
ESSOX, s.r.o.	2,288,086	1,165,387	50.93	1,165,387	–	Full
Komerční pojišťovna, a.s.	602,768	295,344	48.998	482,140	74.6 and 37.3	Equity
Total	–	**7,828,731**	–	**19,398,979**	–	–
FOREIGN PARTICIPATION						
Komerční banka Bratislava, a.s.*	446,675	446,675	100	466,499	SKK 100,000	Full
Bastion European Investment, S.A.**	15,135	15,132	99.98	3,711,681	EUR 1	Full
Total	–	**461,807**	–	**4,178,180**	–	–
Total	–	**8,290,538**	–	**23,577,159**	–	–

* CZK/SKK exchange rate 0.89335 as of 31 December 2008 (CNB)
** CZK/EUR exchange rate 26.9300 as of 31 December 2008 (CNB)

Structure of Komerční banka and Société Générale Financial Groups in the Czech Republic and Slovakia



Note: Indicated percentages represent KB share.

Modrá pyramida stavební spořitelna, a.s.

Shareholder structure

Komerční banka 100%

Core business

Building savings deposits and loans

Market position

Third position on building savings market (market share 17.3% measured by loans to clients)

Main products

State-subsidised savings accounts
Bridging loans
Building savings loans

Financial summary

CAS, CZK thousand	31 December 2008	31 December 2007
Total assets	70,705,038	67,824,557
Total loans	38,811,631	32,588,694
Shareholder's equity	3,183,038	2,233,165
Share capital	500,000	500,000
Net banking income	1,438,639	1,144,231
Profit before tax	625,161	407,568
Net profit	580,255	431,881

Contact

Modrá pyramida stavební spořitelna, a.s.
Bělehradská 222/128
P. O. Box 40
Tel.: +420 222 824 111
Fax: +420 222 824 113
E-mail: info@mpss.cz
120 21 Prague 2
Internet: www.mpss.cz, www.modrapyramida.cz
ID 60192852

Penzijní fond Komerční banky, a.s.

Shareholder structure

Komerční banka 100%

Core business

Pension fund

Market position

Penzijní fond Komerční banky, a.s. kept its position on the pension fund market in 2008. Market share by number of participants is 11.4% and as measured by volume of assets under management is 13.8%.

Rating

Aa1.cz according to Moody's Central Europe (the highest rating among Czech pension funds)

Main products

State-subsidised pension insurance

Financial summary

CAS, CZK thousand	31 December 2008	31 December 2007
Total assets	26,276,533	23,083,497
Total volume on client accounts	25,735,997	22,667,727
Shareholder's equity	437,956	358,380
Share capital	200,000	200,000
Net banking income	317,506	708,838
Profit before tax	162,588	562,403
Net profit	165,158	562,256

Contact

Penzijní fond Komerční banky, a.s.
Lucemburská 7/1170
130 11 Prague 3
Tel.: +420 272 173 111, 272 173 173-5
Fax: +420 272 173 171
Email: pf-kb@pf-kb.cz
Internet: www.pfkb.cz
ID 61860018

Factoring KB, a.s.

Shareholder structure

Komerční banka 100%

Core business

Factoring

Market position

Fourth place on the factoring market, managing 12.2% of the factoring portfolio on the Czech market

Main products

Domestic factoring
Foreign factoring
Reverse factoring

Financial summary

CAS, CZK thousand	31 December 2008	31 December 2007
Total assets	7,009,786	7,319,268
Factoring portfolio	5,544,416	5,945,183
Shareholder's equity	1,511,686	1,364,790
Share capital	1,184,000	1,184,000
Net banking income	161,453	136,796
Profit before tax	60,060	43,430
Net profit	51,869	27,527

Contact

Factoring KB, a.s.
Lucemburská 7/1170
130 11 Prague 3
Tel.: +420 222 825 111
Fax: +420 224 814 628
E-mail: info@factoringkb.cz
Internet: www.factoringkb.cz
ID 25148290

Komerční banka Bratislava, a.s.

Shareholder structure

Komerční banka 100%

Core business

Complete banking services for corporate clients
Trade finance and settlement between the Czech Republic and the Slovak Republic

Market position

Niche position on the Slovak market (almost 1% of the Slovak market), restructuring client's portfolios, focus on medium and large corporate clients with activities both on the Czech and Slovak markets

Main products

Short-term and investment loans, guarantees
International payments
Foreign exchange instruments (spot, forward)
Derivatives
Interest rate instruments (forward rate agreements, swaps)
Money market deposits and loans
E-banking

Financial summary

IFRS, CZK thousand	31 December 2008	31 December 2007
Total assets	9,640,119	7,256,165
Loans to customers	5,821,222	4,083,825
Deposits from customers	3,023,891	3,516,942
Shareholder's equity	798,553	695,123
Share capital	446,675	395,895
Net banking income	298,512	218,634
Net profit	7,939	57,901

CZK/SKK exchange rate 0.79179 as of 31 December 2007 (CNB)
CZK/SKK exchange rate 0.89335 as of 31 December 2008 (CNB)

Contact

Komerční banka Bratislava, a.s.
Hodžovo námestie 1A
P.O.BOX 137
810 00 Bratislava
Slovak Republic
Tel: +421 2 5927 7328
Fax: +421 2 5296 1959
E-mail: koba@koba.sk
Internet: www.koba.sk
ID 31395074

ESSOX, s.r.o.

Shareholder structure

Komerční banka 51%
SG Consumer Finance 49%

Core business

Providing consumer goods and car financing, credit cards and personal loans

Market position

ESSOX, s.r.o. maintained its position on the non-banking consumer financing market in 2008 with a 9% market share.

Main products

Consumer loan
Revolving loan
Car leasing

Financial summary

IFRS, CZK thousand	31 December 2008	31 December 2007
Total assets	9,088,295	7,453,278
Shareholders' equity	2,307,203	2,160,860
Share capital	2,288,086	2,288,086
Loans to clients	6,641,173	5,023,306
Net banking income	878,264	723,401
Net profit/loss	146,343	74,499

Contact

ESSOX, s.r.o.
Senovážné nám. 231/7
370 01 České Budějovice
Tel.: +420 389 010 111
Fax: +420 389 010 270
E-mail: essox@essox.cz
Internet: www.essox.cz
ID: 267 64 652

Komerční pojišťovna, a.s.

Shareholder structure

SOGECAP 51%
Komerční banka 49%

Core business

Life insurance

Market position

3% market share on life insurance market (measured by premiums written)

Main products

Saving life insurance
Risk life insurance
Capital life insurance
Investment life insurance
Accident insurance
Payment card insurance
Travel insurance
Products sold as a benefit of other products
Travel payment card insurance
Risk life insurance for credit cards
Risk life insurance for consumer loans

Financial summary

IFRS, CZK thousand	31 December 2008	31 December 2007
Total assets	11,390,815	12,076,818
Technical reserves	10,480,273	10,800,399
Shareholders' equity	1,114,154	997,409
Share capital	602,768	602,768
Gross premiums written	2,030,264	2,211,228
Investment income	439,805	411,127
Net profit/loss	25,006	221,029

Contact

Komerční pojišťovna, a.s.
Karolinská 1/650
186 00 Prague 8
Tel.: +420 222 095 111
Fax: +420 224 236 696
E-mail: servis@komercpoj.cz
Internet: www.komercpoj.cz
ID 63998017

Protos, uzavřený investiční fond, a.s.

Shareholder Structure

Komerční banka 89.64%
Factoring Komerční banky 10.36%

Core Business

Investment fund

Financial summary

CAS, CZK thousand	31 December 2008	31 December 2007
Total assets	13,975,060	13,013,623
Reserves	0	0
Shareholders' equity	13,930,444	13,005,321
Share capital	5,000,000	5,000,000
Net interest income	564,696	141,687
Profit before tax	549,358	136,439
Net profit	521,890	129,617

The company has no employees and uses external resources.

Contact

Protos, uzavřený investiční fond, a.s.
Dlouhá 34/713
110 15 Prague 1
Tel.: +420 224 008 888
Fax: +420 222 322 161
E-mail: info@iks-kb.cz
Internet: www.iks-kb.cz
ID 27919871

Bastion European Investments S.A.

Shareholder Structure

Komerční banka 99.98%
Société Générale 0.02%

Core Business

Project finance

Main Product

Special-purpose Belgian company for a single long-term project finance transaction.

Financial summary

IFRS, CZK thousand	31 December 2008	31 December 2007
Total assets	7,296,797	7,335,342
Reserves	0	0
Shareholders' equity	3,669,523	3,706,450
Net interest income	144,163	141,992
Profit before tax	143,819	141,497
Net profit	143,249	142,068

The company has no employees and uses external resources.

Contact

Bastion European Investments S.A.
Place du Champ de Mars 5
Ixelles
1050 Brusel
Tel.: +32 2 506 65 23
Fax: +32 2 506 65 72
ID BE 0877.881.474

Corporate Governance

KB upholds the corporate governance standards in compliance with the Corporate Governance Code based on the OECD principles, and its corporate governance stems from and is developed based on these principles.

Share Capital and Shareholders

(Explanatory report on information required under Section 118 (3) (g)–(q) of Act No. 256/2004 Coll., the Act on Capital Market Undertakings)
The share capital of KB totals CZK 19,004,926,000 and is divided into 38,009,852 shares, each with a nominal value of CZK 500. All the Bank's shares carry the same rights. Komerční banka has issued no shares with special rights. The shares of Komerční banka are ordinary bearer shares and can be transferred freely.
There are no restrictions on the voting rights attached to Komerční banka's shares. A voting right can be suspended only for reasons specified by law. Komerční banka cannot exercise voting rights attached to its shares held in treasury.
Komerční banka is aware of no contracts made between its shareholders as a result of which the transferability of the shares or of voting rights would become more complicated.
Komerční banka has entered into no significant contracts which take effect, are altered or terminate if the person or entity in control of Komerční banka changes as a consequence of a takeover bid.
Komerční banka has entered into no contract with a member of its Board of Directors or any employee stipulating an obligation for Komerční banka to perform in the event that such person would cease to serve as a member of the Board of Directors or cease to be employed in connection with a takeover bid.
Komerční banka has established no programs enabling the members of the Board of Directors and employees of the company to acquire the company's securities, options on these securities or other rights under preferential conditions.

Shareholder structure

Major shareholders of Komerční banka with over 5% of the share capital as of 31 December 2008

Shareholder	Proportion of share capital (%)
Société Générale S.A.	60.35
State Street Bank and Trust Company	9.13
Nortrust Nominees Limited	5.33

Of the Bank's total share capital, Société Générale S.A. holds 60.35%. At the end of 2008, the number of shareholders comprised 43,114 legal entities and private individuals.

Principle resolutions of Komerční banka's General Meeting held in 2008

The Annual General Meeting was held on 29 April 2008. The shareholders approved the financial statements of the Bank for 2007, decided upon the distribution of profit for 2007 in the amount of CZK 10,170,468,450.07, and resolved to pay out pre-tax dividends in the amount of CZK 180 per share. The Annual General Meeting also approved:

- the report of the Board of Directors on the business activities of the Bank and the state of its property for 2007,
- the financial statements and consolidated financial statements for 2007,
- acquisition of its own ordinary shares,
- the discretionary part of the remuneration (bonus) of the members of the Board of Directors for 2007.

The Annual General Meeting decided to make amendments to the Articles of Association, and it elected Bořivoj Kačena as a Member of the Supervisory Board.

Shareholder structure of Komerční banka

(According to the excerpt from the issuers' register taken from the Prague Securities Centre as of 31 December 2008)

	Number of shareholders	Proportion of number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	43,114	100.00	100.00
of which: legal entities	431	1.00	97.70
private individuals	42,683	99.00	2.30
unidentified shareholder accounts registered	0	0.00	0.00
Corporate entities	431	100.00	97.70
of which: from the Czech Republic	115	26.68	0.95
from other countries	316	73.32	96.75
Private individuals	42,683	100.00	2.30
of which: from the Czech Republic	38,182	89.45	2.15
from other countries	4,501	10.55	0.15

Acquisition of treasury shares in 2008

Komerční banka held 54,000 of its own shares as of 31 December 2008. These shares were purchased during 2006 in accordance with decisions taken by the Bank's general meetings of 28 April 2005 and 26 April 2006 allowing KB to purchase its own shares into treasury. In addition, Komerční banka intermediated transactions in KB shares for clients. In this case, it acted at the client's request and immediately sold on to the client the shares that had been purchased.

Information about special rules for the election and recall of Members of the Board of Directors and for the revision of the Company's Articles of Association

Members of the Board of Directors of Komerční banka are elected by the Supervisory Board upon nomination by its Remuneration and Personnel Committee. A nominee must obtain an absolute majority of votes of all Supervisory Board members. Members of the Board of Directors are elected to a term of four years. Only such person can become a member of the Board of Directors as fulfils the conditions for serving as a Board of Directors member specified by the Commercial Code, by the Banking Act and by the Act on Capital Market Undertakings. The professional qualifications, credibility and experience of the members of the Board of Directors are assessed by the Czech National Bank. The Supervisory Board has a right to decide at any time upon recalling a member of the Board of Directors. The decision is carried if approved by an absolute majority of the Supervisory Board. The Supervisory Board's decision is based on a proposal of the Supervisory Board's Remuneration and Personnel Committee.

If a revision of the Articles of Association of Komerční banka is to be on the agenda of the General Meeting, then the notice calling the General Meeting must at least generally describe the proposed changes and these proposed changes to the Articles of Association must be available for shareholders' inspection at least at the Bank's headquarters and for the period established for the convening of a General Meeting. Shareholders have a right to requese a copy of the proposed Articles of Association at their own cost and risk. These rights are notified to the shareholders in the notice calling the General Meeting.

If a shareholder wishes to raise counterproposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obligated to deliver the written wording of such proposal or counterproposal to the Bank no later than 5 business days prior to the General Meeting. The Board of Directors is obligated to publicise the proposal so delivered along with its viewpoint with regard to it in the way specified for the convening of the General Meeting, if possible, at least 3 days prior to the announced date of the General Meeting.

Decisions on changes to the Articles of Association are made by the General Meeting and carried by two thirds of those votes of the attending shareholders upon a proposal of the Board of Directors, of the Supervisory Board, or of one or more shareholders in accordance with the Commercial Code and with the Articles of Association.

Decisions on changes to the Articles of Association must be recorded

Komerční banka shares in treasury

	Number/ nominal value as at 1 January 2008 (pcs/CZK thousand)	Proportion of share capital as at 1 January 2008 (%)	Number/ nominal value as at 31 December 2008 (pcs/CZK thousand)	Proportion of share capital as at 31 December 2008 (%)
Trading portfolio (trading book)	0/0	0	0	0
Portfolio available for sale (banking book)	54,000/27,000	0.142	54,000/27,000	0.142

Transactions in Komerční banka shares intermediated for clients in 2008

	Number/ nominal value of acquired shares (pcs/CZK thousand)	Number/ nominal value of sold shares (pcs/CZK thousand)	Sum of purchase prices of acquired shares (CZK thousand)	Min. and max. acquisition price (CZK)	Sum of selling prices of sold shares (CZK thousand)	Min. and max. selling price (CZK)
Trading portfolio (trading book)	141,727/70,863.5	141,727/70,863.5	509,225	2,240.00	509,166	2,236.00
				4,321.00		4,321.00
Portfolio available for sale (banking book)	0	0	0	0	0	0
	0	0		0		0

by means of a notarial deed. Komerční banka is obligated to report to the Czech National Bank its intention to make changes to the Articles of Association relating to the facts that must be stated in the Articles of Association based on a requirement set forth by the Commercial Code or by the Banking Act.

Information about special powers of the Members of the Board of Directors, especially about authorisations under sections 161a and 210 of the Commercial Code

The Board of Directors of Komerční banka is the statutory body that decides upon all matters concerning the Bank with the exception of those matters falling within the powers of the General Meeting or of the Supervisory Board. It is within the Board of Directors' exclusive powers to:

a) convene the General Meeting and implement its resolutions;
b) submit to the General Meeting for its approval the ordinary, extraordinary and consolidated financial statements and the interim financial statements along with a proposal for distribution of the profit (the same must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting) or a proposal for covering of losses;
c) submit to the General Meeting proposals for amendments and changes to the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
d) submit to the General Meeting a report on the Bank's business activities and the state of the Bank's property and to do so at least once for each accounting period;
e) decide to confer and revoke power of procuration;
f) decide on the appointment, removal and remuneration of selected managers of the Bank;
g) approve acts in connection with the realisation of security instruments for claims of the Bank whose value exceeded CZK 100,000,000 as of the date of the claim's origin and whose presumed realisation value is lower than 50% of the value of the securitising instrument as ascertained upon the conclusion of the loan agreement;
h) submit to the Supervisory Board for information quarterly and half-yearly financial statements;
i) decide on acts which are outside the scope of the Bank's usual business relations;
j) define and regularly evaluate the Bank's overall strategy, including to establish the principles and targets for its fulfilment and to ensure the continuous and effective operation of the internal control system;
k) approve the Bank's annual plans and budgets as well as the strategic and annual plans of legal entities controlled by the Bank under the Banking Act;
l) approve the choice of the external auditor;
m) inform the Supervisory Board of the General Meeting day no later than within the period specified by the Commercial Code for the convening of the General Meeting;
n) decide on issuance of the Bank's bonds, with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by law;
o) decide on an increase in the share capital if so authorised by the General Meeting;
p) enter into a collective agreement;
q) decide on providing loans or guarantees to persons with a special relationship to the Bank pursuant to the Banking Act;
r) approve the rules and the strategic and periodic plans for the activities of the Internal Audit;
s) approve the annual reports of the Bank;
t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
u) decide on establishing other funds (in the balance sheet) and on the rules governing their creation and usage;
v) approve the Report on relations among related entities in accordance with the Commercial Code;
w) approve and regularly evaluate the Bank's organisational structure;
x) approve the principles of the personnel and remuneration policy;
y) evaluate the overall functioning and effectiveness of the management and control system at least yearly;
z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital adequacy, and the information systems development strategy;
za) approve and regularly evaluate the principles of the internal control system, including the principles aiming to prevent any possible conflict of interests and the compliance principles.

In addition to the aforementioned, the Board of Directors shall in particular:

a) manage the activities of the Bank and conduct its business affairs;
b) ensure the proper maintenance of the Bank's accounting, including the proper administrative and accounting processes;
c) exercise employer's rights;
d) exercise rights in respect of the Bank's property interests arising from the Bank's ownership holdings;
e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 as a single case or as a total for related cases;
f) approve the business continuity plan and the fire protection plan.

Based on the consent of the General Meeting held on 29 April 2008, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the specified conditions. Information on Komerční banka's acquisition of treasury stock in 2008 is provided above. The General Meeting did not authorise the Board of Directors to make a decision on increasing the registered capital.

Statutory Bodies

Board of Directors

Laurent Goutard

Chairman of the Board of Directors
(since 7 October 2005), Vice-Chairman of the Board of Directors (from 1 September 2004), re-elected on 2 December 2008

Graduate of four-year economics studies at the University of Paris-Dauphine and of the Paris Institute of Political Studies, faculty of public services, with a major in economics. In 1986, he joined Société Générale, working first at the General Inspection and then, between 1993 and 1996, as Deputy Managing Director for Large Corporations at the Paris-Opéra Branch. Between 1996 and 1998, he was Director of the Corporate Banking Division on the French territory. From 1998 to June 2004 (until his election as a Member of the Board of Directors of Komerční banka), he was a Member of the Board of Directors and Chief Executive Officer, later the Chairman of the Board of Directors, of Société Générale Marocaine de Banques, a Société Générale subsidiary in Morocco. KB's Board of Directors elected Mr Goutard as the Chairman of the Board of Directors and CEO of Komerční banka with effect from 7 October 2005. In May 2007, Mr Goutard became a member of the Management Committee of SG Group.

Didier Colin

Member of the Board of Directors
(since 9 October 2004), re-elected on 10 October 2008

Graduate of the University of Paris-IX Dauphine and with a Master of Business Administration from The City University of New York. Since 1990, he has worked for Société Générale, first as a financial analyst at the SG branch in New York, then, from 1991, as a member of the team of auditors at SG's Head Office. In 1998, he returned to New York and worked as CFO of the SG US Branch, being also in charge of the budget for all of SG's activities on the American continent. In 2000, he assumed the position of deputy CEO of the Société Générale Branch in Canada, and in 2001 he became its CEO. He occupied this position until 2004, when he joined Komerční banka as a Member of the Board of Directors in charge of Risk Management.

Vladimír Jeřábek

Member of the Board of Directors
(since 1 June 2008)

Graduated from VUT Technical University in Brno, Czech Republic, and from Nottingham Trent University. He has held positions in several banking institutions and in Zetor, a.s., a producer of agriculture tractors. Upon his arrival to Komerční banka in 1998, Mr Jeřábek was the Regional Manager responsible for the Brno region business division and later was in charge of Komerční bank's distribution channels. In February 2007, he was appointed the Executive Director of the Distribution Network. He is responsible for KB's distribution network serving the Retail and Corporate segments and also for the alternative distribution channels such as internet banking and non-banking channels. The Supervisory Board elected Mr Jeřábek as a Member of the Board of Directors in charge of Distribution with effect from 1 June 2008.

Jan Juchelka

Member of the Board of Directors
(since 1 July 2006)

Graduate of the Business Faculty of the Silesian University in Karviná. After his studies, he worked in the private sphere and from 1995 at the National Property Fund of the Czech Republic. From 2002 to 2005, he was its Chairman. He joined Komerční banka on 1 February 2006. On 26 April 2006, the Supervisory Board elected Mr Juchelka as a Member of the Board of Directors in charge of Top Corporations with effect from 1 July 2006.

Peter Palečka

Member of the Board of Directors
(since 5 October 2001),
re-elected on 6 October 2005

Graduate of the University of Economics, Bratislava. From 1982 to 1988, he worked in foreign trade enterprises. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federative Republic. From 1992 to 1994, he was the Permanent Representative of the Czech and Slovak Federative Republic and then of the Czech Republic to GATT, and from 1995 to 1998 he was the Permanent Representative of the Czech Republic to the World Trade Organization. He joined Komerční banka, a.s. in 1998 as the Director for Strategy. In October 1999, he was elected a Member and in April 2000 Vice-Chairman of Komerční banka's Board of Directors. On 5 October 2001, he resigned from this position and was re-elected the same day as a Member and Vice-Chairman of the Board of Directors. At present, he is a Member of the Board of Directors and Corporate Secretary.

Patrice Taillandier-Thomas

Member of the Board of Directors
(since 1 February 2008)

Graduated from the Institut d´Études Politiques, Mr Taillandier-Thomas also holds a postgraduate degree in law and another in economics. Since 1983, he has held various positions, first at the General Inspection and then mainly in the area of payments, in Société Générale. Since 2000, he has been Deputy Manager of the Card Activity department and Manager of the E-business division. In his previous position, he managed the Basel II project for SG retail banking. Effective from 1 February 2008, Komerční banka´s Supervisory Board elected Mr Taillandier-Thomas as a Member of the Board of Directors and Chief Administrative Officer.

Personnel Changes in the Board of Directors since the start of 2008:

Philippe Rucheton, Vice-Chairman of the Board of Directors, until 31 January 2008
Patrice Taillandier-Thomas, Member of the Board of Directors, since 1 February 2008
Vladimír Jeřábek, Member of the Board of Directors (since 1 June 2008)

Supervisory Board

Didier Alix,
Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Jean-Louis Mattei,
Vice-Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Séverin Cabannes,
Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Bořivoj Kačena,
Member of the Supervisory Board (since 29 April 2008)
Pavel Krejčí*,
Member of the Supervisory Board (since 27 May 2001, re-elected by KB's employees on 28 May 2005)
Jan Kučera*,
Member of the Supervisory Board (since 27 May 2001, re-elected by KB's employees on 28 May 2005)
Petr Laube,
Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Christian Achille Frederic Poirier,
Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005)
Nina Trlicová*,
Member of the Supervisory Board (since 28 May 2005, elected by KB's employees)

* Elected by KB's employees.

Didier Alix

Graduate in three-year studies of economics, and graduate of the Paris Institute of Political Studies. In 1971, he started to work for Société Générale, where he has held a number of positions. From 1972 to 1979, he worked at the Group General Inspection. In 1980, he started to work at the General Directorate as head of Central Risk Control. In 1984, he was appointed Director of the Levallois Branch and in 1987 as Director of the Paris – Opéra Branch. From 1991 to 1993, he worked as Chief Executive Officer of the SG subsidiary FRANFINANCE, appointed within the activities of a specialised financial division. From 1993, he worked as Deputy Director and later as Director of the French business network within the Retail Banking Division. In 1998, he was appointed Chief Executive Officer of Retail Banking. In 2006, he became one of the SG Chief Executive Officers. Since 2001, he has been a Member and Chairman of the Supervisory Board of Komerční banka.

Jean-Louis Mattei

Graduate in three-year studies and in advanced studies of private law, and graduate of the Institute of Political Studies and of the Centre of Advanced Banking Studies. In 1973, he started to work for Société Générale, where he has held a number of positions. He has worked, inter alia, at SG's branch in Bordeaux, at the Human Resources Management Department, and later as the Head of Cost Analyses and as the Head of the Audit of the Management of the Organisation and of the Information Technologies departments. Subsequently, he worked as Head of the Organisation Unit. In 1988, he became a Member of the Board of Directors and Chief Executive Officer of SG de Banques in Cote d'Ivoire. Between 1992 and 1998, he was Deputy Director and later Director for the zone of Africa Overseas and for the zone of Africa, Near and Middle East, Overseas. Since 1998, he has been Head of International Retail Banking. Since 2001, he has been a Member and Vice-Chairman of the Supervisory Board of Komerční banka.

Séverin Cabannes

Graduate of the Polytechnic School and of the Paris Mining School. From 1983 to 1985, he worked in Credit National. From 1986 to 1997, he worked in various strategic positions at Elf Atochem, the most important being Economic and Strategic Planning Director. Between 1997 and 2001, he worked at the La Poste Group as a Member of the Executive Committee and, subsequently, as Deputy Chief Executive Officer in charge of the strategy, development and financial audit of the Group. In 2001, he joined Société Générale as Financial Director and as a Member of the General Management Committee in charge of the Group financial management, management control, assets and liabilities management, and investor relations. In 2002, he became Deputy Chief Executive Officer and Financial Director of STERIA Group, and in 2003 he became the Company's Chief Executive Officer. Since 1 January 2007, he has been working for Société Générale as Chief Administrative Officer and at the same time became a Member of the Group Executive Committee. Since May 2008, he has been one of the SG Chief Executive Officers. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Bořivoj Kačena

Graduate of the Czech Technical University in Prague (Faculty of Civil Engineering). In 1966, he started to work for Stavby silnic a železnic, n. p. (SSŽ), where he held various positions. From 1978, he worked in SSŽ as Director of its branch office 4, and from 1983 as Director of the Organisation "Investor of Transport Construction" for metro and urban road construction within the Prague Public Transit Company. He became Director of the state enterprise SSŽ in November 1988 and its Chief Executive Officer and Chairman of the Board of Directors in 1992. From 2007 to April 2008, he was the Chairman of the Board of Directors of SSŽ. Since 2008, he has been a Member of the Supervisory Board of Komerční banka.

Pavel Krejčí

Graduate of the Brno University of Technology, Faculty of Electrical Engineering, and of the Palacký University Olomouc, Philosophical Faculty. In 1987, he started to work at the Czechoslovak National Bank. In 1990, he joined Komerční banka. From 1992 to 2005, he was an Elected Chairman of KB's Trade Union Committee. Since 1997, he has served as Vice-Chairman of the Federation of Trade Unions of Employees of Financial and Insurance Companies of the Czech Republic. In Komerční banka, he currently works in the Information Technologies Department as an IT Analyst and is also the Vice-Chairman of KB's Trade Union Committee and a Member of the Team for Collective Bargaining and Social Dialogue. Since 2001, he has been a Member of the Supervisory Board of Komerční banka, elected by KB's employees, and since 2004 he has been a Member of the European Council of Employees of Société Générale Financial Group in Paris.

Jan Kučera

Graduate of the Czech Technical University in Prague, Faculty of Mechanical Engineering. He has worked in AERO Vodochody and in the electrical engineering company ZSE MEZ Náchod. Since 1991, he has worked in KB. He worked at KB's branch in Náchod, first as Head of the Client Services Department, then as the Branch Accountant. Presently, he works as a Financial Analyst at the region director's unit in Hradec Králové. He is Chairman of KB's Trade Union in Náchod and a Member of KB's Trade Union Committee. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Petr Laube

Graduate of the University of Economics, Prague, specialised in foreign trade. From 1974 to 1991, he worked in Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992, he was at Deutsche Bank, A.G. in Nuremberg. Between 1992 and 1993, he worked for Lafarge Coppée, Paris, and since 1993 he has been Chief Executive Officer and Chairman of the Board of Directors of Lafarge Cement, a.s. Prague. Since 2005, he has served as Director of the Segment of electricity, gas, liquid fuels and SG&A Lafarge, s.a. Paris. Since 15 January 2007, he has been serving as Chief Executive Officer of Lafarge Cement, a.s. in Ukraine. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Christian Achille Frederic Poirier

Graduate of the National School of Administration, postgraduate studies of history. Between 1980 and 1987, he served in leading positions in the French national administration. Since 1987, he has worked in Société Générale: from 1987 to 1991 as Head of the Department of Public and Governmental Organisations, from 1991 to 1995 as Director of the Japanese Corporate Department. Between 1995 and 1997, he worked as Director of subsidiaries specialised in consumer credit, leasing and factoring. Between 1997 and 2001, he was deputy Head of the Strategy and Marketing Division. Between 2001 and 2006, he was the Head of Strategy and Marketing. Since 1 January 2007, he has been Senior Advisor to the Chairman and Chief Executive Officer of Société Générale. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Nina Trlicová

Graduate of a secondary business school. Until 1989, she had worked as an Accountant in the areas of infrastructure and enterprises. Since 1990, she has worked in Komerční banka, first as a Credit Accountant, later in the Controlling Department, then as the Branch Accountant at the branch in Ústí nad Labem, and later as a Head Office Accountant at the financial analyses unit of KB's head office. For the past 6 years, she worked as a Financial Analyst for the Ústí nad Labem region. Since 1 October 2008, she has worked as a Financial Analyst in the Project and Controlling Distribution Department of KB's head office. She is Vice-Chair of KB's Trade Union Committee. Since 2005, she has been a Member of the Supervisory Board of Komerční banka.

Personnel Changes in the Supervisory Board during 2008

Bořivoj Kačena (elected at the General Meeting on 29 April 2008)

Supervisory Board Committees

As a part of its powers, the Supervisory Board establishes two committees, which have advisory and initiative roles. These are the Remuneration and Personnel Committee and the Audit Committee.

Remuneration and Personnel Committee

The Committee members are Didier Alix (Chairman), Bořivoj Kačena and Jean-Louis Mattei. The Remuneration and Personnel Committee provides the Supervisory Board with its recommendations on the election and dismissal of members of the Board of Directors and on the composition of its committees. It provides positions on draft contracts and their performance for the members of the Board of Directors, evaluates the performance of the contracts with the members of the Board of Directors, and provides recommendations for the Supervisory Board.

Audit Committee

The members of the Audit Committee are Séverin Cabannes (Chairman), Petr Laube and Christian Poirier. The Audit Committee in particular inspects accounting documents and records, monitors whether the bookkeeping is kept properly, reviews the Bank's managing and controlling system, deals with reports on activities of the Internal Audit Department, and co-operates with the external auditor.

Directors Committee

The Directors Committee is a body directing the strategy and all relevant matters relating to everyday banking business.
As of 31 December 2008, the Directors Committee took three different configurations:

- Enlarged Directors Committee
- Retail Directors Committee
- Corporate and Investment Banking Directors Committee.

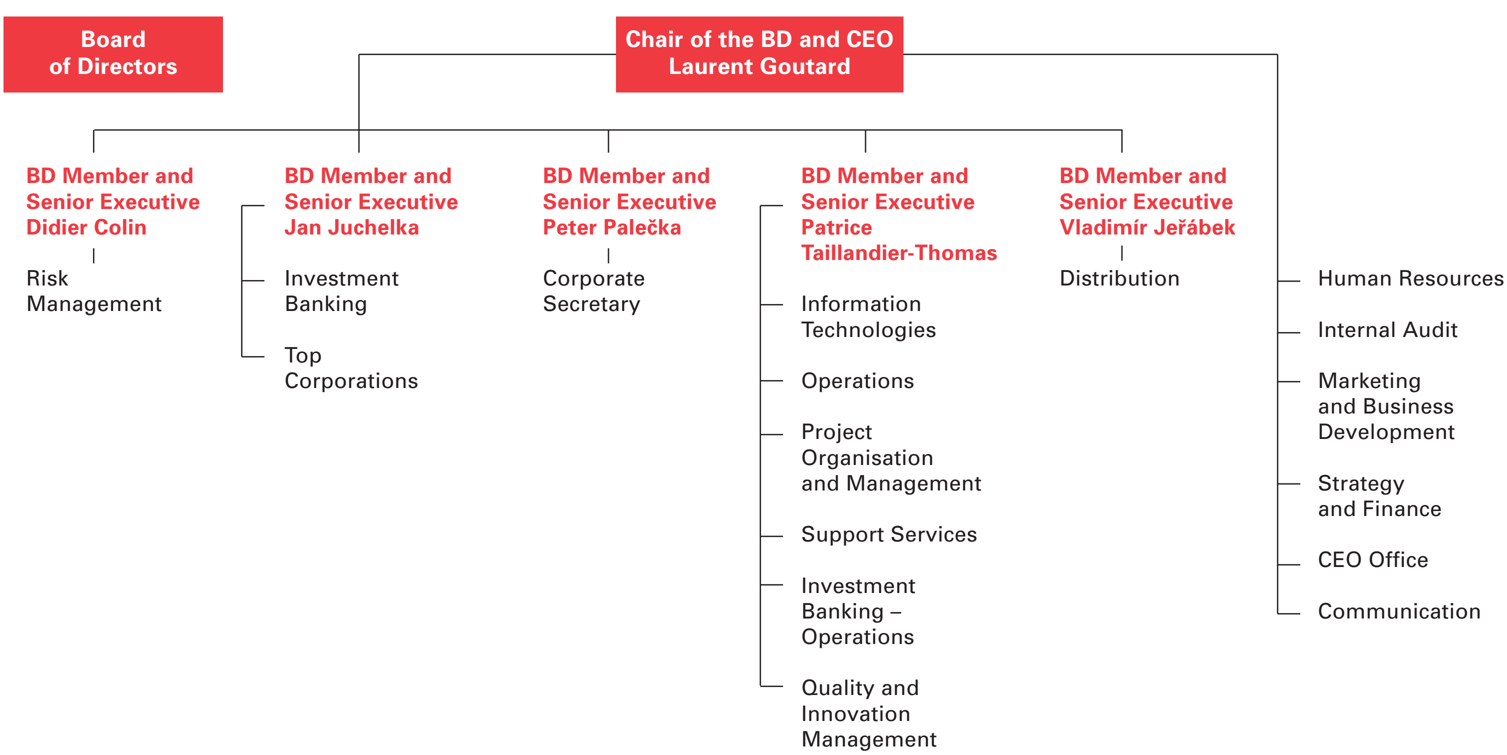
The Directors Committee was established by the Board of Directors, and its members are appointed by the Chairman of the Board of Directors and Chief Executive Officer.

As of 31 December 2008, the committee consisted of the following members:
Laurent Goutard, Chairman of the Board of Directors and Chief Executive Officer
Didier Colin, Member of the Board, Senior Executive Director, Risk Management
Peter Palečka, Member of the Board, Senior Executive Director, Corporate Secretary
Vladimír Jeřábek, Member of the Board, Senior Executive Director, Distribution
Jan Juchelka, Member of the Board, Senior Executive Director, Top Corporations
Patrice Taillandier-Thomas, Member of the Board, Senior Executive Director, Chief Administrative Officer
Pavel Čejka, Executive Director, Strategy and Finance
Marie Josephine Dreiski Rajski, Executive Director, Project Organisation and Management
David Formánek, Executive Director, Human Resources
Václav Grepl, Executive Director, Information Technology
Jürgen Grieb, Executive Director, Capital Markets and Corporate Finance
Petr Kalina, Executive Director, Support Services
Zdeněk Mojžíšek, Executive Director, Marketing and Business Development
Jitka Pantůčková, Executive Director, Operations
Pavel Racocha, Executive Director, Internal Audit
Christian Carmagnolle, Deputy Executive Director, Distribution Network

Personnel Changes in the Directors Committee since the Start of 2008:

Philippe Rucheton, Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer (until 31 January 2008)
Patrice Taillandier-Thomas, Member of the Board, Senior Executive Director, Chief Administrative Officer (since 1 February 2008)

Organisational Chart KB



Emoluments and Benefits to the Management and Statutory Bodies

Principles of Remuneration for Members of Komerční banka's Board of Directors and Supervisory Board

Board of Directors

The remuneration of the members of the Board of Directors consists of fixed and variable parts.

The fixed remuneration is paid monthly and is the same for all members of the Board of Directors, except for the Chairman.

The variable part of the remuneration (annual bonus) has the same ceiling for all members of the Board of Directors, with the exception of the Chairman. This maximum amount is determined by the General Meeting. The actual amount of the bonus paid to individual members of the Board of Directors is proposed by the Remuneration and Personnel Committee of the Supervisory Board in the range from zero to the ceiling. The proposal is then reviewed by the Supervisory Board and the final decision is made by the General Meeting.

The amount of the remuneration for members of the Board of Directors is closely linked with the results of the Bank. The aforementioned bodies decide on the remuneration amount in consideration of all relevant financial and business indicators, including development of net profit, net banking income, costs and market shares.

In accordance with the Banking Act, the members of the Board of Directors also act as executive directors in charge of specific arms of the Bank on the basis of a management contract in accordance with the Labour Code. This contract entitles them to a basic salary and other compensation in lieu of salary. No additional remuneration is provided under the management contract.

Members of the Board of Directors that fulfil the established terms and conditions are entitled:

- under the management contract, and under the same conditions as other KB employees, with the exception of KB employees temporarily delegated to the Czech Republic, to contributions from the employer to: retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan;
- based upon the management function at KB, and under the same conditions as other KB managers, including KB employees temporarily delegated to the Czech Republic, to the following additional benefits: company car (including for private use) and a contribution to fuel costs for private use of the car;
- based upon temporary delegation to the Czech Republic from other companies of the Société Générale Group, under standard and global conditions for foreign delegation of the SG Group, to additional benefits relating to long-term stay abroad.

Information on all monetary and in-kind income to the members of the Board of Directors is given in the following chapter.

Supervisory Board

The remuneration to the members of the Supervisory Board consists of a fixed monthly part and a part dependent on the members' attendance at meetings. The amount of remuneration is set by decision of the General Meeting. In accordance with a resolution of the annual General Meeting held on 17 June 2004, remuneration for the members' attendance at Supervisory Board meetings is limited to the maximum of six meetings per year.

Moreover, members of the Supervisory Board elected by employees are entitled to a basic monthly salary and other compensation in lieu of salary according to their employment contract in accordance with the Labour Code.

Members of the Supervisory Board that fulfil the established terms and conditions are entitled:

- under the contract for employment, and under the same conditions as other KB employees, with the exception of members who are KB employees temporarily delegated to the Czech Republic or members without employment in KB, to contributions from the employer to: retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan.

Information on all monetary and in-kind income to the members of the Supervisory Board is given in the following chapter.

Information on monetary and in-kind income to members of the Board of Directors and Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, and in conformity with the European Commission Recommendation of 14 December 2004 (2004/913/EC), Komerční banka releases information on all monetary and in-kind income received during the 2008 financial reporting period by members of the Board of Directors and Supervisory Board from the issuer and entities controlled by the issuer. This information is specified for each director and member individually.

The data are published in the structure described in Section III, point 5.3 of the Commission Recommendation:

(A) the total amount of remuneration paid or due to be paid for the services performed in the relevant financial year, including where appropriate the attendance fees fixed by the annual general shareholders meeting;

(B) remuneration and benefits received from any undertaking belonging to the same Group (Note: KB Financial Group);

(C) remuneration paid in the form of profit sharing and/or bonus payments for 2007;

(D) any significant remuneration paid for special services outside the scope of the usual functions (Note: This item covers salary and compensation paid for job performance under the management contract, as described above);

(E) compensation paid to former members of the Board of Directors or Supervisory Board in connection with the termination of their activities during that financial year; and

(F) the total estimated value of in-kind incomes considered as remuneration not included in the items covered in points (A) to (E).

In the following tables all the emoluments paid to members of Komerční banka's Board of Directors and Supervisory Board in the structure described above are presented. If no value is shown under a category, that means that no such payment was made to such member by Komerční banka or by entities controlled by it.

CZK	(A)	(B)	(D)	(F)	Total
Board of Directors					
Laurent Goutard, Chairman	3,600,000	20,000	5,178,097	3,992,886	12,790,983
Patrice Taillandier-Thomas	2,255,000	18,240	1,140,008	1,186,433	4,599,681
Didier Colin	2,460,000	20,000	3,593,782	4,386,796	10,460,578
Peter Palečka	2,460,000	119,603	4,483,564	280,160	7,343,327
Jan Juchelka	2,460,000	90,635	2,835,995	265,151	5,651,781
Vladimír Jeřábek	1,435,000	235,291	5,355,425	669,879	7,695,595

CZK	(A)	(D)	(F)	Total
Supervisory Board				
Didier Alix, Chairman	825,000	0	0	825,000
Jean-Louis Mattei, Vice-Chairman	313,500	0	0	313,500
Séverin Cabannes	330,000	0	0	330,000
Pavel Krejčí*	330,000	190,455	14,669	535,124
Jan Kučera*	330,000	378,948	70,653	779,601
Petr Laube	330,000	0	0	330,000
Christian Poirier	330,000	0	0	330,000
Nina Trlicová*	330,000	558,252	77,086	965,338
Bořivoj Kačena	211,000	0	0	211,000

* Elected by KB employees, total emoluments include regular salaries

Information on shares and share options held by members of the Board of Directors and Supervisory Board and by related persons

The following table provides information on the number of shares issued by Komerční banka and held by members of the Board of Directors and Supervisory Board, or persons related to them, as well as information on options and similar contracts whose underlying assets are equity securities issued by KB and which were concluded by or on behalf of the listed persons.

No members of the Board of Directors, members of the Supervisory Board or their relatives were contractual parties, directly or indirectly, for any option or similar contract whose underlying assets were equity securities issued by KB.

31 December 2008	Shares	Options
Board of Directors		
Laurent Goutard, Chairman	0	0
Didier Colin	0	0
Peter Palečka	4,700	0
Jan Juchelka	0	0
Patrice Taillandier-Thomas	0	0
Vladimír Jeřábek	0	0
Supervisory Board		
Didier Alix, Chairman	0	0
Séverin Cabannes	0	0
Christian Poirier	0	0
Jan Kučera	1,280	0
Petr Laube	4,441	0
Bořivoj Kačena	0	0
Pavel Krejčí	0	0
Nina Trlicová	0	0
Close persons (total)	0	0

Report by the Supervisory Board

Throughout 2008, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s. ascertained the effectiveness of the management and control system and made its regular assessments.
Having checked the Bank's annual and consolidated financial statements for the period from 1 January 2008 to 31 December 2008, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts show all important aspects of the financial situation of Komerční banka, a.s. and the financial statements worked out on their basis present a full and accurate picture of the Bank's accounting and financial situation.

The Bank's auditor, Deloitte Audit, s.r.o. performed an audit of the Bank's consolidated and unconsolidated financial statements worked out under the International Financial Reporting Standards (IFRS).
The report was unqualified.
The Supervisory Board recommends that the general meeting approve the financial statements for the year 2008 as proposed by the Board of Directors of the Bank.
The Supervisory Board checked the Report on relations among related entities in 2008 drawn up under S. 66a (9) of the Commercial Code, and states on the basis of the presented documents that, during the accounting period from 1 January 2008 to 31 December 2008, Komerční banka, a.s. did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 26 March 2009

On behalf of the Supervisory Board of Komerční banka, a.s.

Didier Alix
Chairman

Sworn Statement

Komerční banka, a.s. hereby declares that all information and data contained in this annual report are accurate and correct. It further confirms that this document contains all facts that may be important for decisions made by investors.

Komerční banka, a.s. also declares that as at the date on which the annual report was compiled no negative changes had occurred in the financial situation, nor were there any other changes which might have affected the accurate and correct assessment of the Bank's financial situation.

Prague, 3 April 2009

Signed on behalf of the Board of Directors:

Laurent Goutard
Chairman of the Board of Directors and CEO

Peter Palečka
Member of the Board of Directors and Senior Executive Director

Auditor’s Report

Deloitte.

Tel.: + 420 246 042 500
Fax: + 420 246 042 010
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Deloitte Audit s.r.o.
Karolinská 654/2
186 00 Prague 8
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 Komerční banka, a.s.

Having its registered office at: Na Příkopě 33 čp. 969, 11407 Praha 1
Identification number: 453 17 054
Principal activities: Retail, corporate and investment banking services

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 26 February 2009 on the consolidated financial statements which are included in this annual report on pages 67 to 126:
“We have audited the accompanying consolidated financial statements of Komerční Banka, a.s. and subsidiaries (“the Group”), 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 consolidated 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 consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 the Group 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 Unconsolidated Financial Statements

Based upon our audit, we issued the following audit report dated 26 February 2009 on the unconsolidated financial statements which are included in this annual report on pages 127 to 184:
We have audited the accompanying unconsolidated financial statements of Komerční banka, a.s. ("the Bank"), which comprise the unconsolidated balance sheet as of 31 December 2008, and the unconsolidated profit and loss statement, unconsolidated statement of changes in equity and unconsolidated 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 unconsolidated 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 unconsolidated 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 accompanying unconsolidated financial statements give a true and fair view of the financial position of Komerční banka, 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 Report on Relations Among Related Entities

We have also reviewed the factual accuracy of the information included in the Report on relations among related entities of Komerční banka, a.s. for the year ended 31 December 2008 which is included in this annual report on pages 195 to 204. This report on relations among related entities is the responsibility of the Company's Statutory Body.
Our responsibility is to express our view on the report on relations among related entities 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 report on relations among related entities is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations among related entities 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 report on relations among related entities of Komerční banka, a.s. for the year ended 31 December 2008 contains material factual misstatements.
The Company has decided not to disclose amounts under related entity contracts citing business secrecy restrictions.

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 6 April 2009

Audit firm:
Deloitte Audit s.r.o.
Certificate no. 79
Represented by:

Diana Rogerová
authorised employee

Statutory auditor:

Diana Rogerová
certificate no. 2045

Financial Section

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Deloitte.

Tel.: + 420 246 042 500
Fax: + 420 246 042 010
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Deloitte Audit s.r.o.
Karolinská 654/2
186 00 Prague 8
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 Komerční banka, a.s.

Having its registered office at: Praha 1, Na Příkopě 33 čp. 969, PSČ 11407
Identification number: 453 17 054
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and subsidiaries ("the Group"), 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 the Group 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 26 February 2009

Deloitte

Audit firm:
Deloitte Audit s.r.o.
Certificate no. 79
Represented by:

Diana Rogerová

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová

Diana Rogerová, certificate no. 2045

Consolidated Profit and Loss Statement for the year ended 31 December 2008

CZK million	Note	2008	2007
Interest income and similar income	5	42,432	34,149
Interest expense and similar expense	5	(21,410)	(15,470)
Income from dividends	5	239	111
Net interest income and similar income		**21,261**	**18,790**
Net fees and commissions	6	8,050	7,756
Net profit on financial operations	7	4,223	2,982
Other income	8	180	142
Net banking income		**33,714**	**29,670**
Personnel expenses	9	(6,320)	(5,914)
General administrative expenses	10	(6,606)	(6,241)
Depreciation, impairment and disposal of fixed assets	11	(1,581)	(1,474)
Total operating expenses		**(14,507)**	**(13,629)**
Profit before provision for loan and investment losses, other risk and income taxes		**19,207**	**16,041**
Provision for loan losses	12	(2,815)	(1,563)
Provisions for impairment of securities	12	(152)	15
Provisions for other risk expenses	12	(3)	250
Cost of risk		**(2,970)**	**(1,298)**
Income from share of associated companies	13	12	109
Profit attributable to exclusion of companies from consolidation	13	150	0
Share of profit of pension scheme beneficiaries		(142)	(524)
Profit before income taxes		**16,257**	**14,328**
Income taxes	14	(3,024)	(3,103)
Net profit		**13,233**	**11,225**
Profit attributable to the Bank's equity holders		13,161	11,188
Minority profit		72	37
Earnings per share (in CZK)	**16**	**348.70**	**295.74**

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

Consolidated Balance Sheet as of 31 December 2008

CZK million	Note	2008	2007
ASSETS			
Cash and current balances with central banks	17	13,961	13,557
Financial assets at fair value through profit or loss	18	43,993	31,910
Positive fair value of financial derivative transactions	44	9,146	2,030
Financial assets available for sale	19	98,164	81,826
Assets held for sale	20	429	735
Amounts due from banks	21	146,098	201,091
Loans and advances to customers	22	364,040	304,938
Investments held to maturity	23	1,435	2,999
Income taxes receivable	14	6	4
Deferred tax asset	35	0	729
Prepayments, accrued income and other assets	24	6,167	7,000
Investments in associates and unconsolidated subsidiaries	25	550	493
Intangible fixed assets	26	3,504	2,954
Tangible fixed assets	27	8,000	8,002
Goodwill	28	3,551	3,551
Total assets		**699,044**	**661,819**
LIABILITIES			
Amounts due to central banks		1	10
Financial liabilities at fair value through profit or loss	29	20,155	7,723
Negative fair value of financial derivative transactions	44	5,244	2,746
Amounts due to banks	30	11,114	12,267
Amounts due to customers	31	554,570	540,229
Securities issued	32	24,128	27,917
Income taxes payable	14	186	226
Deferred tax liability	35	575	4
Accruals and other liabilities	33	12,075	12,348
Provisions	34	2,019	1,691
Subordinated debt	36	6,003	6,004
Total liabilities		**636,070**	**611,165**
SHAREHOLDERS' EQUITY			
Share capital	37	19,005	19,005
Share premium and reserves		42,837	30,589
Minority equity		1,132	1,060
Total shareholders' equity		**62,974**	**50,654**
Total liabilities and shareholders' equity		**699,044**	**661,819**

The accompanying notes are an integral part of these consolidated financial statements.
These financial statements were approved by the Board of Directors on 26 February 2009.
Signed on behalf of the Board of Directors:

Palečka

Laurent Goutard
Chairman of the Board of Directors and CEO

Peter Palečka
Member of the Board and Senior Executive Director

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2008

CZK million	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation gains or losses	Revaluation of available-for-sale financial assets	Total	Minority interest	Total, including minority interest
Balance at 31 December 2006	**19,005**	**27,033**	**2,847**	**(57)**	**1,190**	**50,018**	**580**	**50,598**
Acquisition adjustments in respect of Modrá pyramida stavební spořitelna a.s.	**0**	**(341)**	**0**	**0**	**0**	**(341)**	**0**	**(341)**
– Impact on retained earnings	0	(432)	0	0	0	(432)	0	(432)
– Impact on net profit for the period	0	91	0	0	0	91	0	91
Adjusted balance at 1 January 2007	**19,005**	**26,692**	**2,847**	**(57)**	**1,190**	**49,677**	**580**	**50,257**
Cash flow hedging								
– net fair value, net of tax	0	0	(2,519)	0	0	(2,519)	0	(2,519)
– transfer to net profit, net of tax	0	0	(1,119)	0	0	(1,119)	0	(1,119)
FX differences on the revaluation of net assets from foreign investments	0	0	0	26	0	26	0	26
Gains or losses on available-for-sale financial assets, net of tax	0	0	0	0	(1,916)	(1,916)	0	(1,916)
Gains or losses on available-for-sale financial assets – associates, net of tax	0	(50)	0	0	0	(50)	0	(50)
Treasury shares, other	0	0	0	0	0	0	0	0
Dividends	0	(5,693)	0	0	0	(5,693)	0	(5,693)
Increase in share capital – minority interest	0	0	0	0	0	0	443	443
Net profit for the period	0	11,188	0	0	0	11,188	37	11,225
Balance at 31 December 2007	**19,005**	**32,137**	**(791)**	**(31)**	**(726)**	**49,594**	**1,060**	**50,654**
Cash flow hedging								
– Net fair value, net of tax	0	0	4,733	0	0	4,733	0	4,733
– Transfer to net profit, net of tax	0	0	(390)	0	0	(390)	0	(390)
FX differences on the revaluation of net assets from foreign investments	0	0	0	35	0	35	0	35
Gains or losses on available-for-sale financial assets, net of tax	0	0	0	0	1,493	1,493	0	1,493
Gains or losses on available-for-sale financial assets – associates, net of tax	0	46	0	0	0	46	0	46
Treasury shares, other	0	2	0	0	0	2	0	2
Dividends	0	(6,832)	0	0	0	(6,832)	0	(6,832)
Net profit for the period	0	13,161	0	0	0	13,161	72	13,233
Balance at 31 December 2008	**19,005**	**38,514**	**3,552**	**4**	**767**	**61,842**	**1,132**	**62,974**

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings in the amount CZK 20,791 million.

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

Consolidated Cash Flow Statement
for the year ended 31 December 2008

CZK million	2008	2008	2007	2007
Cash flows from operating activities				
Interest receipts	39,556		31,094	
Interest payments	(21,116)		(15,123)	
Commission and fee receipts	9,739		9,275	
Commission and fee payments	(1,701)		(1,460)	
Net income from financial transactions	4,547		4,520	
Other income receipts	336		249	
Cash payments to employees and suppliers, and other payments	(12,689)		(12,309)	
Operating cash flow before changes in operating assets and operating liabilities	**18,672**		**16,246**	
Due from banks	55,502		7,868	
Financial assets at fair value through profit or loss	(9,884)		(21,660)	
Loans and advances to customers	(60,692)		(53,685)	
Other assets	(4)		(1,669)	
Total (increase)/decrease in operating assets	**(15,078)**		**(69,146)**	
Amounts due to banks	(3,424)		(2,825)	
Financial liabilities at fair value through profit or loss	12,450		7,711	
Amounts due to customers	13,934		58,852	
Other liabilities	173		(631)	
Total increase/(decrease) in operating liabilities	**23,133**		**63,107**	
Net cash flow from operating activities before taxes	26,727		10,207	
Income taxes paid	(2,848)		(2,685)	
Net cash flows from operating activities		**23,879**		**7,522**
Cash flows from investing activities				
Dividends received	185		112	
Maturity of investments held to maturity*	1,634		341	
Purchase of financial assets available for sale	(22,274)		(18,382)	
Sale of securities available for sale*	8,639		14,854	
Purchase of tangible and intangible fixed assets	(2,225)		(2,257)	
Sale of tangible and intangible fixed assets	444		206	
Net cash flow from investing activities		**(13,597)**		**(5,126)**
Cash flows from financing activities				
Paid dividends	(6,814)		(5,678)	
Securities issued	301		3,654	
Securities redeemed*	(5,236)		(2,810)	
Increase in share capital – minority interest	0		443	
Net cash flow from financing activities		**(11,749)**		**(4,391)**
Net increase/(decrease) in cash and cash equivalents	**(1,467)**		**(1,995)**	
Cash and cash equivalents at beginning of year	**11,882**		**13,877**	
Cash and cash equivalents at end of year (see Note 38)		**10,415**		**11,882**

Note: * The amount also includes received and paid coupons.

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

1. Principal activities

The Financial Group of Komerční banka, a.s. (the 'Group') consists of Komerční banka, a.s. (the 'Bank') and 10 subsidiaries and associated undertakings. The parent company of the Group is the Bank which is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:

I. Providing loans, advances and guarantees in Czech Crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech Crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech Crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The Bank generates a substantial proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its subsidiary Komerční banka Bratislava, a.s. and in Belgium through its subsidiary Bastion European Investment S.A.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale is the Bank's majority shareholder, holding 60.35 percent (2007: 60.35 percent) of the Bank's issued share capital.

The main activities of subsidiary companies of the Bank as of 31 December 2008

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Penzijní fond Komerční banky, a.s.	100.0	100.0	Pension fund	Prague
Komerční banka Bratislava, a.s.	100.0	100.0	Banking services	Bratislava
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos uzavřený investiční fond, a.s.	100.0	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
ALL IN REAL ESTATE LEASING, a.s.	100.0	100.0	Support banking services	Prague
Bastion European Investment S.A.	99.98	99.98	Financial services	Brussels
ESSOX s.r.o.	50.9	50.9	Consumer loans, leases	České Budějovice

The main activities of associated companies of the Bank as of 31 December 2008

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.0	49.0	Insurance	Prague
CBCB – Czech Banking Credit Bureau, a.s.	20.0	20.0	Data collection for credit risk assessments	Prague

2. Events for the year ended 31 December 2008

Dividends declared in respect of the year ended 31 December 2007

At the General Meeting of the Bank held on 29 April 2008, the shareholders approved a dividend for the year ended 31 December 2007 of CZK 180 per share before tax. The dividend was declared in the aggregate amount of CZK 6,832 million. An amount of CZK 508 million was allocated to the reserve fund and CZK 2,830 million was allocated to retained earnings.

Changes in the Bank's Financial Group

In May 2008, the Bank increased its equity investment in Penzijní fond Komerční banky, a.s. by CZK 300 million through the payment made over and above the share capital to other capital funds. In June 2008, the Bank decreased its equity investment in Bastion European Investments S.A. by EUR 3.6 million. For additional details of changes in the Bank's Financial Group, refer to Note 25.

Uncertainty about the impact of the global financial crisis

The Group might be influenced by the global financial and economic crisis. The Group might be exposed to increased risk mainly due to the high volatility and uncertainty regarding the valuation, possible impairment of assets, contingent liabilities and future development of the markets. Those potential risks may have an impact on the Group's financial statements in the future.

The presented consolidated financial statements for the year ended 31 December 2008 are based on the current best estimates and management of the Group believes that they present the truest and fairest view of the Group's financial results and financial position using all relevant and available information at the financial statements date.

3. Principal accounting policies

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

(a) Basis of accounting

The consolidated statutory financial statements are prepared in accordance with and comply with International Financial Reporting Standards ('IFRS') as adopted by the European Union, applicable for consolidated financial statements effective for the year ended 31 December 2008. As of the date of issuance of these consolidated financial statements, IFRS as adopted by the European Union do not differ from IFRS, except for fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the EU. In addition, the European Commission has not yet approved the following effective standards and interpretations, or their amendments:

- Revised IFRS 3 Business Combinations and related changes in IAS 27, 28 and 31;
- Revised IFRS 1 First-time Adoption of IFRS;
- Amendment to IAS 39 Eligible Hedged Items;
- New IFRIC 12 Service Concession Arrangements;
- New IFRIC 15 Agreements for the Construction of Real Estate;
- New IFRIC 16 Hedges of a Net Investment in a Foreign Operation;
- New IFRIC 17 Distributions of Non-cash Assets to Owners; and
- New IFRIC 18 Transfers of Assets from Customers.

The consolidated financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The consolidated financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements containing accounting policies and explanatory disclosures.

The consolidated financial statements are largely prepared under the historical cost convention, as modified by the fair value remeasurement of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts at the balance sheet date. Available-for-sale non-financial assets are stated at the lower of the amount before classification in this category and the estimated selling price less costs to sell. Assets that are not remeasured to fair value and suffered impairment are stated at the higher of net recoverable amount and value in use.

Assets and liabilities are not offset unless expressly permitted by IFRS.

The Bank maintains its books of account and regularly prepares the required statements in accordance with IFRS. The Bank also prepares consolidated financial statements under IFRS which show the consolidated results of the Group.

The reporting currency used in the consolidated financial statements is the Czech Crown ('CZK') with accuracy to CZK million.

(b) Basis of consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All intercompany transactions have been eliminated.

Investments in unconsolidated subsidiaries are recognised in the consolidated balance sheet at cost less any provisions.

Investments in associated undertakings are accounted for using the equity method of accounting. These are undertakings in which the Bank has between 20 percent and 50 percent of the voting rights, and over which the Bank exercises significant influence, but which it does not control. Equity accounting involves recognising in the profit and loss statement the Group's share of the associates' profit or loss for the period. The Group's interest in the associates is carried in the balance sheet at an amount that reflects its share of net assets of the associates and includes goodwill on acquisition.

(c) Use of estimates

The presentation of unconsolidated financial statements in conformity with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and their reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the determination of fair values of financial instruments, valuation of intangible assets, impairment of assets and provisions, are based on the information available at the balance sheet date. The current global economic crisis, its acceleration and market turbulence increase the risk that the actual results and outcomes may significant differ from these estimates. Key areas with a potential for significant differences between the actual results and the estimates principally include loan provisioning and fair values of securities.

Information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are disclosed in individual notes as appropriate.

(d) Dates of recognition and derecognition of financial instruments from the Group's balance sheet

All financial assets with normal delivery terms are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment). When settlement date accounting is applied, the financial asset is recognised on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its provision (collection of cash). However, in case a portfolio of financial assets measured at fair value, the acquired financial asset is measured reflecting changes in its fair value from the purchase trade date to the sale trade date according to the categorisation into an individual portfolio, accrued interest on debt financial assets is recognised from the purchase settlement date to the sale settlement date.

All loans and receivables are recognised when funds are provided to customers. Loans and receivables are derecognised when fully repaid by the borrower. Assigned receivables are derecognised when payment is collected from the assignee, and receivables which the Group decided to write off are derecognised at the write-off date.

The Group remeasures derivative instruments at fair value from the trade date to the settlement date, that is, delivery of the last related cash flow.

The Group settles and derecognises financial liabilities at the date on which all related risks and costs attributable to the specific liability are transferred or settled.

(e) Foreign currency translation

Transactions and balances are presented in the currency of the primary economic environment in which the Group operates (its functional currency). The Group's functional currency are Czech Crowns (CZK), Euro and Slovak Crowns. Transactions in currencies other than the Group's functional currencies (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.

The presentation currency, in which the consolidated financial statements are prepared, is Czech Crowns.

At each balance sheet date:

i. cash items denominated in foreign currencies are translated into CZK at the CNB's rate ruling at the financial statements date;
ii. non-cash items denominated in foreign currencies, which are stated at historical cost, are translated into CZK at the CNs rate ruling at the transaction date; and
iii. non-cash items denominated in foreign currencies, which are measured at fair value, are translated into CZK at the CNB's rate ruling at the date on which the fair value was determined.

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in *'Net profit/(loss) on financial operations.'* This does not apply to foreign exchange rate differences arising from the cost of equity financial assets available for sale, foreign exchange rate differences arising from the remeasurement of financial assets available for sale and foreign exchange rate differences from foreign currency non-derivative financial liabilities (current accounts, deposits) which the Group uses to hedge against currency risk of the net investments in foreign operations and anticipated asset purchase transactions. These foreign exchange rate difference are recognised in equity (refer to (h) Securities and (r) Derivative financial instruments and hedging).

(f) Cash and cash equivalents

Cash comprises cash on hand and cash in the process of collection.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

In preparing its cash flow statement for the period, the Group includes in cash and cash equivalents at the beginning and end of the period cash and balances with central banks and current amounts due from and to banks.

(g) Originated loans and provisions for loan impairment

Loans originated by the Group by providing money directly to a borrower are categorised as loans originated by the Group and are stated at amortised cost in *'Loans and advances to customers'*.

The Group charges penalty interest to borrowers when a portion of the loan falls overdue. Pursuant to the Group's policies, penalty interest is not covered by the collateral set aside against the loan of the borrower. Default interest is not recognised as interest income on an accruals basis but on a cash basis when collected.

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc.), the amortised cost of the loan is reduced through a provision to its present estimated recoverable value. Estimated recoverable values are arrived at depending upon the classification of the client, taking into account collateral, if any, received by the Group. The recognition, use and release of provisions is accounted for on a monthly basis always by reference to the loan balances at the month-end. The provision is reduced if objective reasons for loan impairment cease to exist. In such cases, the original amount is reversed and a required provision is recognised. Provisions are used upon a sale or a write-off of the loan and released to income when the reasons for maintaining the provision cease to exist (for example, when the loan is repaid). The provisioning policy is set out in Note 44 ('Provisioning for receivables') to these financial statements.

The Group writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Group in respect of these loans. Subsequent recoveries are credited to the profit and loss statement in *'Provision for loan losses'* if previously written off.

(h) Securities

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. The Group has allocated securities to the *'At fair value through profit or loss'* portfolio, the *'Available for sale'* portfolio, the *'Held to maturity'* portfolio and the *'Loans and receivables'* portfolio. All securities held by the Group are recognised at fair value which is typically equal to the cost reflecting direct transaction costs, if any, associated with the acquisition of securities.

The Group treats a security as quoted on an active market if the quoted market prices are readily and regularly available from the stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and these prices represent current and regular market transactions under ordinary conditions.

All financial instruments included in the 'At fair value through profit or loss' and the 'Available for sale' portfolios are recognised at fair values. The fair value is established by reference to the price quoted on a market. In circumstances where appropriate market quotations are not readily available, do not exist, are deemed unreliable or are not immediately updated to reflect the movements in the underlying market parameters, the securities held by the Group are valued using the model of discounting future cash flows (valuation at the credit spread above the zero-risk yield curve). The parameters of the model are based on the credit spread of the relevant security and/or prices of comparable securities. Securities measured on the basis of the model are revalued at ruling market quotations at regular intervals. The length of this interval is derived from the volume of the measured securities in the portfolio. This revaluation is accompanied by the recalibration of the valuation model parameters.

The market price is determined on the basis of information published in the Reuters and Bloomberg information systems or directly from binding quotations obtained from market participants.

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention (purchases and sales with standard settlement terms) are recognised as spot transactions.

All purchases and sales of securities that do not meet the 'regular way' settlement criterion in the securities marketplace concerned are treated as financial derivatives and are recognised on the face of the balance sheet upon settlement at fair value.

The cost of debt securities is gradually increased to reflect the accrued interest income using the effective interest rate method. Interest income which includes the accrued coupon adjusted for the accrued difference between the nominal value of the security and its cost is recognised from the purchase settlement date to the sale settlement date.

Dividend income arising from equity securities is recorded as the dividends are declared and is included as a receivable in the balance sheet line *'Prepayments, accrued income and other assets'* and in *'Income from dividends'* in the profit and loss statement. Upon receipt of the dividend, the receivable is offset against the collected cash.

Transactions with treasury shares that are settled on a gross basis by the delivery of treasury shares have a direct impact on the Group's equity.

The Group assesses on a regular basis whether securities may be impaired, the only exception being securities at fair value through profit or loss. A financial asset is impaired if there is objective evidence of impairment or if its carrying amount is greater than its estimated recoverable amount. When an impairment of assets is identified, the Group recognises provisions through the profit and loss statement line 'Provision for impairment of securities'.

Financial assets at fair value through profit or loss

Securities designated as 'At fair value through profit or loss' are securities held for trading (equity and debt securities, treasury bills, bills of exchange and participation certificates) acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices. These securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges or any other public securities markets.

Unrealised gains and losses arising from the fair value remeasurement of securities as well as realised gains and losses are recognised as income in the profit and loss statement line *'Net profit/(loss) on financial operations.'*

Available for sale financial assets

Available for sale financial assets are those financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. This portfolio comprises equity securities and debt securities, including asset backed securities, and participation certificates. Financial assets available for sale are accounted for and stated at fair value.

Accrued interest income is recognised through the profit and loss statement. Unrealised gains or losses from the fair value remeasurement of securities are included in the *'Revaluation of available-for-sale financial assets'* in equity until their sale, maturity or impairment. Fair value changes arising from changes in foreign exchange rates are presented in equity and changes in the amortised cost arising from changes in foreign exchange rates are included in the profit and loss statement.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/book value ratios refined to reflect the specific circumstances of the issuer and according to the principle of prudence. If equity securities cannot be measured using the methods referred to above or on any other valuation basis they are carried at cost.

The estimated recoverable amount of financial assets available for sale is equal to the current fair value of the assets. The estimated recoverable amount of equity and debt securities, for which the fair value cannot be reliably determined, is equal to the present value of the expected future cash flows discounted at the current market interest rate for similar financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) assets that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;

(ii) assets that the Group upon initial recognition designates as available for sale; or

(iii) assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

These securities are measured on the same basis as investments held to maturity and are reported on the balance sheet together with amounts due from banks or customers, as appropriate.

Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective interest rate method.

The estimated recoverable amount of investments held to maturity is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate.

(i) Assets held for sale

An asset is classified as 'held for sale' under IFRS 5 if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition, must be actively marketed for sale at a price that is reasonable in relation to its current fair value and its sale must be highly probable, that is, a plan to sell leading to the location of a buyer has been initiated. The sale of assets should be completed within one year from the date of classification of assets as 'held for sale'.

Non-current assets designated as 'held for sale' are reported in the balance sheet line *'Assets held for sale'* and are no longer depreciated.

The Group recognises an impairment loss on assets held for sale if their selling price less costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either in accordance with IFRS 5 or IAS 36.

(j) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses and increased by technical improvements. Fixed assets are depreciated indirectly through the accumulated depreciation charge. Depreciation is calculated on a straight line basis to write off the cost, net of provisions, in respect of tangible and intangible fixed assets and net of the estimated residual value in respect of cars held under finance lease (recognised in assets under IFRS) over their estimated useful economic lives and is reported in the profit and loss statement line *'Depreciation, impairment and disposal of fixed assets'*. The residual value of cars held under finance leases is determined on the basis of the purchase price following the expiration of the lease set out in the lease contract.

The Bank specifically does not depreciate land, works of art, tangible and intangible fixed assets in the course of construction and technical improvements, unless they are brought into a condition fit for use.

The Bank has applied the component approach to buildings and their technical improvements that were acquired subsequent to 1 January 2005.

During the reporting periods, the Group used the following estimated useful economic lives in years:

	2008	2007
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	7
ATMs and selected equipment of the Group	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lift, electro-installation	25	25
– Roof, facade	30	30
– Net book value – building or technical improvements without selected components	50	40
Technical improvements on leasehold assets, including historic buildings	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as part of internal projects)	According to the useful life, typically 4	According to the useful life, typically 4
Right of use – software	4	4
Other rights of use	According to contract	According to contract

In accordance with IAS 38, the Group adds to the cost of intangible assets generated internally as part of internal projects external expenses and internal personnel costs incurred in developing intangible fixed assets. The Group does not capitalise expenses incurred in research.

The Group periodically tests its assets for indications of impairment, such as a change in their utilisation or worsened economic conditions. Where the indications of impairment are identified and the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount is the higher of net realisable value and value in use. Where assets are identified as being surplus to the Group's requirements, management of the Group determines a provision for asset impairment by reference to the selling price based on expert valuation reports adjusted downwards for an estimate of associated sale costs. The associated sale costs include costs of expert valuation reports, legal and economic advisory, etc. which are estimated on the basis of the Group's historical experience, and real estate transfer tax in respect of real estate.

Repairs and renewals are charged directly to the profit and loss statement when the expenditure is incurred.

Goodwill arising on the acquisition of a subsidiary is the excess of the acquisition cost for the interest acquired by the Group over the net fair value of acquired assets, liabilities and contingent liabilities at the acquisition date. Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of impairment write-downs.

The Group recognises goodwill in accordance with IFRS 3 which facilitates the accounting for a business combination using provisional values in circumstances where the fair values of identifiable assets, liabilities, contingent liabilities and the cost of the combination are determined only provisionally. Any adjustments to those provisional values must be recognised within twelve months of the acquisition date.

The Group tests goodwill for impairment on an annual basis or more frequently if there are indications that the goodwill may be impaired. If the recoverable value of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying amount, the Bank recognises an impairment of the cash-generating unit which is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or pro-rata).

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

(k) Leases

Group as the Lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as *'Loans and advances to customers'*, assets are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income. Lease income is recognised over the term of the lease reflecting a constant periodic rate of interest.

Group as the Lessee

Assets held under finance leases when substantially all the risks and rewards of ownership are transferred, are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. These assets are depreciated over their useful lives.

Lease payments are apportioned between interest reported in finance charges (in *'Interest expense and similar expense'*) and a reduction of the outstanding lease obligation. Finance charges are allocated over the lease term so as to achieve a constant rate of interest.

Payments made under operating leases are charged to expenses on a straight line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(l) Provisions

In accordance with IFRS, the Group recognises a provision when, and only when:

- It has a present obligation (legal or constructive) as a result of a past event;
- It is probable that the settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

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, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments and approved overdraft loans.

Specific provisions are made for estimated losses on these commitments on the same basis as used in provisioning (refer to Note 44).

(m) Employment benefits

The Group provides its employees with retirement benefits and disability benefits.

The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or if they are entitled to receive a disability pension but only if were employed with the Group for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amount of social security and health insurance contributions, discount rate).

The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions as incurred.

(n) Securities issued

Securities issued by the Group are stated at amortised costs using the effective interest rate method. Interest expense arising on the issue of the Group's own securities is included in the profit and loss statement line *'Interest expense and similar expense.'*

In the event of the repurchase of its own debt securities, the Group derecognises these securities so as to reflect the economic substance of the transaction as a repayment of the Group's commitment and decreases its liabilities in the balance sheet line *'Securities issued'*. Gains and losses arising as a result of the repurchase of the Group's own debt securities are included in *'Net profit/(loss) on financial operations'*.

(o) Recognition of income and expense

Interest income and expenses related to interest-bearing instruments are reported in the profit and loss statement in the period to which they relate on an accruals basis using the effective interest rate which is calculated, under IFRS, reflecting the fees paid by contractual parties, transaction costs and other discounts and premiums. Interest, fees and other expenses included in the calculation of the effective interest rate are recognised in *'Interest income and similar income'*.

Other fees and commissions are recognised in the period to which they relate on an accruals basis. Penalty interest is accounted for and included in interest income on a cash basis.

(p) Income taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and other jurisdictions in which the Group operates, based on the profit recognised in the profit and loss statement net of the effects of IFRS. Income taxation is included in the profit and loss statement, or equity if it relates to an item directly taken to equity.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

Deferred tax related to cash flow hedges where fair value changes or financial assets available for sale are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss statement together with the deferred gain or loss.

(q) Repurchase agreements

Under repurchase transactions ('repos'), the Group provides securities held in the *'At fair value through profit or loss'* and *'Financial assets available for sale'* portfolio as collateral. These securities are recorded as assets in the balance sheet line *'Financial assets at fair value through profit or loss'* and *'Financial assets available for sale'* and the corresponding liability arising from the received loan is included in *'Amounts due to banks'* or *'Amounts due to customers'* as appropriate.

Securities purchased under reverse repurchase agreements ('reverse repos') are recorded off balance sheet where they are remeasured to fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the balance sheet line *'Due from banks'* or *'Loans and advances to customers'* as appropriate.

The Group's off balance sheet accounts also reflect securities obtained under reverse repos and provided as collateral at fair value. The corresponding liability arising from the received loan is included in *'Amounts due to banks'* or *'Amounts due to customers'* as appropriate.

The difference between the sale and repurchase price in respect of repo and reverse repo transactions is treated as interest and accrued evenly to expenses/income over the life of the repo agreement using the linear interest rate due to their short-term maturities.
In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Group derecognises from off balance sheet account securities acquired under reverse repo transactions and recognises in the balance sheet an amount payable from a short sale which is remeasured to fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

(r) Derivative financial instruments and hedging

In the normal course of business, the Group enters into contracts for derivative financial instruments. At the conclusion of the financial derivative contract, the Group designates derivative instruments as either trading or hedging. The Group also acts as an intermediary provider of these instruments to certain clients.
The derivative financial instruments used by the Group as trading instruments include interest rate, currency and commodity forwards, swaps, securities based derivatives, emission allowances and options. The values of these instruments change pursuant to the fluctuations in interest rates, commodity prices, exchange rates, market values of securities and similar market parameters.
Derivative financial instruments are recognised at their fair value. Changes in the fair values of derivatives held for trading are directly included in the profit and loss statement line *'Net profit/(loss) on financial operations'* from the trade date to the settlement date. Fair values are obtained from quoted market prices, discounted cash flow models or options pricing models as appropriate. All derivatives are carried as assets in *'Financial assets at fair value through profit or loss'* when fair value is positive and as liabilities in *'Financial liabilities at fair value through profit or loss'* when fair value is negative.
Certain derivatives, such as the option for an earlier redemption of a bond, are embedded in other (host) financial instruments and are treated and accounted for as separate derivatives when: i) they as a separate instrument meet the definition of a derivative, ii) their risks and economic characteristics are not closely related to those of the host contract, and iii) the host contract is not carried at fair value with fair value changes reported in the profit and loss statement.
The Group uses certain derivative financial instruments to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out in IFRS are met at the designation date.
The criteria for a derivative instrument to be accounted for as a hedge include:

- Compliance with the Group's risk management strategy;
- At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to assessing whether the hedge is effective;
- The hedge is expected to be highly effective at inception and throughout the period; and
- Changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Hedging derivatives are accounted for according to the type of a hedging relationship which can be either:
i. a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge), or
ii. a hedge of a future cash flow attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge); or
iii. a hedge of an investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss statement along with the corresponding change in the fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the profit and loss statement line *'Net profit/(loss) on financial operations.'* On this basis, the Group hedges the selected portfolios of foreign currency assets. The effectiveness of the hedge is regularly tested on a quarterly basis through prospective and retrospective tests.
If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to profit or loss over the period to the maturity of the hedged item.
Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the *'Hedging instruments'* in shareholders' equity. Amounts deferred in equity are transferred to the profit and loss statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the profit and loss statement. The ineffective element of the hedge is charged directly to the profit and loss statement line *'Net profit/(loss) on financial operations'*. On this basis, the Group hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individual assets or liabilities. The effectiveness of the hedge is tested through prospective and retrospective tests performed at the end of each quarter.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 44.
Certain derivative transactions, while providing economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with the related fair value gains and losses reported in the profit and loss statement line 'Net profit/(loss) on financial operations'.

(s) Regulatory requirements

The Bank is subject to the regulatory requirements of the Czech National Bank and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk associated with the banks' clients, liquidity, interest rate and foreign currency position.
Similarly, other Group companies are subject to regulatory requirements specifically in relation to insurance, retirement benefit schemes and construction savings scheme.

(t) Fiduciary activities

Assets arising thereon together with related undertakings to return such assets to customers are excluded from these consolidated financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

(u) Share capital and treasury stock

Where the Group purchases its own share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are recorded in equity.

(v) Contingent assets and contingent liabilities

In addition to transactions giving rise to the recognition of assets and liabilities in the balance sheet, the Group enters into transactions under which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities off- balance sheet as off-balance sheet items. The Group monitors these transactions as they represent a substantial proportion of its activities and materially impact the level of risks to which the Group is exposed (they may increase or decrease other risks, for instance, by hedging on-balance sheet assets and liabilities).
Under IAS 37 a contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability is also a present obligation where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit, and warrants.
The Group recognises issued guarantees in accordance with IAS 39. The guarantee is initially recognised at fair value and subsequently at the higher of the value determined in accordance with IAS 37 or the amount originally reported and decreased by an accumulated accrual, if any, in accordance with IAS 18.
A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent asset is recognised and disclosed where an inflow of economic benefits is probable.
Off-balance sheet items also consist of interest rate and foreign currency instruments, including forwards, swaps, options and futures. For further disclosure on derivatives refer to part (r).

(w) Segment reporting

In accordance with IAS 14, the Group reports income and assets under business segments. The Group does not report geographical segments because the Group's income is primarily generated on the territory of the Czech Republic and the bulk of its assets are located in the Czech Republic.
A business segment is a distinguishable component of the Group that is engaged in providing a group of related services and that is subject to risks and returns that are different from those of other business segments. The Group reports the 'Universal banking' and 'Investment banking' segments.

(x) Changes of accounting policies arising from the implementation of new or revised IFRSs and IASs effective from 1 January 2008 to 31 December 2008

In October 2008, an amendment to *IAS 39 Financial Instruments: Recognition and Measurement* and *IFRS 7 Financial Instruments*: Disclosures relating to the reclassification of financial assets was published and became effective retrospectively as of 1 July 2008. This amendment facilitates, under extraordinary circumstances (e.g. in the period of a financial crisis) and subject to the fulfilment of specified criteria, the reclassification of non-derivative financial assets from the category of securities at fair value through profit or loss. In line with the amendment, it is also possible to reclassify financial assets from 'Financial assets available for sale' to 'Loans and receivables' subject to the fulfilment of specified criteria.

In the year ended 31 December 2008, the Group made no reclassifications between categories of financial assets.

The below interpretations are effective for periods beginning on or after 1 January 2008:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective 1 March 2007);
- IFRIC 12 – Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13 – Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective 1 January 2008); and
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008).

These interpretations do not have a material impact on the accounting policies applied by the Group.

(y) Changes of accounting policies arising from the implementation of new IFRSs and revised IASs effective from 1 January 2009 or later

The Group has undertaken a detailed analysis of the revised International Financial Reporting Standards in order to identify the relevant changes and their potential impact on its accounting policies. The Group anticipates that the application of these standards will not have a significant impact on the Group's profit or loss or equity.

In the current reporting period or in the year ended 31 December 2007, the following standards/amended standards became effective and are to be applied for annual periods beginning on or after 1 January 2009 or 1 July 2009:

- IFRS 1 First time Adoption of IFRS: restructured version of the standard which retains the substance of the previous version and only differs in the structure. In addition, an amended version of the standard was published. This version enables the valuation of investments in a subsidiary at their deemed cost.
- IFRS 2 Share-based Payment: the amendment to the standard relates to vesting conditions which are newly limited only to the condition of continuance of the employment and performance conditions, and specifies the accounting policy for the cancellation of a contract by the counterparty.
- IFRS 3 Business Combinations: an extensive amendment to the standard changes, among others, the accounting for costs relating to acquisitions, valuation of non-control interests or contingent considerations, etc. (effective for annual periods beginning on or after 1 July 2009).
- IFRS 8 Operating Segments: this new standard replaced IAS 14 Segment Reporting. Under IFRS 8, segments are required to be identified based on internal reports (rather than industry or geography) and may newly include as a segment a component of an entity that largely supplies its products or services internally, i.e. to other operating segments of the entity.
- IAS 1 Presentation of Financial Statements: the amended standard requires the preparation of a statement of financial position also at the inception of the oldest comparative period when the entity retrospectively applies an accounting policy or makes a retrospective adjustment of the amount or classification of certain items of the financial statements. The standard also requires an entity to separately present transactions with owners (e.g. dividends) and other transactions (e.g. resulting from revaluation of assets, cash flow hedges, etc) in equity. For this reason, a Statement of Comprehensive Income is introduced, comprising the existing income statement as well as information about unrealised gains and losses recognised in equity. The revised standard also refers to a 'balance sheet' as a 'statement of financial position'.
- IAS 23 Borrowing Costs: the amended standard eliminates the option to select between the benchmark treatment (recognition of all borrowing costs as an expense) and the allowed alternative treatment (capitalisation of borrowing costs attributable to the acquisition, construction or production of a qualifying asset) and requires that borrowing costs attributable to the acquisition, construction or production of a qualifying asset (fixed asset) to be capitalised as part of the cost.
- IAS 27 Consolidated and Separate Financial Statements: The amendment to the standard involves accounting for received first dividends after the acquisition of an investment and determining the cost upon the inclusion of a newly formed parent company in the consolidation group.
- IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Financial Reporting of Interests in Joint Ventures: the amendment to the standards relates to the amendment to IFRS 3 and predominantly involves a step-by-step acquisition, allocation of the profit or loss to a non-controlling interest, loss of control, or significant influence or joint venture (effective for the period beginning on or after 1 July 2009).

- IAS 32 Financial Instruments: Disclosure and Presentation: the amended standard defines a puttable financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. An exception was additionally added whereby an instrument meeting the 'financial liability' definition is classified as an equity instrument if it meets all the requirements and criteria for equity instruments.
- IAS 39 Financial Instruments: Recognition and Measurement: the amended standard relates to hedged items and assessment of the effectiveness of the hedging of purchased options. The entity may designate as a hedged item both all changes in its cash flows or fair value and only their changes over/below the specified amount or another variable (one-side risk). In respect of the purchased option, its intrinsic rather than time value then reflects the one-side risk. The amendment also stipulates that the hedged risk or its hedged part must be a separately identifiable component of the financial instrument and changes in the cash flows or fair value of the financial instrument arising as a result of the change in the relevant risk must be reliably measurable (effective for the annual periods beginning on or after 1 July 2009).

The International Accounting Standards Board published the Annual Improvements which amend 20 standards in a total of 35 points with the primary objective of removing unintentional inconsistencies among individual standards or redundant or misleading references and improve the wording or update the obsolete terminology. Certain provisions of this complex amendment are effective for periods beginning on or after 1 January 2009, other provisions for periods beginning on or after 1 July 2009.

In addition, the following interpretations are effective for periods beginning on or after 1 January 2009:
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 17 Distributions of Non-cash Assets to Owners; and
- IFRIC 18 Transfers of Assets from Customers.

These interpretations do not impact the accounting policies applied by the Group (IFRIC 17 does not relate to the distribution of non-cash assets which are controlled by the same party before and after the distribution and concurrently requires that all owners of the same class of shares are treated in the same manner).

(z) Reclassification

During the year ended 31 December 2008, the Group refined the presentation of certain items of its profit and loss statement and balance sheet to reflect the structure of the financial statements used by the parent company. The amounts and balances for 2007 were restated to reflect the presentation for the current period. The below tables include a reconciliation of individual categories.
Reconciliation of the profit and loss statement categories for the year ended 31 December:

CZK million	2007 Before reclassification	2007 After reclassification	Reference
Interest expense and similar expense	(15,475)	(15,470)	1
Income from dividends	0	111	2
Net fee and commission income	9,283	7,756	3
Net profit from financial operations	1,566	2,982	2, 3
Personnel expenses	(5,909)	(5,914)	1
General administrative expenses	(6,175)	(6,241)	4, 5
Provisions for loan losses	(1,651)	(1,563)	4
Provisions for other risks	272	250	5

1. Incurred interest expenses of the accrued provision for retirement costs of CZK 5 million were reclassified from *'Interest expense and similar expense'* to *'Personnel expenses'*.
2. Received dividends on financial assets available for sale in the amount of CZK 111 million were reclassified from *'Net profit from financial operations'* to *'Income from dividends'*.
3. Net profit from exchange rate commissions (clean payments, payment card transactions) of CZK 1,527 million was reclassified from *'Net fee and commission income'* to *'Net profit from financial operations'*.
4. The costs of bonuses provided in respect of debt recovery in the amount of CZK 88 million were reclassified from *'Provisions for loan losses'* to *'General administrative expenses'*.
5. The release of the provision for a penalty of CZK 22 million was reclassified from *'Provisions for other risk expenses'* to *'General administrative expenses'*.

Reconciliation of balance sheet categories as of 31 December:

CZK million	2007 Before reclassification	2007 After reclassification	Reference
Cash and current balances with central banks	10,957	13,557	1
Financial assets at fair value through profit or loss	24,501	31,910	2
Positive fair value of hedging financial derivative transactions	9,439	2,030	2
Amounts due from banks	203,691	201,091	1
Loans and advances to clients	304,521	304,938	3, 4, 5
Prepayments, accrued income and other assets	7,417	7,000	3, 4, 5
Amounts due to central banks	0	10	6
Financial liabilities at fair value through profit or loss	0	7,723	8, 9
Negative fair value of hedging financial derivative transactions	8,621	2,746	9
Amounts due to banks	13,598	12,267	6, 7, 8
Amounts due to customers	540,756	540,229	7
Accruals and other liabilities	12,347	12,348	10
Provisions	1,692	1,691	10

1. Term placements with the Czech National Bank in the amount of CZK 2,600 million were reclassified from *'Amounts due from banks'* to 'Cash and current balances with central banks'.
2. The category *'Positive fair value of financial derivative transactions'* was split into hedging derivatives and trading derivatives. Trading derivatives were included in *'Financial assets at fair value through profit or loss'* in the amount of CZK 7,409 million.
3. Receivables arising from trading on the Prague Energy Stock Exchange in the amount of CZK 417 million were reclassified from *'Prepayments, accrued income and other assets'* to *'Loans and advances to customers'*.
4. Other receivables from the non-credit process of CZK 9 million were reclassified from *'Loans and advances to customers'* to *'Prepayments, accrued income and other assets'*.
5. Provisions for other receivables from the non-credit process of CZK 9 million were reclassified from *'Loans and advances to customers'* to *'Prepayments, accrued income and other assets'*.
6. Amounts due to central banks of CZK 10 million were reclassified from *'Amounts due to banks'* to *'Amounts due to central banks'*.
7. Amounts due to cooperative savings banks of CZK 527 million were reclassified from *'Amounts due to customers'* to *'Amounts due to banks'*.
8. Payables from sold securities in the amount of CZK 1,848 million were reclassified from *'Amounts due to banks'* to *'Financial liabilities at fair value through profit or loss'*.
9. The category *'Negative fair value of financial derivative transactions'* was split into hedging derivatives and trading derivatives. Trading derivatives were included in *'Financial liabilities at fair value through profit or loss'* in the amount of CZK 5,875 million.
10. The provision for real estate tax of CZK 1 million was reclassified from *'Provisions'* to *'Accruals and other liabilities'*.

4. Source of income and expenses

Set out below is a business segment analysis:

CZK million	Universal banking 2008	2007	Investment banking 2008	2007	Total 2008	2007
External income	29,041	19,011	4,673	10,659	33,714	29,670
Income from other segments	2,649	8,958	(2,649)	(8,958)	0	0
Total income	**31,690**	**27,969**	**2,024**	**1,701**	**33,714**	**29,670**
External expenses	(14,394)	(13,468)	(113)	(161)	(14,507)	(13,629)
Segment result	**17,296**	**14,501**	**1,911**	**1,540**	**19,207**	**16,041**
Unallocated expenses					(2,950)	(1,713)
Profit before taxation					**16,257**	**14,328**
Taxation					(3,024)	(3,103)
Profit					**13,233**	**11,225**
Assets by segment	527,904	445,398	170,584	215,195	698,488	660,593
Investments in associates and unconsolidated subsidiaries	550	493	0	0	550	493
Unallocated assets					6	733
Total consolidated assets					**699,044**	**661,819**
Liabilities by segment	464,420	395,244	170,889	215,691	635,309	610,935
Unallocated liabilities					761	230
Total consolidated liabilities					**636,070**	**611,165**
Acquisition of assets	2,135	2,243	15	9	2,150	2,252
Depreciation and amortisation	1,684	1,646	5	5	1,689	1,651

The release of provisions during the reporting period in the *"Investment banking"* segment amounted to CZK 1 million (2007: a recognition of CZK 1 million), other recognition and release of provisions related only to the *'Universal banking'* segment for all classes of impaired assets.

Subsidiaries that do not meet the criteria of IAS 14 for inclusion in a standalone segment are presented within universal banking.

The Group's income is primarily generated on the territory of the Czech Republic. The bulk of assets are located in the Czech Republic.

5. Net interest income

Net interest income comprises:

CZK million	2008	2007
Interest income and similar income	42,432	34,149
Interest expense and similar expense	(21,410)	(15,470)
Income from dividends on available-for-sale securities	239	111
Net interest income and similar income	**21,261**	**18,790**
Of which net interest income arising from		
– Loans and advances	27,714	23,623
– Securities held to maturity	62	117
– Securities available for sale	2,926	2,682
– Financial liabilities at amortised cost	(10,202)	(9,224)

'Interest income and similar income' includes interest on substandard, doubtful and loss loans of CZK 685 million (2007: CZK 590 million) due from customers and interest of CZK 7 million (2007: CZK 1 million) on securities that have suffered impairment.
'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 10,315 million (2007: CZK 7,727 million) and *'Interest expense and similar expense'* from hedging financial derivatives of CZK 9,793 million (2007: CZK 6,246 million). *'Net interest income and similar income'* from these derivatives amounts to CZK 522 million (2007: CZK 1,481 million).
'Income from dividends on available-for-sale securities' includes dividends received from available-for-sale securities in the form of shares which amounted to CZK 54 million in the year ended 31 December 2008.

6. Net fees and commissions

Net fees and commissions comprise:

CZK million	2008	2007
Fees and commission from transactions	3,977	3,667
Fees and commissions from loans and deposits	3,083	3,009
Other fees and commissions	990	1,080
Total net fees and commissions	**8,050**	**7,756**

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

CZK million	2008	2007
Net realised gains/(losses) on securities held for trading	(6)	5
Net unrealised gains on securities held for trading	1,148	401
Net realised gains on securities available for sale	340	206
Net realised gains on own bonds	0	18
Net realised and unrealised gains on security derivatives	110	28
Net realised and unrealised gains on interest rate derivatives	(240)	230
Net realised and unrealised gains on trading commodity derivatives	33	10
Net realised and unrealised gains on foreign exchange financial derivatives, spot foreign exchange transactions, re-translation of foreign currency assets and liabilities and foreign exchange fees and commissions	2,838	2,084
Total net profit on financial operations	**4,223**	**2,982**

In the year ended 31 December 2008, the line *'Net realised gains/(losses) on financial assets available for sale'* shows the net gain from the sale of the equity investment in Burza cenných papírů Praha, a.s. in the amount of CZK 485 million (refer to Note 19).
The line *'Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions, re-translation of foreign currency assets and liabilities and foreign exchange fees and commissions'* shows the aggregate re-translation of foreign currency assets and liabilities (with the exception of securities held for trading) which represented a net gain of CZK 1,573 million in 2008 (2007: a net loss of CZK 1,778 million) and net fees and commissions from clean and documentary payments and cash transactions with clients of the Group, in the amount of the difference between the exchange rate relating to the purchase/sale of the foreign currency determined by the Group and the official foreign exchange rate of the Czech National Bank used for the revaluation of transactions in foreign currencies.
A loss of CZK 408 million (2007: gain of CZK 208 million) on the fair value of interest rate swaps for foreign currency risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from the retranslation of hedged loan receivables reported in the same line.
A profit of CZK 12 million (2007: a loss of CZK 9 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in *'Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions, re-translation of foreign currency assets and liabilities and foreign exchange fees and commissions'*. This amount matches the gain arising from the retranslation of hedged foreign currency assets reported in the same line.

8. Other income

The Group reports CZK 180 million (2007: CZK 142 million) in *'Other income'*. In the years ended 31 December 2008 and 2007, *'Other income'* predominantly included income arising from the leased assets.

9. Personnel expenses

Personnel expenses comprise:

CZK million	2008	2007
Wages, salaries and bonuses	4,537	4,144
Social costs	1,783	1,770
Total personnel expenses	**6,320**	**5,914**
Physical number of employees at the period-end	8,905	8,613
Average recalculated number of employees during the period	8,804	8,534
Average cost per employee (CZK)	**717,856**	**692,933**

'Social costs' include costs of CZK 113 million (2007: CZK 104 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 43 million (2007: CZK 43 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include expenses of CZK 74 million (2007: CZK nil) relating to provisioning for restructuring in relation to the project of the reorganisation and centralisation of the Bank's back office divisions (refer to Note 34).

10. General administrative expenses

General administrative expenses comprise:

CZK million	2008	2007
Insurance of deposits and transactions	489	482
Marketing and entertainment costs	882	682
Costs of sale and banking products	1,321	1,372
Staff costs	365	308
Property maintenance charges	1,290	1,335
IT support	881	883
Office equipment and other consumption	109	105
Telecommunications, post and other services	326	308
External advisory services	699	550
Other expenses	244	216
Total general administrative expenses	**6,606**	**6,241**

'Insurance of deposits and transactions' shown as a component of *'General administrative expenses'* includes an estimated balance of payments to the Deposit Insurance Fund of CZK 406 million (2007: CZK 386 million).

'General administrative expenses' include expenses of CZK 58 million (2007: CZK nil) relating to provisioning for the restructuring in relation to the project of the reorganisation and centralisation of the Bank's back office divisions (refer to Note 34).

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

CZK million	2008	2007
Depreciation of tangible and intangible fixed assets	1,689	1,651
Provisions for assets and net gain on the sale of assets	(108)	(177)
Total depreciation, impairment and disposal of fixed assets	**1,581**	**1,474**

12. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

CZK million	2008	2007
Balance at 1 January	(10,384)	(9,086)
Provisioning for loan losses	(2,815)	(1,563)
Reallocation to other provisions	0	14
Impact of loans written off and transferred	203	(18)
Exchange rate differences attributable to provisions	(146)	269
Balance at 31 December	**(13,142)**	**(10,384)**

The balance of provisions as of 31 December 2008 and 2007 comprises:

CZK million	2008	2007
Provisions for loans to customers (refer to Note 22)	(12,026)	(9,623)
Provisions for other loans to customers	(1)	(3)
Provisions for loans to financial institutions	(1)	0
Provisions for guarantees and other credit related commitments (refer to Note 34)	(1,114)	(758)
Total	**(13,142)**	**(10,384)**

Provisions for securities

CZK million	2008	2007
Balance at 1 January	17	33
Recognition of provisions	152	0
Release of provisions	0	(15)
Exchange rate difference	0	(1)
Balance at 31 December	**169**	**17**

Provisions for unconsolidated investments

The balance of provisions for unconsolidated investments is reported in the balance sheet line *'Investments in associates and unconsolidated subsidiaries'* in the amount of CZK 35 million (2007: CZK 35 million).

Provisions for other risk expenses

The net recognition of *'Provisions for other risk expenses'* of CZK 3 million (2007: a net release of CZK 250 million) principally consists of the charge for provisions of CZK 65 million (2007: CZK 75 million) and the release and use of provisions of CZK 76 million (2007: CZK 539 million) for legal disputes, together with the costs incurred by the Group as a result of the outcome of legal disputes of CZK 12 million (2007: CZK 217 million), and the write-offs, recognition and use of provisions for receivables arising from internal transactions and supplier arrangements of CZK 4 million (2007: CZK 5 million). Additional information about the provisions for other risk expenses is provided in Note 34.

13. Profit/(loss) attributable to exclusion of companies from consolidation, income from share of associated undertakings

In May 2005, the Bank and Société Générale Asset Management S.A. (France) concluded a contract for the sale of 100 percent of the shares of Investiční kapitálová společnost Komerční banky, a.s. (hereinafter "IKS"). The selling price was payable in two instalments. The first portion of the price was paid immediately as of the transaction date in cash, the second portion of the price was due after the fulfilment of pre-agreed distribution targets for IKS products sold through the Bank's distribution network in 2005 to 2008. The Bank fulfilled the distribution targets. The gain of CZK 150 million is disclosed in the line *'Profit attributable to exclusion of companies from consolidation'*. In the year ended 31 December 2008, no companies were excluded from consolidation.

14. Income taxes

The principal components of the corporate income tax expense are as follows:

CZK million	2008	2007
Tax payable – current year, reported in profit or loss	(2,912)	(2,877)
Tax paid – prior year	1	35
Deferred tax	(93)	(305)
Hedge of a deferred tax asset against foreign currency risk	(20)	44
Total income taxes	**(3,024)**	**(3,103)**
Tax payable – current year, reported in equity	3	28
Total tax expense	**(3,021)**	**(3,075)**

The items explaining the difference between the theoretical and Group's effective tax rate are as follows:

CZK million	2008	2007
Profit before tax	**16,257**	**14,328**
Theoretical tax calculated at a tax rate of 21% (2007: 24%)	3,414	3,439
Tax on pre-tax profit adjustments	(8)	(2)
Non-taxable income	(1,472)	(1,249)
Expenses not deductible for tax purposes	1,099	908
Use of tax losses carried forward	0	0
Tax allowance	(2)	(2)
Tax credit	(68)	(71)
Tax on a standalone tax base	21	0
Hedge of a deferred tax asset against foreign currency risk	20	(44)
Movement in deferred tax	93	305
Tax losses from consolidation	27	0
Impact of various tax rates of subsidiary undertakings	(96)	(123)
Tax effect of share of profits of associated undertakings	(3)	(23)
Income tax expense	**3,025**	**3,138**
Prior period tax expense	(1)	(35)
Total income taxes	**3,024**	**3,103**
Tax payable on securities reported in equity*	(3)	(28)
Total income tax	**3,021**	**3,075**
Effective tax rate	18.60%	21.66%

Note: * This amount represents the tax payable on unrealised gains from the revaluation of securities available for sale which are revalued through equity under IFRS.

Non-taxable income primarily includes dividends; gain on the sale of a subsidiary, tax exempt interest income and the release of non-tax deductible provisions and reserves. Expenses not deductible for tax purposes include the recognition of non-tax deductible reserves and provisions and non-tax deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to CAS. Tax credit arises from interest income on bonds issued by EU states.

The corporate tax rate for the year ended 31 December 2008 is 21 percent (2007: 24 percent). The Group's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 35.

15. Distribution of profits/Allocation of losses

The Group generated a net profit of CZK 13,233 million for the year ended 31 December 2008. Distribution of profits for the year ended 31 December 2008 will be approved by the general meetings of the Group companies.

16. Earnings per share

Earnings per share of CZK 348.70 (2007: CZK 295.74 per share) have been calculated by dividing the net profit of CZK 13,233 million (2007: CZK 11,225 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average number of treasury shares held by the Group during the period.

17. Cash and current balances with central banks

Cash and current balances with central banks comprise:

CZK million	2008	2007
Cash and cash equivalents	7,791	7,223
Balances with central banks	6,170	6,334
Total cash and current balances with central banks	**13,961**	**13,557**

Balances with central banks represent obligatory minimum reserves and other deposits with central banks. The obligatory minimum reserves bear interest. The obligatory minimum reserves with the Czech National Bank bore interest at 2.25 percent and 3.50 percent as of 31 December 2008 and 2007, respectively. Obligatory minimum reserves with the National Bank of Slovakia bore interest at 1.50 percent and 1.50 percent as of 31 December 2008 and 2007, respectively.

18. Financial assets at fair value through profit or loss

As of 31 December 2008 and 2007, financial assets at fair value through profit or loss included securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Group has not designated any financial assets as at fair value through profit or loss.

CZK million	2008	2007
Securities	25,801	24,501
Derivative financial instruments	18,192	7,409
Financial assets at fair value through profit or loss	**43,993**	**31,910**

For detailed information on derivative financial instruments included in the securities held for trading portfolio, refer to Note 44. Trading securities comprise:

CZK million	2008 Fair value	2008 Cost*	2007 Fair value	2007 Cost*
Shares and participation certificates	**3**	**3**	**74**	**74**
Emission allowances	**212**	**213**	**0**	**0**
Fixed income debt securities	15,856	15,844	15,710	15,868
Variable yield debt securities	822	829	313	313
Bills of exchange	1,000	1,000	998	999
Treasury bills	7,908	7,904	7,406	7,414
Total debt securities	**25,586**	**25,577**	**24,427**	**24,594**
Total trading securities	**25,801**	**25,793**	**24,501**	**24,668**

Note: * Acquisition cost for shares, participation certificates and emission allowances, amortised acquisition cost for debt securities

The Group's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 7,908 million (2007: CZK 7,406 million).

As of 31 December 2008, the portfolio of trading securities includes securities at a fair value of CZK 16,893 million (2007: CZK 16,097 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 8,908 million (2007: CZK 8,404 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).
Trading shares and participation certificates at fair value comprise:

CZK million	2008	2007
Shares and participation certificates		
– Czech crowns	3	74
Total trading shares and participation certificates	**3**	**74**

Trading shares and participation certificates at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Trading shares and participation certificates issued by:		
– Other entities in the Czech Republic	0	71
– Other foreign entities	3	3
Total trading shares and participation certificates	**3**	**74**

Emission allowances held for trading at fair value comprise:

CZK million	2008	2007
Emission allowances		
– Other currencies	212	0
Total emission allowances held for trading	**212**	**0**

Emission allowances held for trading at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Emission allowances held for trading issued by:		
– Foreign state institutions	212	0
Total emission allowances held for trading	**212**	**0**

Debt trading securities at fair value comprise:

CZK million	2008	2007
Variable yield debt securities		
– Czech crowns	339	313
– Other currencies	483	0
Total variable yield debt securities	**822**	**313**
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	22,807	22,834
– Other currencies	1,957	1,280
Total fixed income debt securities	**24,764**	**24,114**
Total trading debt securities	**25,586**	**24,427**

Debt trading securities at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Debt trading securities issued by:		
– State institutions in the Czech Republic	20,911	20,369
– Foreign state institutions	2,360	1,199
– Financial institutions in the Czech Republic	168	159
– Foreign financial institutions	458	382
– Other entities in the Czech Republic	1,579	1,988
– Other foreign entities	110	330
Total trading debt securities	**25,586**	**24,427**

Of the debt securities issued by state institutions in the Czech Republic, CZK 20,911 million (2007: CZK 19,518 million) represents securities eligible for refinancing with the Czech National Bank.

19. Financial assets available for sale

Financial assets available for sale comprise:

CZK million	2008 Fair value	2008 Cost*	2007 Fair value	2007 Cost*
Shares and participation certificates	**1,513**	**1,620**	**2,517**	**2,047**
Fixed income debt securities	88,570	87,413	71,363	71,874
Variable yield debt securities	8,081	7,892	7,946	8,056
Total debt securities	**96,651**	**95,305**	**79,309**	**79,930**
Total financial assets available for sale	**98,164**	**96,925**	**81,826**	**81,977**

Note: * Acquisition cost for shares and participation certificates, amortised acquisition cost for debt securities.

As of 31 December 2008, the available-for-sale portfolio includes securities at a fair value of CZK 83,173 million (2007: CZK 72,091 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 14,991 million (2007: CZK 9,735 million) that are not publicly traded.

In December 2008, the Bank and the group of selling shareholders of Burza cenných papírů Praha, a.s. (hereinafter "BCPP") sold the equity investment in BCPP to Wiener Börse AG (Vienna Stock Exchange). The sold equity investment of the Bank in BCPP amounted to 11.51 percent. The net gain from the sale for the Group amounted to CZK 485 million (refer to Note 7).

Shares and participation certificates available for sale at fair value comprise:

CZK million	2008	2007
Shares and participation certificates		
– Czech Crowns	700	1,241
– Other currencies	813	1,276
Total shares and participation certificates available for sale	**1,513**	**2,517**

Shares and participation certificates available for sale at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	700	806
– Foreign banks	0	174
– Non-banking entities in the Czech Republic	0	230
– Non-banking foreign entities	813	1,307
Total shares and participation certificates available for sale	**1,513**	**2,517**

'Shares and participation certificates available for sale issued by banks in the Czech Republic' include the Group's 13 percent shareholding in Českomoravská záruční a rozvojová banka, a.s. Based on an analysis of regularly paid dividends and an estimate of probable future cash flows, the value of the investment was determined at CZK 640 million (2007: CZK 746 million) over the acquisition cost.
Debt securities available for sale at fair value comprise:

CZK million	2008	2007
Variable yield debt securities		
– Czech Crowns	7,980	7,755
– Other currencies	101	191
Total variable yield debt securities	**8,081**	**7,946**
Fixed income debt securities		
– Czech Crowns	70,773	59,485
– Other currencies	17,797	11,878
Total fixed income debt securities	**88,570**	**71,363**
Total debt securities available for sale	**96,651**	**79,309**

Debt securities available for sale at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	49,512	37,291
– Foreign state institutions	24,962	18,350
– Financial institutions in the Czech Republic	15,202	17,006
– Foreign financial institutions	3,738	4,054
– Other entities in the Czech Republic	1,032	1,292
– Other foreign entities	2,205	1,316
Total debt securities available for sale	**96,651**	**79,309**

Of the debt securities issued by state institutions in the Czech Republic, CZK 44,156 million (2007: CZK 37,064 million) represents securities eligible for refinancing with the Czech National Bank.

Asset backed securities

The Group maintains a portfolio of asset backed securities (ABS) denominated in USD which are carried as available for sale. The Group establishes the value of these securities using a simplified model which facilitates the discounting of anticipated future cash flows by using the most recent average CDO of credit spreads. The carrying value of these securities as of 31 December 2008, net of remeasurement, is CZK 102 million (2007: CZK 202 million).
In 2008, the Group's exposure to the ABS decreased primarily as a result of the decrease in the valuation of these securities of USD 4 million (i.e. CZK 81 million) and the redemption of the nominal values of these securities of USD 2 million (i.e. CZK 28 million).

Other debt securities

During the year ended 31 December 2008, the Group acquired Government bonds with a nominal value of CZK 13,800 million, EUR 236 million and USD 27 million (a total equivalent of CZK 20,667 million). During 2008, the Bank redeemed at maturity debt securities in the aggregate nominal volume of CZK 1,871 million and EUR 36 million (a total equivalent of CZK 2,827 million).

20. Assets held for sale

As of 31 December 2008, the Group reported assets held for sale at a carrying amount of CZK 429 million (2007: CZK 735 million) comprising buildings and land owned by the Group which management of the Group decided to sell as part of the plan to optimise the distribution network. These buildings are not depreciated. The difference between the amounts as of 31 December 2008 and 2007 arises from the sale of these assets and reclassification of buildings and land that do not meet the criteria for recognition as assets held for sale back to *'Tangible fixed assets'*, refer to Note 27. The impact on the profit and loss statement is immaterial.

21. Amounts due from banks

Balances due from banks comprise:

CZK million	2008	2007
Deposits with banks (current accounts)	254	198
Loans and advances to banks	21,082	6,079
Debt securities of banks acquired under initial offerings not designated for trading	13,827	15,138
Advances due from central banks (reverse repo transactions)	94,882	120,073
Term placements with other banks	16,054	59,603
Total	**146,099**	**201,091**
Provisions	(1)	0
Total amounts due from banks	**146,098**	**201,091**

Advances due from central banks and other banks under reverse repurchase transactions are collateralised by treasury bills issued by central banks and other securities with fair value:

CZK million	2008	2007
Treasury bills	93,090	117,742
Debt securities issued by state institutions	15,490	2,747
Debt securities issued by other institutions	629	0
Shares	442	216
Total	**109,651**	**120,705**

Securities acquired as loans and receivables

As of 31 December 2008, the Group maintains in its portfolio bonds at an amortised cost of CZK 13,805 million (2007: CZK 15,138 million) and a nominal value of CZK 13,628 million (2007: CZK 14,925 million), of which CZK 11,513 million represents bonds issued by the parent company Société Générale S.A. (2007: CZK 13,515 million) which the Group acquired under initial offerings and normal market conditions in 2002 and 2006. The bond with the nominal value of CZK 8,000 million (2007: CZK 10,000 million) is denominated in CZK, bears fixed interest at 4.27 percent and will mature in 2012. During 2008, the Group partially repaid the nominal value of the bond in the amount of CZK 2,000 million. The bond with the nominal value of CZK 3,513 million (2007: CZK 3,515 million) is denominated in EUR, bears floating interest and will mature in 2026. The Group additionally carries in this portfolio three issues of securities placed by financial institutions with an aggregate nominal value of CZK 2,115 million (2007: CZK 1,410 million). During 2008, the Group purchased one issue of bonds issued by financial institutions with the nominal value of CZK 705 million.

22. Loans and advances to customers

Loans and advances to customers comprise:

CZK million	2008	2007
Loans to customers	371,421	312,661
Bills of exchange	748	851
Forfaits	1,804	985
Other amounts due from customers	2,094	67
Total gross loans and advances to customers	**376,067**	**314,564**
Provisions for loans to customers	(12,026)	(9,623)
Provisions for other amounts due from customers	(1)	(3)
Total loans and advances to customers, net	**364,040**	**304,938**

Loans and advances to customers include interest due of CZK 2,049 million (2007: CZK 1,555 million), of which CZK 1,228 million (2007: CZK 899 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as of 31 December 2008 amounting to CZK 2,079 million (2007: CZK 15 million) are collateralised by securities with fair values of CZK 2,306 million (2007: CZK 16 million).

The loan portfolio of the Group as of 31 December 2008 (excluding other amounts due from customers) comprises the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions (%)
Standard	341,236	145,299	195,937	0	341,236	0
Watch	14,598	5,356	9,242	1,111	13,487	12
Substandard	5,250	1,429	3,821	973	4,277	25
Doubtful	1,903	441	1,462	790	1,113	54
Loss	10,986	455	10,531	9,152	1,834	87
Total	**373,973**	**152,980**	**220,993**	**12,026**	**361,947**	

The loan portfolio of the Group as of 31 December 2007 (excluding other amounts due from customers) comprises the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions (%)
Standard	288,010	128,577	159,433	0	288,010	0
Watch	13,705	5,607	8,098	793	12,912	10
Substandard	2,157	1,172	985	541	1,616	55
Doubtful	2,003	582	1,421	882	1,121	62
Loss	8,622	589	8,033	7,407	1,215	92
Total	**314,497**	**136,527**	**177,970**	**9,623**	**304,874**	

Loans classified as loss in the above table include amounts of CZK 6,291 million (2007: CZK 5,358 million), on which interest is not being accrued.

Set out below is the breakdown of loans by sector (net of other amounts due from customers):

CZK million	2008	2007
Food industry and agriculture	16,397	16,111
Metallurgy and metal processing	8,146	8,116
Automotive industry	7,633	5,531
Production of electric and electronic equipment	3,011	2,531
Electricity, gas and water industry	7,790	5,163
Construction industry	9,889	10,402
Wholesale	30,567	27,005
Insurance, banking	31,303	28,319
Real estate	19,516	12,061
Public administration	11,919	10,757
Commercial services	14,756	11,861
Other industry	56,309	45,495
Individuals	156,737	131,145
Total loans to clients	**373,973**	**314,497**

The majority of loans were provided to entities on the territory of the Czech Republic.

Set out below is an analysis of types of collateral underlying on balance sheet loans and advances to customers:

CZK million	Total client loan collateral 2008	Discounted client loan collateral value 2008	Applied client loan collateral value 2008	Total client loan collateral 2007	Discounted client loan collateral value 2007	Applied client loan collateral value 2007
Guarantees of state and governmental institutions	3,428	2,829	2,594	4,091	3,262	2,945
Bank guarantee	21,045	20,630	19,473	19,058	18,307	16,576
Guaranteed deposits	737	732	453	2,607	2,606	2,382
Issued debentures in pledge	204	204	0	135	135	15
Pledge of real estate	240,358	145,986	101,050	189,244	119,294	87,256
Pledge of movable assets	7,794	1,697	1,551	7,136	1,101	1,044
Guarantee by legal entity	21,957	12,370	9,439	14,357	6,967	5,332
Guarantee by individual (natural person)	11,291	1,256	1,172	44,357	7,467	7,382
Pledge of receivables	51,598	17,068	15,020	46,018	12,572	11,047
Insurance of credit risk	2,194	2,081	1,979	1,829	1,731	1,730
Other	5,021	818	249	24,469	5,033	818
Total nominal value of collateral	**365,627**	**205,671**	**152,980**	**353,301**	**178,475**	**136,527**

Pledges on industrial real estate represent 12 percent of total pledges on real estate (2007: 13 percent).

Loans and advances to customers – leasing

CZK million	2008	2007
Due less than 1 year	535	545
Due from 1 to 5 years	337	322
Due over 5 years	0	15
Total	**872**	**882**

Within the Group, ESSOX s.r.o. engages in providing lease services. Assets leased under lease arrangements primarily include used passenger and utility vehicles with an average lease instalment period of 63 months (2007: 43 months), new passenger and utility vehicles with an average lease instalment period of 68 months (2007: 56 months), technology with an average lease instalment period of 43 months (2007: 35 months) and consumer goods with an average lease instalment period of 10 months (2007: 12 months). As of 31 December 2008, future interest (the difference between the gross and net leasing investment) on lease contracts amounts to CZK 77 million (2007: CZK 75 million) and the provisions recognised against uncollectible lease receivables amount to CZK 336 million (2007: CZK 316 million).

Trade finance losses

During 1999, the Group incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Group. As of 31 December 2008, on balance sheet loans to this client included an amount of CZK 1,352 million (2007: CZK 1,226 million) that was fully provided for. The year-on-year decrease in the balance between 2008 and 2007 arises from a foreign exchange rate difference. The Group did not report any off balance sheet receivables from this client in 2008 and 2007. The Group is continuing to take action in all relevant jurisdictions to recover its funds.

23. Investments held to maturity

Investments held to maturity comprise:

CZK million	Carrying value 2008	Cost* 2008	Carrying value 2007	Cost* 2007
Fixed income debt securities	1,435	1,435	2,999	2,998
Total investments held to maturity	**1,435**	**1,435**	**2,999**	**2,998**

Note: * Amortised cost

As of 31 December 2008, investments held to maturity include bonds of CZK 1,435 million (2007: CZK 2,999 million) that are publicly traded on stock exchanges.
Debt securities held to maturity comprise:

CZK million	2008	2007
Fixed income debt securities		
– Czech Crowns	0	1,368
– Other currencies	1,435	1,630
Total fixed income debt securities	**1,435**	**2,999**
Total debt securities held to maturity	**1,435**	**2,999**

Investments held to maturity, allocated by issuer, comprise:

CZK million	2008	2007
Debt securities held to maturity issued by:		
– State institutions in the Czech Republic	0	1,369
– Foreign state institutions	1,435	1,630
Total debt securities held to maturity	**1,435**	**2,999**

Of the debt securities issued by state institutions in the Czech Republic, CZK mil (2007: CZK 1,385 million) represents securities eligible for refinancing central banks.
No purchase or sale within this portfolio took place during the year ended 31 December 2008. During 2008, debt securities in the total nominal amount of CZK 1,341 million and EUR 8 million (a total equivalent of CZK 1,556 million) were redeemed at maturity.

24. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

CZK million	2008	2007
Prepayments and accrued income	788	735
Settlement balances	383	1,280
Receivables from securities trading	965	1,102
Other assets	4,031	3,883
Total prepayments, accrued income and other assets	**6,167**	**7,000**

In the year ended 31 December 2008, 'Other assets' included receivables of CZK 2,086 million (2007: CZK 2,240 million) from the state budget including contributions to construction savings scheme and pension insurance policy holders.

25. Investments in associates and unconsolidated subsidiaries

Investments in associates and unconsolidated subsidiaries comprise:

CZK million	2008	2007
Investments in subsidiary undertakings	4	4
Investments in associated undertakings	546	489
Total investments in subsidiaries and associates	**550**	**493**

CZK million Subsidiaries	Group's ownership interest (%)	Cost of investment 2008	Net book value 2008	Cost of investment 2007	Net book value 2007
ALL IN REAL ESTATE LEASING, a.s.	100.00	39	4	39	4
Total subsidiaries	**–**	**39**	**4**	**39**	**4**

CZK million Associates	Group's ownership interest (%)	Net book value 2008	Shares of net assets 2008	Ne book value 2007	Share of net assets 2007
Komerční pojišťovna, a.s.	49.00	482	546	483	489
CBCB – Czech Banking Credit Bureau, a.s.*	20.00	0	0	0	0
Total associates	**–**	**482**	**546**	**483**	**489**
Investments in associates and unconsolidated subsidiaries	**–**	**521**	**550**	**522**	**493**

Note: * The cost and net book value of CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

CZK million Associates	Assets 2008	Net operating income 2008	Profit 2008	Assets 2007	Not operating income 2007	Profit 2007
Komerční pojišťovna, a.s.	11,931	502	25	12,077	395	221
CBCB – Czech Banking Credit Bureau, a.s.	26	95	5	20	83	4

Additional information about the Bank's equity investments is presented in Notes 1 and 2.

26. Intangible fixed assets

The movements in intangible fixed assets during the year ended 31 December 2008 are as follows:

CZK million	Internally generated assets	Software	Other intangible assets	Assets under construction	Total
Cost					
31 December 2007	4,935	1,602	349	874	7,760
Additions	0	259	0	1,354	1,613
Disposals/Transfers	726	101	13	(1,048)	(208)
31 December 2008	**5,661**	**1,962**	**362**	**1,180**	**9,165**
Accumulated amortisation and provisions					
31 December 2007	3,345	1,102	326	33	4,806
Additions	630	248	20	0	898
Disposals	0	(10)	0	0	(10)
Impairment charge	0	0	0	(33)	(33)
31 December 2008	**3,975**	**1,340**	**346**	**0**	**5,661**
Net book value					
31 December 2007	1,590	500	23	841	2,954
31 December 2008	**1,686**	**622**	**16**	**1,180**	**3,504**

During the year ended 31 December 2008, the Group invested CZK 238 million (2007: CZK 161 million) in research and development through a charge to operating expenses.

27. Tangible fixed assets

The movements in tangible fixed assets during the year ended 31 December 2008 are as follows:

CZK million	Land	Buildings	Fixtures, fittings and equipmentl	Assets under construction	Total
Cost					
31 December 2007	302	10,755	6,912	346	18,316
Reallocation from assets held for sale	0	76	0	0	76
Additions	9	278	461	796	1,544
Disposals/Transfers	0	(154)	(1,243)	(723)	(2,120)
31 December 2008	**311**	**10,955**	**6,130**	**419**	**17,816**
Accumulated depreciation and provisions					
31 December 2007	0	4,552	5,762	0	10,314
Reallocation of accumulated depreciation of assets held for sale	0	24	0	0	24
Additions	0	360	446	0	806
Disposals	0	(67)	(1,234)	0	(1,301)
Impairment charge	0	(25)	(2)	0	(27)
31 December 2008	**0**	**4,844**	**4,972**	**0**	**9,816**
Net book value					
31 December 2007	302	6,203	1,151	346	8,002
31 December 2008	**311**	**6,111**	**1,158**	**419**	**8,000**

As of 31 December 2008, the net book value of assets held by the Group under finance lease agreements was CZK 1 million (2007: CZK 5 million).

As of 31 December 2008, the Group recognised provisions against tangible assets of CZK 23 million (2007: CZK 50 million). These provisions primarily included provisions charged in respect of leasehold improvements.

28. Goodwill

The movements in goodwill during the year ended 31 December 2008 are as follows:

CZK million	2008	2007
Opening balance	**3,551**	**2,903**
Adjustment of acquisition accounting	0	648
31 December 2007 adjusted balance	0	3,551
Additions	0	0
Disposals	0	0
31 December 2008	**3,551**	**3,551**
Provisions		
31 December 2007	0	0
31 December 2008	**0**	**0**
Net book value		
31 December 2007	3,551	3,551
31 December 2008	**3,551**	**3,551**

The change in goodwill in 2007 represents its adjustment reflecting the adjustment of acquisition accounting under IFRS 3.

29. Financial liabilities at fair value through profit or loss

As of 31 December 2008 and 2007, financial liabilities at fair value through profit or loss include only liabilities arising from sold securities and negative fair values of financial derivative instruments held for trading. The Group identified no other financial liability as at fair value through profit or loss upon initial recognition.

CZK million	2008	2007
Sold securities	947	1,848
Derivative financial instruments	19,208	5,875
Financial liabilities at fair value through profit or loss	**20,155**	**7,723**

For detailed information of financial derivative instruments included in the portfolio for trading, refer to Note 44.

30. Amounts due to banks

Amounts due to banks comprise:

CZK million	2008	2007
Current accounts	3,799	1,863
Other amounts due to banks	7,315	10,404
Total amounts due to banks	**11,114**	**12,267**

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 419 million (2007: CZK 1,958 million).

31. Amounts due to customers

Amounts due to customers, by type of deposit, comprise:

CZK million	2008	2007
Current accounts	293,997	299,874
Savings accounts	76,671	72,523
Term deposits	115,532	103,118
Depository bills of exchange	37,232	38,413
Other payables to customers	31,138	26,301
Total amounts due to customers	**554,570**	**540,229**

As of 31 December 2007 and 2008, the Group recorded no liabilities arising from repurchase loans from customers.
Amounts due to customers, by type of customer, comprise:

CZK million	2008	2007
Private companies	193,106	191,291
Other financial institutions, non-banking entities	11,062	17,419
Insurance companies	7,990	6,031
Public administration	3,985	5,322
Individuals	242,520	228,132
Individuals – entrepreneurs	26,064	25,937
Government agencies	55,322	50,103
Other	8,680	10,406
Non-residents	5,841	5,588
Total amounts due to customers	**554,570**	**540,229**

32. Securities issued

Securities issued comprise bonds of CZK 692 million (2007: CZK 466 million) and mortgage bonds of CZK 23,436 million (2007: CZK 27,451 million). Publicly tradable mortgage bonds are issued to fund the Group’s mortgage activities.
Debt securities are repayable, according to remaining maturity, as follows:

CZK million	2008	2007
In less than one year	3,630	3,789
In one to two years	0	3,632
In two to four years	0	0
In five to ten years	16,807	16,765
Over ten years	3,691	3,731
Total debt securities	**24,128**	**27,917**

During the year ended 31 December 2008, the Group repaid mortgage bond CZ0002000383 with the nominal volume of CZK 3,500 million, refer to the following table.

The debt securities detailed above include the following bonds and notes issued by the Group:

Name CZK million	Interest rate	Currency	Issue date	Maturity date	2008	2007
Mortgage bonds of Komerční banka, a.s., CZ0002000268	5.5%	CZK	21 Aug 2003	21 Aug 2009	3,630	3,702
Mortgage bonds of Komerční banka, a.s., CZ0002000383	4.5%	CZK	5 Aug 2004	5 Aug 2008	0	3,592
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 Aug 2005	3 Aug 2015	4,895	5,026
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,290	10,358
Mortgage bonds of Komerční banka, a.s., CZ0002000854	3.74%	EUR	1 Sept 2006	1Sept 2016	930	1,035
Bonds of Komerční banka, a.s., CZ0003701427	4.22%	CZK	18 Dec 2007	1 Dec 2017	692	466
Mortgage bonds of Komerční banka, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	3,691	3,738
Total debts					**24,128**	**27,917**

Note: Six-month PRIBOR was 375 basis points as of 31 December 2008 (2007: 414 basis points).
Three-month PRIBID was 323 basis points as of 31 December 2008 (2007: 401 basis points).
The value of the interest rate swap CZK sale average for ten years as of 31 December 2008 was 327 bps (2007: 459 basis points)

33. Accruals and other liabilities

Accruals and other liabilities comprise:

CZK million	2008	2007
Settlement balances and outstanding items	82	146
Payables from securities trading and issues of securities	1,648	2,356
Payables from payment transactions	5,762	5,708
Other liabilities	3,660	3,260
Accruals and deferred income	923	878
Total accruals and other liabilities	**12,075**	**12,348**

'Other liabilities' largely include liabilities arising from the supplies of goods and services and employee arrangements, including estimated balances.

Deferred income fees from banking guarantees is reported in *'Accruals and deferred income'* in the amount of CZK 21 million (2007: CZK 21 million).

34. Provisions

Provisions comprise:

CZK million	2008	2007
Provisions for contracted commitments	773	933
Provisions for other credit commitments	1,114	758
Provision for restructuring	132	0
Total provisions	**2,019**	**1,691**

In 2008, the Group recognised a provision for restructuring with respect to the project of reorganisation and centralisation of the Bank's back office divisions. The provision was recognised in the amount of estimated expenses for severance pay costs, advisory services and other expenses required to effect the restructuring according to the detailed plan of reorganisation. The recognition of the provision is posted to the profit and loss statement line *'Personnel costs'* and *'General administrative expenses'*.

The provisions for other credit commitments are held to cover credit risks associated with issued credit commitments. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements and the provision for jubilee bonuses.

Set out below is an analysis of the provision for other credit commitments:

CZK million	2008	2007
Provision for off balance sheet commitments	934	621
Provision for undrawn loan facilities	180	137
Total	**1,114**	**758**

Movements in the provisions for contracted commitments are as follows:

CZK million	1 January 2008	Additions	Disposals	Accrual	Foreign exchange difference	31 December 2008
Provisions for retirement bonuses	92	8	6	6	0	100
Provisions for loyalty and jubilee bonuses	2	0	0	0	0	2
Other provisions for contracted commitments	839	94	283	0	21	671
Total	**933**	**102**	**289**	**6**	**21**	**773**

As of 31 December 2008, the Group held a provision of CZK 2 million (2007: CZK 200 million) for the amount of future lease rental payments arising from the unutilised leased buildings which the Group intends to vacate. This provision is included in *'Other provisions for contracted commitments'*.

35. Deferred income taxes

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is 20 percent in 2009 and 19 percent starting from 2010.
Deferred income tax assets and liabilities are attributable to the following items:

CZK million	2008	2007
Banking reserves and provisions	282	255
Provisions for non-banking receivables	14	12
Provisions for assets	89	132
Non-banking reserves	127	125
Depreciation	(341)	(316)
Leases	(2)	2
Revaluation of hedging derivatives – equity impact	(885)	211
Revaluation of available-for-sale financial assets – equity impact	(45)	46
Adjustments of the fair values of the building and deposits of Modrá pyramida stavební spořitelna, a.s.	0	170
Other temporary differences	186	88
Net deferred tax asset/(liability)	**(575)**	**725**

Deferred tax recognised in the financial statements:

CZK million	2008	2007
Balance at the beginning of the period	**725**	**(472)**
Movement in net deferred tax liability – profit and loss impact	(93)	(305)
Movement in net deferred tax liability – equity impact	(1,207)	1,502
Balance at the end of the period	**(575)**	**725**

The changes in tax rates had no significant impact on the deferred tax in 2008. The impact of changes in tax rates represented a reduction of the deferred tax asset of CZK 93 million in 2007.

36. Subordinated debt

As of 31 December 2008 the Group had subordinated debt of CZK 6,003 million (2007: CZK 6,004 million). The nominal value of the subordinated debt received by the Group at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity until with the Group's option for early repayment after five years and thereafter as of any interest payment date. Interest payments are made on a monthly basis.

37. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).
Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2008:

Name of the entity	Registered office	Ownership percentage
Société Générale S.A.	29 Bld Haussmann, Paris	60.35
State Street Bank & Trust Company	Frenklin Street 225, Boston	9.13
Nortrust Nominees Limited	50 Bank St. Canary Wharf, London	5.33

Société Générale S.A., being the only entity with a qualified holding in the Bank, is a French joint stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and the following of the French Commercial Code, as well as current by-laws.
As of 31 December 2008, the Group held 54,000 treasury shares at a cost of CZK 150 million (2007: 54,000 treasury shares at a cost of CZK 150 million).

Capital management

The Group manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. As part of the capital planning process, the Group takes into account both internal and external factors which are reflected in the corresponding internal targets expressed in targeted Tier 1 values and the capital adequacy ratio. The Group's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Group. This analysis principally leads to adjustments of the level of the Group's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.
The Group's capital principally consists of the following balances: share capital, reserve funds, undistributed profit and subordinated debt.
The Czech National Bank, as the local regulatory authority, oversees the Group's compliance with the capital adequacy ratio both on a stand-alone and consolidated basis. The Group's regulatory capital is divided into Tier 1 and Tier 2. The capital components are subject to various limits; for example, subordinated debt may not exceed 50 percent of the Tier 1 capital.
The ruling banking regulation, known as Basel II, is based on the three-pillar concept. The first pillar is devoted to the description and quantification of credit, operational and market risks and was implemented under the direct supervision of the regulator. The second pillar allows banks to apply their own approach to risks, but concurrently requires coverage of all types of risks to which the Bank is exposed. The third pillar focuses on reporting requirements with the aim of providing the market with better information on the Bank.
As part of the first pillar of Basel II, the Group began to use the following approaches starting from 2008:

- Special approach to the calculation of capital requirements relating to credit risks based on internal rating (Internal Rating Based Advanced Approach); and
- Special approach to the calculation of the capital requirement to the operational risk (Advanced Measurement Approach).

Under the second pillar of Basel II which requires the creation of the system for the internal evaluation of the capital adequacy in relation to the risk profile (internally determined capital system), the Group determined and formalised this system and outlined the relating capital adequacy strategy. The system is based on the Pillar 1 Plus method when mitigation factors are determined for risks not covered by the first pillar either of qualitative nature, e.g. in the form of control processes, or quantitative nature with an impact on the future income of the Group or directly on the additional capital requirement. The risks already described in the first pillar are actually assessed in the second pillar. In addition, the Group analyses impacts of stress testing on all risks over a specific time period. For stress testing purposes, the Group developed a set of macroeconomic "Global Economic Scenarios" which facilitates the evaluation of the impacts of the scenario in a comprehensive manner across all risks to which the Group is exposed and thus mutual integration the impact of individual risks. The Group prepared the Information on the Internally Determined Capital System and submitted it to the Czech National Bank for the first time in the year ended 31 December 2008.

38. Composition of cash and cash equivalents as reported in the cash flow statement

CZK million	2008	2007	Change in the year
Cash and balances with central banks	13,961	13,557	404
Amounts due from banks – current accounts	254	198	56
Amounts due to central banks	(1)	(10)	9
Amounts due to banks – current accounts	(3,799)	(1,863)	(1,936)
Total	**10,415**	**11,882**	**(1,467)**

39. Acquisition/disposal of subsidiary companies

In May 2005, the Bank and Société Générale Asset Management S.A. (France) concluded a contract for the sale of 100 percent of shares of Investiční kapitálová společnost Komerční banky, a.s. (hereinafter "IKS"). The selling price was payable in two instalments. The first portion of the price was paid immediately as of the transaction date in cash, the second portion of the price was due after the fulfilment of pre-agreed distribution targets for IKS products sold through the Group's distribution network in 2005 to 2008. The Group fulfilled the distribution targets. The gain of CZK 150 million is disclosed in the line 'Profit/(loss) attributable to exclusion of companies from consolidation', refer to Note 12. No companies were excluded from consolidation in the year ended 31 December 2008.

40. Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2008. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 146 million (2007: CZK 198 million) for these legal disputes, refer to Note 34. The Group has also recorded an accrual of CZK 354 million (2007: CZK 298 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2008, the Group assessed lawsuits filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Group makes provisions against these instruments on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2008, the Group had capital commitments of CZK 387 million (2007: CZK 128 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable undertakings by the Group on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The condition for opening a letter of credit is its collateralisation, that is, no uncollateralised letter of credit can be opened. The Group records provisions against these instruments on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans

Principal off balance sheet exposures include unutilised overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. Commitments to extend credit or guarantees issued by the Group which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. The Group does not recognise a provision for revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements (that is, their use is not contingent upon the customers maintaining other specific credit standards). The Group recognises a provision for irrevocable commitments as and when required (according to a customer's solvency).

Financial commitments and contingencies comprise:

CZK million	2008	2007
Non-payment guarantees including commitments to issued non-payment guarantees	32,438	25,772
Payment guarantees including commitments to issued payment guarantees	9,483	9,690
Received bills of exchange/acceptances and endorsements of bills of exchange	68	75
Committed facilities and unutilised overdrafts	37,472	28,261
Undrawn credit commitments	62,271	51,395
Unutilised overdrafts and approved overdraft loans	46,028	53,373
Unutilised discount facilities	62	146
Unutilised limits under Framework agreements to provide financial services	43,755	45,494
Letters of credit uncovered	1,097	1,074
Stand by letters of credit uncovered	687	719
Confirmed letters of credit	276	67
Letters of credit covered	139	80
Total contingent revocable and irrevocable commitments	**233,776**	**216,146**

The Group provides a variety of credit facilities to its largest clients. Of the Group's committed facilities and guarantees, CZK 39,131 million (2007: CZK 38,703 million) is revocable.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. As of 31 December 2008, the Group recorded provisions for these risks amounting to CZK 1,114 million (2007: CZK 758 million) – for further information see Note 34.

Set out below is the breakdown of financial commitments and contingencies by sector:

CZK million	2008	2007
Food industry and agriculture	6,455	6,838
Metallurgy and metal processing	5,936	4,872
Automotive industry	4,837	6,212
Production of electric and electronic equipment	3,980	4,851
Electricity, gas and water industry	22,620	19,011
Construction industry	43,663	35,888
Wholesale	22,585	21,998
Insurance, banking	15,657	13,146
Real estate	5,140	4,921
Public administration	11,674	10,216
Commercial services	16,836	14,733
Other industry	50,875	51,070
Individuals	23,518	22,390
Contingent liabilities	**233,776**	**216,146**

The majority of commitments and contingencies originate on the territory of the Czech Republic.

41. Related parties

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 on making financial or operational decisions. As of 31 December 2008, the Group was controlled by Société Générale which owns 60.35 percent of the Bank's issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, derivative transactions and other types of transactions. These transactions were carried out on commercial terms and at market rates.

Amounts due to and from the Group companies

As of 31 December 2008, the Group had loans outstanding of CZK nil (2007: CZK 4 million) and deposits of CZK 181 million (2007: 369 million) to the associate, Komerční pojišťovna, a.s. Other amounts due, amounts owed, income and expenses with the Group were immaterial in 2008 and 2007.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

CZK million

Company	2008	2007
ALD Automotive Czech Republic, s. s r. o.	2,725	1,596
ESSOX SK s.r.o.	100	98
Investiční kapitálová společnost KB, a.s.	12	0
SG Consumer Finance d.o.o.	1,151	1,151
SG Equipment Finance Czech Republic, s. s r.o.	8,763	6,724
SG Express bank	2	0
SG Zürich	9	0
SG London	0	352
SG New York	4	0
SG Private Banking /Suisse/ S.A.	2	0
SG Vostok	53	0
SGA Société Générale Acceptance N. V.	3,636	3,707
SGBT Luxemburg	138	1
Société Générale Paris	29,022	13,006
Total	**45,617**	**26,635**

Principal balances owed to the Société Générale Group entities include:

CZK million

Company	2008	2007
ALD Automotive Czech Republic, s. s r. o.	1	0
ESSOX SK s.r.o.	0	9
General bank of Greece SA	1	0
IKS Money Market Plus Fond	551	0
Investiční kapitálová společnost KB, a.s.	266	89
Romanian bank for development	1	0
SG Amsterodam	4	0
SG Consumer Finance d.o.o.	3	7
SG Cyprus LTD	25	19
SG Equipment Finance Czech Republic, s. s r.o.	1,854	2,031
SG New York	7	0
SG Private Banking /Suisse/ S.A.	36	1
SG Zurich	1	0
SGBT Luxemburg	257	0
Société Générale Paris	18,204	10,662
Société Générale Warsaw	3	169
Splitska Banka	1	0
Total	**21,215**	**12,987**

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, and debt securities acquired under initial offerings not designated for trading (refer also to Note 21), issued bonds and subordinated debt (refer also to Note 36).

As of 31 December 2008, the Group also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 162,136 million (2007: CZK 141,827 million) and CZK 172,075 million (2007: CZK 149,264 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2008 and 2007, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2008, the Group realised total income of CZK 15,127 million (2007: CZK 8,673 million) and total expenses of CZK 17,021 million (2007: CZK 8,844 million) with the Société Générale Group. Income includes interest income from debt securities issued by Société Générale Paris (refer also to Note 21), income from interbank deposits, fees from transactions with securities, interest income on hedging derivatives and a gain on trading derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

As of 31 December 2008 and 2007, the Group recorded no material expenses or income with other companies in the Société Générale Group.

Remuneration and amounts due from the members of the Management and Supervisory Boards and Directors' Committee

Remuneration paid to the members of the Management and Supervisory Boards during the years was as follows:

CZK million	2008	2007
Remuneration to the Management Board members*	58	40
Remuneration to the Supervisory Board members**	5	4
Remuneration to the Directors' Committee members***	85	82
Total	**148**	**126**

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2008 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2008 but including bonuses for 2007, figures for expatriate members of the Management Board include remuneration net of bonuses for 2008 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Management Board does not include accommodation related services.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2008 to the current and former members of the Supervisory Board, amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.

*** Remuneration to the Directors' Committee members represents the sum of compensation and benefits paid in 2008 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2008, the total balance reflects his/her aggregate annual remuneration.

	2008	2007
Number of the Management Board members	6	5
Number of the Supervisory Board members	9	8
Number of the Directors' Committee members*	16	17

Note: * These figures include all members of the Management Board who are also members of the Directors' Committee.

As of 31 December 2008, the Group recorded an estimated payable of CZK 13 million (2007: CZK 15 million) for Management Board bonuses.

In respect of loans and guarantees as of 31 December 2008, the Bank recorded loan receivables totalling CZK 6 million (2007: CZK 4 million) granted to the members of the Management Board, Directors' Committee and Supervisory Board. During 2008, draw-downs of CZK 3 million were made under the loans granted to the members of the Directors' Committee. Loan repayments made by the members of the Directors' Committee during 2008 amounted to CZK 1 million.

42. Movements in the revaluation of hedging instruments in the statement of changes in shareholders' equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate category of equity in the hedging reserve.

CZK million	2008	2007
Cash flow hedge fair value at 1 January	(1,002)	3,745
Deferred tax asset/(liability) at 1 January	211	(898)
Balance at 1 January	**(791)**	**2,847**
Movements during the year		
Gains/losses from changes in fair value	5,933	(3,273)
Deferred income tax	(1,200)	754
	4,733	**(2,519)**
Transferred to interest income/expense	(494)	(1,474)
Deferred income tax	104	355
	(390)	**(1,119)**
Cash flow hedge fair value at 31 December	4,437	(1,002)
Deferred tax asset/(liability) at 31 December	(885)	211
Balance at 31 December	**3,552**	**(791)**

43. Movements in the revaluation of available-for-sale financial assets in the statement of changes in equity

CZK million	2008	2007
Reserve from fair-value revaluation at 1 January	(765)	1,542
Deferred tax asset/(liability)/income tax liability at 1 January	39	(352)
Balance at 1 January	**(726)**	**1,190**
Movements during the year		
Gains/(losses) from changes in fair value	1,476	(2,451)
Deferred tax/income tax liability	(126)	393
	1,350	**(2,058)**
(Gains)/losses from the sale	151	144
Deferred tax/income tax liability	(8)	(2)
	143	**142**
Reserve from fair-value revaluation at 31 December	862	(765)
Deferred tax asset/(liability)/income tax liability/income tax liability at 31 December	(95)	39
Balance at 31 December	**767**	**(726)**

44. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Assessment of credit risk is based on quantitative and qualitative criteria, the output of which is rating. The Group uses several types of ratings, depending on the type and profile of the counterparty, and related transactions. As a result, specific ratings are assigned to the Group's clients, and also to specific clients' transactions. In relevant cases the same rating procedure is applied to respective guarantors and sub-debtors, which provides for a better assessment of the quality of accepted guarantees and collateral.

In 2008, the Group continued in the process of developing its rating models, predominantly with the aim of increasing the complexity of the assessed data, extending the use of advanced statistical methods and reflecting current trends in the development of the risk profile of individual client and product portfolios of the Group. Concurrently, the Group prepared a detailed analysis of procedures of providing and measuring loans reflecting the updated models together with the results of the stress testing with the aim of further optimising the benefit/risk ratio for the Group. Reflecting the intent to use statistical models in credit risk management to the maximum extent possible, the Group focused on the further development of models for provisioning requirements. During 2008, the Group started an extensive internal training focused on expanding the knowledge of new rating models, their impact on the evaluation of clients and transactions, measurement of capital adequacy of the Group, pricing and provisioning.

All rating models are monitored on a quarterly basis and back-tested in order to ensure their adequacy. The Group takes corrective measures in respect of identified inconsistencies resulting from the setting of the model.

(a) Ratings for business clients and municipalities

For entrepreneurs, corporate clients and municipalities, the Group uses the obligor rating with the aim of evaluating the probability of default of the counterparty and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collateral and to evaluate the potential loss from counterparty transactions. Both these models are also used for regular updates of the Probability of Default (PD) of all client exposures reported in accordance with the Basel II requirements.

For large and mid-size clients, the obligor rating is the combination of the financial rating based predominantly on financial data and economic rating obtained through the evaluation of non-financial information relating to a particular client. In 2008, the Group predominantly focused on the monitoring and back-testing of these models (models were updated in 2007). Concurrently, the Group proceeded to update a statistical model for the monthly automated monitoring of corporate clients (the early warning system). The update of the model will be implemented in the first quarter of 2009.

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Group. When clients are funded using simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour in the Group (behavioural rating). Given the update of models referred to above in the latter half of 2007, the Group focused on the monitoring and back-testing of these models in 2008.

In the municipalities segment, the obligor rating is based on the evaluation of financial data of clients and expert evaluation of their economic situation. During 2008, the Group proceeded to make a significant update of the model towards achieving an increased complexity of the automatically evaluated data. The Group prepared a model based on the combination of the financial rating resulting from the evaluation of financial statements of clients for the last four reporting periods and the economic rating based on the evaluation of non-financial information relating to a particular client. The new model will be implemented in the second quarter of 2009.

(b) Ratings for Banks and Sovereign

For banks and other financial institutions the Group uses a central economic rating model developed by Société Générale S.A. The model is based on variables in a qualitative questionnaire, including the quantitative financial criteria, and the country support questionnaire. Central models have also been developed for sovereigns and other financial institutions (namely insurance companies, brokers and funds).

(c) Ratings for individual clients

The Group uses two types of ratings with the aim of evaluating default risk for individuals: the application rating which results from the evaluation of personal data of clients, data on the behaviour in the Group and the data of clients from available external registers, and behavioural rating which is based on the evaluation of the information on the clients' behaviour in the Group. The application rating is primarily used for active applications of clients for funding, while the behavioural rating which includes the calculation of pre-approved limits for simple products with low exposure is used for active offers of funding for clients by the Group. Behavioural rating of clients is concurrently used for regular updates of the probability of default of all client exposures reported in accordance with the Basel II requirements.

In 2008, the Group updated the behavioural model rating with the objective of increasing the complexity of the evaluated data to include data from subsidiaries and increasing the accuracy and potential of the simplified procedure of providing loans to clients with low risk profile. The updated model was also reflected in all models of application rating of which it is part. As in the previous year, the behavioural model was the key factor impacting the quality of retail lending.

In 2008, the Group focused on further developing the models for the Loss Given Default (LGD) calculation, specifically for the mortgage loans segment. The Group completed the transition to the fully statistical models with an increased prediction ability.

Pursuant to the updates of the rating and LGD models and the results of stress testing models, the Group initiated a thorough review of the process of pricing all loan products provided to individuals with the aim of eliminating potential loss production and prepare the retail segment of the Group for the anticipated worsening of the economic situation.

In order to further boost the synergies in the Group and to support the potential of the cross selling between the Group entities, the Group updated the model evaluating client behaviour data at Modrá pyramida stavební spořitelna a.s. The updated model further increased the acquisition potential of the Group through consumer loans and credit cards with pre-determined limits offered to persons who are not clients of the Group.

(d) Credit registers

During 2008, the Group significantly reassessed the policies for evaluating data from internal and external credit registers integrated in the process of client assessment and lending. The used three-grade scale for evaluating data from the credit registers was replaced by the five-grade scale which facilitates a more accurate identification of problematic applicants for loans and more efficient setting of the related approval policies. In 2008, the evaluation of data from loan registers was one of the most significant factors impacting the evaluation of the client's application for funding.

(e) Credit fraud prevention

During 2008, the Group streamlined its fraud prevention and credit fraud response processes. The coordination of these processes was centralised and responsibilities for their individual parts were clarified. The Group launched a large project with the aim of creating an automated system integrating algorithms for the verification of client data from applications for funding with publicly available registers, algorithms for signalling an increased risk of credit fraud and the centralised system of reporting and responding to credit fraud. The new system will be fully integrated with the key applications of the Group and will be used within the entire Group.

Credit risk concentration

Credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, setting of internal limits, reporting and mitigation of the risk as appropriate). The Group aims not to take any excessive credit concentration risk. Procedures of credit concentration risk management cover individual counterparts as well as economically connected groups, countries and industry sectors. The system of internal limits is established such that the Group complies with regulatory limits set on concentration risk.

The Group's maximum credit exposure as of 31 December 2008:

CZK million	Total exposure On-balance sheet	Total exposure Off-balance sheet*	Total credit exposure	Applied collateral On-balance sheet	Applied collateral Off-balance sheet*	Total collateral
Balances with central banks	6,170	x	6,170	0	x	0
Financial assets at fair value through profit or loss	43,993	x	43,993	0	x	0
Positive fair value of hedging financial derivative transactions	9,146	x	9,146	0	x	0
Financial assets available for sale	98,164	x	98,164	0	x	0
Amounts due from banks	146,098	3,810	149,908	93,020	99	93,119
Loans and advances to customers	376,067	229,966	606,033	152,980	15,161	168,141
Corporate clients**	218,061	206,449	424,510	58,132	13,832	71,964
Of which: Top corporate clients	103,862	122,644	226,506	34,462	9,143	43,605
Individuals – entrepreneurs	155,912	23,517	179,429	94,848	1,329	96,177
Of which: Mortgage loans	90,288	6,384	96,672	70,888	1,124	72,012
Consumer loans	22,967	2,936	25,903	1,594	198	1,792
Other amounts due from customers	2,094	x	2,094	0	x	0
Investments held to maturity	1,435	x	1,435	0	x	0
Total	681,073	233,776	914,849	246,000	15,260	261,260

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – entrepreneurs

The maximum credit exposure is presented on a gross basis net of the impact of provisions.
The Group's maximum credit exposure as of 31 December 2007:

CZK million	Total exposure On-balance sheet	Total exposure Off-balance sheet*	Total credit exposure	Applied collateral On-balance sheet	Applied collateral Off-balance sheet*	Total collateral
Balances with central banks	6,334	1,335	7,669	0	x	0
Financial assets at fair value through profit or loss	31,910	x	31,910	0	x	0
Positive fair value of hedging financial derivative transactions	2,030	x	2,030	0	x	0
Financial assets available for sale	81,826	x	81,826	0	x	0
Amounts due from banks	201,091	4,714	205,805	121,141	7	121,148
Loans and advances to customers	314,564	210,097	524,661	136,527	15,665	152,192
Corporate clients**	183,911	187,682	371,593	50,418	14,598	65,016
Of which: Top corporate clients	85,804	109,789	195,593	23,390	9,847	33,237
Individuals – non-entrepreneurs	130,586	22,415	153,001	86,109	1,067	87,176
Of which: Mortgage loans	74,957	6,677	81,634	55,535	972	56,507
Consumer loans	19,584	1,875	21,459	1,868	92	1,960
Other amounts due from customers	67	x	67	0	x	0
Investments held to maturity	2,999	x	2,999	0	x	0
Total	640,754	216,146	856,900	257,668	15,672	273,340

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – entrepreneurs

The maximum credit exposure is presented on a gross basis net of the impact of provisions.

Classification of receivables

The Group classifies its receivables arising from financial activities into five categories according to Regulation of the Czech National Bank No. 123/2007. The classification reflects both quantitative criteria (payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring). In July 2008, the Group newly implemented the default sharing principle for co-debtors and guarantors in respect of the default receivables in the classification in accordance with the Basel II principles.

The structure of the credit portfolio according to the classification is regularly reported to the Czech National Bank and investors.

Characteristics of receivables that are not categorised

Pursuant to the Regulation issued by the Czech National Bank, the Group does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically amounts receivable arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Provisioning for receivables

All significant impaired credit exposures (i.e. classified as Watch, Substandard, Doubtful or Loss according to CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committees or, whenever required, by recovery specialists. Provisions are established on the basis of the present value of estimated future cash-flows to the Group and after due consideration of all available information, including the estimated value of collateral and expected duration of the recovery process. The remaining exposures are provisioned based on statistical models. These models were developed based on the Basel II principles using the LGD (Loss Given Default) database which is established in respect of historically observed losses for clients not individually assessed. This new model was implemented in August 2007. In 2008, the model for the calculation of provisions was updated.

As of 31 December 2008, the Group reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Standard	360,314	8,060	412	326	177	0	8,975	369,289
Watch	11,350	291	207	79	0	0	577	11,927
Total	**371,664**	**8,351**	**619**	**405**	**177**	**0**	**9,552**	**381,216**

As of 31 December 2007, the Group reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Standard	298,401	5,783	61	24	70	0	5,938	304,339
Watch	11,358	22	6	1	0	0	29	11,387
Total	**309,759**	**5,805**	**67**	**25**	**70**	**0**	**5,967**	**315,726**

Collateral used in respect of the past due loans that were not provisioned amounts to CZK 5,083 million (2007: CZK 4,688 million).

Loan collateral

The amount of the recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral realisation, length of realisation, the historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically for all real estate collateral, which represents the most frequent type of collateral, the Group uses independent valuations performed or supervised by a dedicated specialised department.

In 2007, the Group fully implemented in its internal system the new rules for assessment of collateral eligibility according to CNB Regulation No.123/2007. The Group's compliance with the new rules was validated by the CNB as part of the validation of the IRBA Basel II approach in September 2007.

Recovery of amounts due from borrowers

In order to address the growing volume of the retail loans portfolio, the Group continues improving the efficiency of its pre-recovery and recovery processes. This also includes the intensified and enhanced use of external recovery channels which cover approximately 23 percent of total exposure of the portfolio in the recovery regime. Specific attention was paid to analysing and implementing the new insolvency legislation into the Group's recovery process. The new insolvency legislation significantly impacts credit activities in both corporate and retail client segments.

Credit risk hedging instruments

The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Revocable contractual commitments

The Group monitors revocable contractual commitments on the same basis as irrevocable commitments. The risk is identified on a client basis and is monitored monthly, but no provisions or reserves are created. As of 31 December 2008, the revocable commitments account for 17 percent (2007: 18 percent) of all the Group's revocable and irrevocable commitments.

Credit risk of financial derivatives

The daily measuring of counterparty risk generated by financial derivatives is based on two indicators: the Current Average Risk indicator (CAR), and the Credit Value at Risk indicator (CVaR). Both indicators calculate the cost associated with the replacement of a defaulting client of the Bank at current market conditions and take into consideration specific parameters such as the type of the derivative product, current market parameters, time-to-maturity and the nominal amount of the defaulted transaction, as well as the volatility of the underlying assets. Doing so, CAR measures the average of the Group's estimated potential exposures over the remaining life of the derivative instrument, while CVaR measures the Group's potential maximum exposure with a confidence level of 99 percent, and thus better reflects the maximum counterparty risk levels in case of adverse market scenarios.

As of 31 December 2008, the Group posted a credit exposure of CZK 31,021 million (2007: CZK 33,025 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as of 31 December 2008 of all outstanding agreements. The netting agreement is taken into account where applicable.

(B) Market risk

Segmentation of the Group's financial operations

For market risk management purposes, the Group has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions entered into by the Group's dealers for trading purposes or for accommodating customer needs. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.

In order to measure market risks, the Group operates a system of limits that monitors its market positions.

Products traded by the Group

Products that are traded by the Group and can bear market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards, options), interest rate instruments (interest rate swaps, FRAs, interest rate futures, interest rate options), corporate and governmental bonds, emission allowances as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.). Transactions with these products are concluded either for proprietary purposes, for accommodating the clients' requests or for hedging the Group's positions (e.g. interest rate swaps, FRAs and currency swaps). Certain structured derivative transactions for the clients have been designed to meet the clients' hedging needs. Related market risks are eliminated by the Group via back-to-back transactions concluded with the market.

Market risk in the Market Book

In order to measure market risks inherent in the activities of the Market Book, the Group uses the Value-at-Risk concept as an aggregate metric.

The VaR method ('historical simulation') has been used by the Group since 2003. This method reflects correlations between various financial markets and underlying instruments. It uses scenarios simulating one-day variations of the relevant market parameters over a period of time limited to the last 250 business days. The resulting 99 percent VaR indicator captures the loss that would be incurred after eliminating the top 1 percent most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses, out of the 250 considered scenarios.

The validity of the Value-at-Risk is verified through a back-testing process which compares the Value-at-Risk results with actual trading results and hypothetical overnight results. Any excesses are analysed to ensure the 99 percent confidence level. The Value-at-Risk calculations and results are monitored by the Bank's management.

The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR 701,000 and EUR 991,000 as of 31 December 2008 and 2007, respectively. The average Global Value-at-Risks were EUR 960,000 and EUR 667,000 for the years ended 31 December 2008 and 2007, respectively.

In addition, the Group also performs stress tests that capture the events with a lower probability of occurrence than Value-at-Risk scenarios, and that measure on a daily basis potential losses relevant to all open positions generated by larger shocks. Several types of stress tests for foreign exchange, interest rate and equity exposures are used. They are developed either based on actual large shock events in the past (such as the bond crisis of 1998) or from a hypothetical crisis that could harm the positions.

Various specific metrics such as sensitivities, positions and holding periods are used to obtain a detailed picture of risks and strategies.

Market risk in the Structural Book

The Group manages foreign exchange risk so as to achieve minimum risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk ('EaR') for net interest income. The indicators are monitored separately for CZK, USD and EUR, and the sum of other foreign currencies. The EaR indicator shows the maximum departure of the planned net interest income over a one-year period attributable to the movements in interest rates with a 99 percent confidence level from the initial value. EaR is set using stochastic simulations of random scenarios of interest rate developments and a change in interest income relative to the initial value is established for each scenario. The calculation of EaR for net interest income involves a stress-testing approach to the interest rate risk within the Structural Book.

The indicator of sensitivity to a change in market interest rates shows a change in the Group's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates occurred. As of 31 December 2008, the interest rate risk sensitivity was CZK 460 million (2007: CZK 670 million). The Group is limited by this indicator and the level of the limit is determined to be approximately 2 percent of capital.

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as FRAs and interest rate swaps) and appropriate investments in securities or a selection of interest rate parameters of other assets and liabilities.

(C) Financial derivatives

The Group operates a system of market risk and counterparty limits which are designed to restrict inadequate exposures due to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging. Financial derivative instruments designated as held for trading:

	Notional value		Notional value		Fair value		Fair value	
	2008	2008	2007	2007	2008	2008	2007	2007
CZK million	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	331,111	331,111	295,511	295,511	5,657	6,295	1,906	1,927
Interest rate forwards and futures*	474,815	474,815	379,466	379,466	998	969	226	220
Interest rate options	1,772	1,772	2,753	2,753	5	5	7	7
Total interest rate instruments	**807,698**	**807,698**	**677,730**	**677,730**	**6,660**	**7,269**	**2,139**	**2,154**
Foreign currency instruments								
Currency swaps	119,498	120,595	99,416	98,882	2,700	3,793	1,811	1,245
Cross currency swaps	29,917	29,981	21,164	19,977	1,023	1,107	1,316	150
Currency forwards	32,731	32,163	21,197	21,479	1,090	590	328	618
Purchased options	52,455	51,535	39,635	39,773	3,661	0	1,106	0
Sold options	51,535	52,455	39,783	39,646	0	3,664	0	1,106
Total currency instruments	**286,136**	**286,729**	**221,195**	**219,757**	**8,474**	**9,154**	**4,561**	**3,119**
Other instruments								
Futures on debt securities*	364	364	1,329	1,329	0	0	0	0
Forwards on emission allowances	13,510	13,494	6,519	6,433	1,921	1,656	433	330
Equity forwards	1	1	0	0	0	0	0	0
Commodity forwards	298	298	1,218	1,218	49	48	44	43
Commodity swaps	4,616	4,616	1,674	1,674	1,049	1,042	230	228
Purchased commodity options	564	564	24	24	39	0	2	0
Sold commodity options	564	564	24	24	0	39	0	2
Total other instruments	**19,917**	**19,901**	**10,788**	**10,702**	**3,058**	**2,785**	**709**	**603**
Total	**1,113,751**	**1,114,328**	**909,713**	**908,189**	**18,192**	**19,208**	**7,409**	**5,876**

Note.: * Fair values include only forwards, with regard to futures the Group places funds on a margin account which is used on a daily basis to settle fair value changes and receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading at nominal values per remaining maturity:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	101,776	167,963	61,372	331,111
Interest rate forwards and futures*	399,388	75,427	0	474,815
Interest rate options	0	1,772	0	1,772
Total interest rate instruments	**501,164**	**245,162**	**61,372**	**807,698**
Foreign currency instruments				
Currency swaps	115,794	3,203	501	119,498
Cross currency swaps	1,804	25,439	2,674	29,917
Currency forwards	24,105	8,054	572	32,731
Purchased options	28,634	23,821	0	52,455
Sold options	28,225	23,310	0	51,535
Total currency instruments	**198,562**	**83,827**	**3,747**	**286,136**
Other instruments				
Futures on debt securities	364	0	0	364
Forwards on emission allowances	4,800	8,710	0	13,510
Equity forwards	1	0	0	1
Commodity forwards	298	0	0	298
Commodity swaps	4,221	395	0	4,616
Purchased commodity options	321	243	0	564
Sold commodity options	267	297	0	564
Total other instruments	**10,272**	**9,645**	**0**	**19,917**
Total	**709,998**	**338,634**	**65,119**	**1,113,751**

Note: * The remaining maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off balance sheet exposures are reversed.

Financial derivative instruments designated as hedging:

	Notional value		Notional value		Fair value		Fair value	
	2008	2008	2007	2007	2008	2008	2007	2007
CZK million	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	263,035	263,035	224,073	224,073	9,146	4,990	1,830	2,742
Interest rate swaps for fair value hedging	3,737	3,737	3,515	3,515	0	212	200	0
Currency swaps for fair value hedging	619	661	1,230	1,234	0	43	0	3
Total	**267,391**	**267,433**	**228,818**	**228,822**	**9,146**	**5,245**	**2,030**	**2,745**

Remaining maturity of derivatives designated as hedging:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	38,879	132,377	91,779	263,035
Interest rate swaps for fair value hedging	0	0	3,737	3,737
Currency swaps for fair value hedging	619	0	0	619
Total	**39,498**	**132,377**	**95,516**	**267,391**

The Group treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met.
During 2008, the Group recorded the following hedges:

(i) Interest rate risk hedge:

(a) The fair value of a provided long-term loan is hedged by an interest rate swap;
(b) Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Group's profit and loss statement on an ongoing basis); and
(c) Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Group's profit and loss statement on an ongoing basis).

(ii) Foreign exchange risk hedge:

(a) In selected material cases, the Group hedges future cash flows of firm commitments arising from the Group's contractual obligations (e.g., contractual payments to third parties in a foreign currency), the hedging instrument includes foreign currency assets (e.g., securities); and
(b) The Group hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent upon foreign exchange rate developments, by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market).

(iii) Hedge of an investment in a foreign subsidiary:

(a) The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market and short-term client liabilities).

The Group does not report any instance of hedge accounting being applied to a highly probably forecasted transaction that is not longer anticipated to be effected.
Further information on hedges is provided in Notes 3, 5 and 7 to these financial statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.
The Group uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section B of this note.
The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the 'undefined' category.

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	3,537	0	0	0	10,424	13,961
Financial assets at fair value through profit or loss	8,462	12,065	4,895	379	18,192	43,993
Positive fair values of hedging financial derivative transactions	0	0	0	0	9,146	9,146
Financial assets available for sale	5,225	5,539	42,326	43,562	1,512	98,164
Assets held for sale	0	0	0	0	429	429
Amounts due from banks	126,170	12,416	6,458	1,054	0	146,098
Loans and advances to customers	161,117	54,297	111,038	37,588	0	364,040
Investments held to maturity	0	109	754	572	0	1,435
Income taxes receivable	0	6	0	0	0	6
Prepayments, accrued income and other assets	0	1,929	0	0	4,238	6,167
Investments in subsidiaries and associates	0	0	0	0	550	550
Intangible fixed assets	0	0	0	0	3,504	3,504
Tangible fixed assets	0	0	0	0	8,000	8,000
Goodwill	0	0	0	0	3,551	3,551
Total assets	**304,526**	**86,361**	**165,471**	**83,155**	**59,531**	**699,044**
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	947	0	0	0	19,208	20,155
Negative fair values of hedging financial derivative transactions	0	0	0	0	5,244	5,244
Amounts due to banks	10,728	386	0	0	0	11,114
Amounts due to customers	197,125	16,031	4,171	938	336,305	554,570
Securities issued	4,951	3,342	0	15,835	0	24,128
Income tax	0	16	0	0	170	186
Deferred tax liability	0	0	0	0	575	575
Accruals and other liabilities	743	0	0	0	11,332	12,075
Provisions	0	0	0	0	2,019	2,019
Subordinated debt	6,003	0	0	0	0	6,003
Total liabilities	**220,498**	**19,775**	**4,171**	**16,773**	**374,853**	**636,070**
On balance sheet interest rate sensitivity gap at 31 December 2008	**84,028**	**66,586**	**161,300**	**66,382**	**(315,322)**	**62,974**
Derivatives*	318,737	431,906	244,658	109,086	0	1,104,387
Total off balance sheet assets	**318,737**	**431,906**	**244,658**	**109,086**	**0**	**1,104,387**
Derivatives*	346,164	414,398	306,367	37,522	0	1,104,451
Undrawn portion of loans**	(3,703)	(2,829)	6,667	1,436	0	1,571
Undrawn portion of revolving loans**	740	478	158	547	0	1,923
Total off balance sheet liabilities	**343,200**	**412,047**	**313,192**	**39,505**	**0**	**1,107,944**
Net off balance sheet interest rate sensitivity gap at 31 December 2008	**(24,463)**	**19,859**	**(68,534)**	**69,581**	**0**	**(3,557)**
Cumulative interest rate sensitivity gap at 31 December 2008	**59,565**	**146,010**	**238,776**	**374,739**	**59,417**	**0**
Total assets at 31 December 2007	347,081	67,682	128,752	75,690	42,614	661,819
Total liabilities at 31 December 2007	155,287	61,472	11,760	20,734	361,912	611,165
Net on balance sheet interest rate sensitivity gap at 31 December 2007	191,794	6,210	116,992	54,956	(319,298)	50,654
Net off balance sheet interest rate sensitivity gap at 31 December 2007	(39,811)	(5,828)	(16,768)	64,146	0	1,739
Cumulative interest rate sensitivity gap at 31 December 2007	151,983	152,365	252,589	371,691	52,393	x

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards, interest rate options, interest rate futures and cross currency swaps.

** Undrawn loans and revolving loans are reported on a net basis, that is, the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2008 and 2007:

%	2008 CZK	2008 USD	2008 EUR	2007 CZK	2007 USD	2007 EUR
Assets						
Cash and balances with central banks	0.42	x	x	2.15	x	x
Treasury bills	3.87	x	x	3.60	x	x
Amounts due from banks	2.61	2.21	3.20	3.66	5.32	4.45
Loans and advances to customers	5.21	1.76	5.32	4.76	5.41	5.01
Interest earning securities	4.27	6.07	3.27	5.07	4.99	3.83
Total assets	**3.85**	**3.20**	**3.77**	**3.94**	**5.18**	**4.11**
Total interest earning assets	**4.44**	**3.47**	**4.13**	**4.38**	**5.28**	**4.54**
Liabilities						
Amounts due to central banks and banks	1.49	0.36	3.99	2.13	4.10	3.94
Amounts due to customers	1.09	1.23	1.78	1.05	2.59	2.10
Debt securities	4.36	x	3.72	3.62	x	3.74
Subordinated debt	3.76	x	x	3.73	x	x
Total liabilities	**2.02**	**0.97**	**1.91**	**1.29**	**2.27**	**2.24**
Total interest bearing liabilities	**1.39**	**1.23**	**2.04**	**1.30**	**2.59**	**2.31**
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	4.05	3.31	3.68	3.85	5.02	4.29
Undrawn portion of loans	4.79	2.49	4.32	4.63	x	4.94
Undrawn portion of revolving loans	6.60	1.58	3.39	7.42	5.44	4.44
Total off balance sheet assets	**4.38**	**3.30**	**3.66**	**4.32**	**5.03**	**4.32**
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	3.96	3.19	3.79	3.67	5.01	4.36
Undrawn portion of loans	4.79	2.49	4.32	4.63	x	4.94
Undrawn portion of revolving loans	6.60	1.58	3.39	7.42	5.44	4.44
Total off balance sheet liabilities	**4.31**	**3.17**	**3.77**	**4.18**	**5.01**	**4.38**

Note: The above table sets out the average interest rates for December 2008 and 2007 calculated as a weighted average for each asset and liability category.

In the first half of 2008, the CZK interest rates of the money market remained approximately on the constant level of around 4 percent. The 2T REPO rate declared by the Czech National bank amounted to 3.75 percent in the first half of 2008. In the second half of 2008, the money market saw a significant change in market spreads which increased from 10 bp to 35 or even to 40 bp. The 2T REPO rate declared by the Czech National Bank continually decreased by 1.5 percent, and this decrease was not fully absorbed by the rates of the monetary market, their decrease did not exceed 100 bp. The interest rates of the derivative market remained on the same level in the first half of the year and decreased by more than 100 bp in the second half of the year.

The EUR rates of the monetary market in the first three quarters slightly increased by 100 bp. At the end of the year, they declined by 200 bp. The EUR interest rates of the derivative market slightly increased at the beginning of the year, but they also declined in the second half of the year and they were 100 bp below the level at the beginning of the year.

The USD interest rates of both monetary and derivative markets saw a significant decline in 2008. The rates of the monetary market decreased by 300 bp in average, when the monthly rate decreased by more than 400 bp below the level of 1 percent. The rates of the derivative market copied the decrease in the rates of the monetary market, but at a slower rate of the change.

Breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

CZK million	Fixed interest rate 2008	Floating interest rate 2008	No interest 2008	Total 2008	Fixed interest rate 2007	Floating interest rate 2007	No interest 2007	Total 2007
Assets								
Cash and balances with central banks	50	3,537	10,374	13,961	2,600	2,299	8,658	13,557
Financial assets at fair value through profit or loss	24,764	822	18,407	43,993	24,114	313	7,483	31,910
Positive fair values of hedging financial derivative transactions	0	0	9,146	9,146	0	0	2,030	2,030
Financial assets available for sale	88,570	8,081	1,513	98,164	71,365	7,945	2,516	81,826
Amounts due from banks	20,634	125,098	366	146,098	10,403	190,381	307	201,091
Loans and advances to customer	217,130	143,559	3,351	364,040	176,789	126,949	1,200	304,938
Investments held to maturity	1,435	0	0	1,435	2,999	0	0	2,999
Liabilities								
Amounts due to central banks	1	0	0	1	10	0	0	10
Financial liabilities at fair value through profit or loss	0	0	20,155	20,155	0	0	7,723	7,723
Negative fair values of hedging financial derivative transactions	0	0	5,244	5,244	0	0	2,746	2,746
Amounts due to banks	3,900	6,968	246	11,114	5,888	6,076	303	12,267
Amounts due to customers	69,703	453,139*	31,728	554,570	71,414	440,258*	28,557	540,229
Securities issued	15,542	8,586	0	24,128	22,646	5,271	0	27,917
Subordinated debt	0	6,003	0	6,003	0	6,004	0	6,004

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up are included in the 'No interest' category.

* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Group's Management Board. Liquidity is monitored on a group wide level, with the Market Book also having a stand-alone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Group is managed as stipulated above (especially not based on the undiscounted cash flows), as such the information on undiscounted cash flows is not provided.

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

CZK million	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	11,475	0	0	0	0	2,486	13,961
Financial assets at fair value through profit or loss	1,000	7,156	11,895	5,076	459	18,407	43,993
Positive fair values of hedging financial derivative transactions	0	0	0	0	0	9,146	9,146
Financial assets available for sale	46	4,594	3,547	41,898	46,567	1,512	98,164
Assets held for sale	0	0	429	0	0	0	429
Amounts due from banks	79,273	46,549	10,451	7,035	2,760	30	146,098
Loans and advances to customers	6,152	36,179	72,181	88,164	139,875	21,489	364,040
Investments held to maturity	0	0	109	754	572	0	1,435
Income taxes receivable	0	0	0	0	0	6	6
Prepayments, accrued income and other assets	1,364	150	1,928	0	0	2,725	6,167
Investments in associates and unconsolidated subsidiaries	0	0	0	0	0	550	550
Intangible fixed assets	0	0	0	0	0	3,504	3,504
Tangible fixed assets	0	0	0	0	0	8,000	8,000
Goodwill	0	0	0	0	0	3,551	3,551
Total assets	**99,310**	**94,628**	**100,525**	**142,927**	**190,233**	**71,421**	**699,044**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss	947	0	0	0	0	19,208	20,155
Negative fair values of hedging financial derivative transactions	0	0	0	0	0	5,244	5,244
Amounts due to banks	5,897	449	143	1,338	3,287	0	11,114
Amounts due to customers	403,422	99,018	17,543	6,564	2,164	25,859	554,570
Securities issued	0	28	1,647	0	22,453	0	24,128
Income tax	0	9	177	0	0	0	186
Deferred tax liability	0	0	0	0	0	575	575
Accruals and other liabilities	9,660	1,526	0	0	0	889	12,075
Provisions	36	154	648	150	55	976	2,019
Subordinated debt	0	3	0	0	6,000	0	6,003
Equity	0	0	0	0	0	62,974	62,974
Total liabilities	**419,963**	**101,187**	**20,158**	**8,052**	**33,959**	**115,725**	**699,044**
On balance sheet liquidity gap at 31 December 2008	**(320,653)**	**(6,559)**	**80,367**	**134,875**	**156,274**	**(44,304)**	
Off balance sheet assets*	33,258	710,776	75,358	83,826	3,748	0	906,966
Off balance sheet liabilities*	40,146	786,148	197,344	122,804	8,616	19,287	1,174,245
Net off balance sheet liquidity gap at 31 December 2008	**(6,888)**	**(75,372)**	**(121,986)**	**(38,978)**	**(4,868)**	**(19,287)**	**(267,279)**
Total assets at 31 December 2007	151,128	89,930	95,256	131,078	146,656	47,771	661,819
Total liabilities at 31 December 2007	422,866	77,002	29,365	15,099	33,008	84,479	661,819
Net on balance sheet liquidity gap at 31 December 2007	(271,738)	12,928	65,891	115,979	113,648	(36,708)	0
Net off balance sheet liquidity gap at 31 December 2007	(2,023)	(19,647)	(112,478)	(26,388)	(22,319)	(25,370)	(208,225)

Note: * Off balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and payables under guarantees, letters of credit and committed facilities.

(F) Foreign exchange position

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Group monitors its foreign exchange position on a daily basis. For this purpose, the Group has a set of internal limits.

CZK million	Czech crowns	Euros	US dollars	Slovak crowns	Other currencies	Total
Assets						
Cash and current balances with central banks	10,811	1,406	207	1,304	233	13,961
Financial assets at fair value through profit or loss	40,373	987	166	1,820	647	43,993
Positive fair values of hedging financial derivative transactions	8,763	249	133	0	1	9,146
Financial assets available for sale	79,453	15,949	2,762	0	0	98,164
Assets held for sale	429	0	0	0	0	429
Amounts due from banks	113,116	29,068	1,637	2,173	104	146,098
Loans and advances to customers	320,409	34,799	3,222	5,186	424	364,040
Investments held to maturity	0	1,218	199	18	0	1,435
Income taxes receivable	6	0	0	0	0	6
Prepayments, accrued income and other assets	5,190	904	11	5	57	6,167
Investments in associates and unconsolidated subsidiaries	550	0	0	0	0	550
Intangible fixed assets	3,501	0	0	3	0	3,504
Tangible fixed assets	7,965	0	0	35	0	8,000
Goodwill	3,551	0	0	0	0	3,551
Total assets	**594,117**	**84,580**	**8,337**	**10,544**	**1,466**	**699,044**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities at fair value through profit or loss	19,169	612	131	170	73	20,155
Negative fair values of hedging financial derivative transactions	4,201	731	306	6	0	5,244
Amounts due to banks	3,968	4,547	8	2,571	20	11,114
Amounts due to customers	503,703	39,702	7,687	2,531	947	554,570
Securities issued	23,197	931	0	0	0	24,128
Income tax	176	0	0	9	1	186
Deferred tax liability	574	0	0	1	0	575
Accruals and other liabilities	9,287	1,912	769	87	20	12,075
Provisions	1,035	192	760	31	1	2,019
Subordinated debt	6,003	0	0	0	0	6,003
Equity	58,506	3,669	0	799	0	62,974
Total liabilities	**629,820**	**52,296**	**9,661**	**6,205**	**1,062**	**669,044**
Net FX position at 31 December 2008	**(35,703)**	**32,284**	**(1,324)**	**4,339**	**404**	**0**
Off balance sheet assets included in the FX position*	1,126,710	188,094	54,279	12,777	3,561	1,358,421
Off balance sheet liabilities included in the FX position*	1,087,661	225,903	53,440	14,943	4,093	1,386,040
Net off balance sheet FX position	**39,049**	**(37,809)**	**839**	**(2,166)**	**(533)**	**(620)**
Total net FX position at 31 December 2008	**3,346**	**(5,525)**	**(485)**	**2,173**	**(129)**	**(620)**
Total assets at 31 December 2007	571,285	64,475	15,678	7,473	2,908	661,819
Total liabilities at 31 December 2007	596,682	49,264	8,470	5,046	2,357	661,819
Net FX position at 31 December 2007	(25,397)	15,211	7,208	2,427	551	0
Off balance sheet net FX position at 31 December 2007	30,116	(17,763)	(7,516)	(2,787)	(530)	1,520
Total net FX position at 31 December 2007	4,719	(2,552)	(308)	(360)	21	1,520

Note: * Off balance sheet assets and liabilities include amounts receivable and payable arising from spot, forward and option transactions.

(G) Operational risk

In 2008, pursuant to the approval of the Advanced Measurement Approach (AMA) by the Czech National Bank, the Operational Risk Management Department of the Group increased the efficiency of management of related risks and determined the principle of interconnection of individual management instruments, i.e. collection of data, risk control self assessment, scenario analysis and key risk indicators. The acquired knowledge is assessed on a regular basis and provided to the management of the Group for establishing the global operational risk management strategy.

Among others, the Group extended its activities in operational risks to include the definition of controls under 'Permanent Supervision' which serve as a basis for reviewing the adequacy of the functioning of the established operational risk management tools.

(H) Legal risk

The Group regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50 percent. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

(I) Estimated fair value of assets and liabilities of the Group

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

(a) Cash and balances with central banks

The carrying values of cash and current balances with central banks are generally deemed to approximate their fair value.

(b) Amounts due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis, the fair value of loss loan is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are estimated based on discounted cash flow models using the interest rate currently offered at the balance sheet date.

(e) Amounts owed to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand at the balance sheet date. The carrying amount of term deposits at variable interest rates approximates their fair values at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. For products without contractually determined maturity (e.g. construction savings scheme deposits, deposits of pension insurance policy holders), the Group uses the principle of matching carrying and fair values. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the balance sheet date.

(f) Debt securities issued

The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is equal to an estimate made by the Group.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value:

CZK million	2008 Carrying value	2008 Fair value	2007 Carrying value	2007 Fair value
Financial assets				
Cash and current balances with central banks	13,961	13,961	13,557	13,557
Amounts due from banks	146,098	146,897	201,091	200,911
Loans and advances to customers	364,040	371,270	304,938	310,040
Investments held to maturity	1,435	1,460	2,999	2,958
Financial liabilities				
Amounts due to central banks and banks	11,115	11,816	12,277	11,742
Amounts due to customers	554,570	554,471	540,229	540,132
Securities issued	24,128	25,183	27,917	26,992
Subordinated debt	6,003	6,003	6,004	6,003

45. Assets under management

As of 31 December 2008, the Group managed client assets in the amount of CZK 928 million (2007: CZK 2,852 million), of which no assets were from the Bank's subsidiaries. The Group is transferring asset management services to other trustees.

46. Post balance sheet events

In January 2009, the Board of Directors of the Bank approved the intention to transform Komerční banka Bratislava, a.s. from a subsidiary to a foreign branch with the effective date of 1 January 2009.

The financial situation of one significant the Group's client strongly deteriorated after the balance sheet date with the important negative impact on the recoverability of the net receivable owed by that client.

Unconsolidated Financial Statements in Accordance with IFRS and Independent Auditor's Report as of 31 December 2008

Deloitte.

Tel.: + 420 246 042 500
Fax: + 420 246 042 010
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Deloitte Audit s.r.o.
Karolinská 654/2
186 00 Prague 8
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 Komerční banka, a.s.

Having its registered office at: Praha 1, Na Příkopě 33 čp. 969, PSČ 11407
Identification number: 453 17 054
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying unconsolidated financial statements of Komerční banka, a.s. ("the Bank"), which comprise the unconsolidated balance sheet as of 31 December 2008, and the unconsolidated profit and loss statement, unconsolidated statement of changes in equity and unconsolidated 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 unconsolidated 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 unconsolidated 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 accompanying unconsolidated financial statements give a true and fair view of the financial position of Komerční banka, 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 26 February 2009

Deloitte

Audit firm:
Deloitte Audit s.r.o.
Certificate no. 79
Represented by:

Diana Rogerová

Diana Rogerová, authorised employee

Statutory auditor:

Diana Rogerová

Diana Rogerová, certificate no. 2045

Unconsolidated Profit and Loss Statement for the year ended 31 December 2008

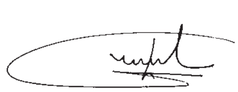
CZK million	Note	2008	2007
Interest income and similar income	5	37,611	29,901
Interest expense and similar expense	5	(20,480)	(14,195)
Income from dividends	5	459	158
Net interest income and similar income		**17,590**	**15,864**
Net fee and commission income	6	7,794	7,520
Net profit on financial operations	7	4,333	2,771
Other income	8	104	76
Net banking income		**29,821**	**26,231**
Personnel expenses	9	(5,740)	(5,395)
General administrative expenses	10	(5,823)	(5,563)
Depreciation, impairment and disposal of fixed assets	11	(1,433)	(1,349)
Total operating expenses		**(12,996)**	**(12,307)**
Profit before provision for loan and investment losses, other risk and income taxes		**16,825**	**13,924**
Provision for loan losses	12	(2,382)	(1,183)
Provisions for impairment of securities	12	0	15
Provisions for other risk expenses	12	1	253
Cost of risk		**(2,381)**	**(915)**
Profit on subsidiaries and associates	13	150	106
Profit before income taxes		**14,594**	**13,115**
Income taxes	14	(2,799)	(2,945)
Net profit	**15**	**11,795**	**10,170**
Earnings per share (in CZK)	**16**	**310.81**	**267.96**

The accompanying notes are an integral part of this unconsolidated profit and loss statement.

Unconsolidated Balance Sheet as of 31 December 2008

CZK million	Note	2008	2007
ASSETS			
Cash and current balances with central banks	17	12,313	12,976
Financial assets at fair value through profit or loss	18	43,997	34,126
Positive fair value of hedging financial derivative transactions	42	9,147	2,035
Financial assets available for sale	19	45,860	34,522
Assets held for sale	20	414	505
Amounts due from banks	21	140,656	195,929
Loans and advances to customers	22	318,534	267,525
Investments held to maturity	23	1,417	2,982
Income taxes receivable	14	6	4
Deferred tax asset	34	0	432
Prepayments, accrued income and other assets	24	3,480	4,180
Investments in subsidiaries and associates	25	23,577	23,380
Intangible fixed assets	26	3,153	2,708
Tangible fixed assets	27	7,408	7,388
Total assets		**609,962**	**588,692**
LIABILITIES			
Amounts due to central banks		1	10
Financial liabilities at fair value through profit or loss	28	20,146	7,711
Negative fair value of hedging financial derivative transactions	42	5,225	2,750
Amounts due to banks	29	10,182	11,994
Amounts due to customers	30	461,104	453,762
Securities issued	31	35,611	44,495
Income taxes payable	14	84	189
Deferred tax liability	34	677	0
Accruals and other liabilities	32	9,976	10,877
Provisions	33	1,976	1,664
Subordinated debt	35	6,003	6,004
Total liabilities		**550,985**	**539,456**
Share capital	36	19,005	19,005
Share premium and reserves		39,972	30,231
Total shareholders' equity		**58,977**	**49,236**
Total liabilities and shareholders' equity		**609,962**	**588,692**

The accompanying notes are an integral part of this unconsolidated balance sheet.
These financial statements were approved by the Board of Directors on 26 February 2009.
Signed on behalf of the Board of Directors:



Laurent Goutard
Chairman of the Board of Directors and CEO

Peter Palečka
Member of the Board of Directors and Senior Executive Director

Unconsolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2008

CZK million	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation of available-for-sale financial assets	Total
Closing balance at 31 December 2006	**19,005**	**25,972**	**2,931**	**746**	**48,654**
Cash flow hedging:					
– Net fair value, net of tax	0	0	(2,511)	0	(2,511)
– Transfer to net profit, net of tax	0	0	(1,116)	0	(1,116)
Hedge of foreign currency risk of the net investment in foreign operations	0	0	155	0	155
Gains or losses on available-for-sale financial assets, net of tax	0	0	0	(423)	(423)
Dividends	0	(5,693)	0	0	(5,693)
Net profit for the period	0	10,170	0	0	10,170
Balance at 31 December 2007	**19,005**	**30,449**	**(541)**	**323**	**49,236**
Cash flow hedging:					
– Net fair value, net of tax	0	0	4,716	0	4,716
– Transfer to net profit, net of tax	0	0	(389)	0	(389)
Hedge of foreign currency risk of the net investment in foreign operations	0	0	(106)	0	(106)
Gains or losses on available-for-sale financial assets, net of tax	0	0	0	555	555
Treasury shares, other	0	2	0	0	2
Dividends	0	(6,832)	0	0	(6,832)
Net profit for the period	0	11,795	0	0	11,795
Balance at 31 December 2008	**19,005**	**35,414**	**3,680**	**878**	**58,977**

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings in the amount CZK 19,757 million.

The accompanying notes are an integral part of this statement of changes in shareholders' equity.

Unconsolidated Cash Flow Statement for the year ended 31 December 2008

CZK million	2008	2008	2007	2007
Cash flows from operating activities				
Interest receipts	35,810		28,410	
Interest payments	(19,432)		(13,232)	
Commission and fee receipts	8,769		8,441	
Commission and fee payments	(956)		(924)	
Net income from financial transactions	4,480		4,492	
Other income receipts	254		172	
Cash payments to employees and suppliers, and other payments	(11,333)		(11,204)	
Operating cash flow before changes in operating assets and operating liabilities	**17,592**		**16,155**	
Due from banks	55,332		3,788	
Financial assets at fair value through profit or loss	(9,870)		(19,430)	
Loans and advances to customers	(52,677)		(45,191)	
Other assets	(145)		(1,588)	
(Increase)/decrease in operating assets	**(7,360)**		**(62,421)**	
Amounts due to banks	(1,872)		(1,542)	
Financial liabilities at fair value through profit or loss	12,435		7,711	
Amounts due to customers	7,216		55,602	
Other liabilities	(389)		(632)	
Increase/(decrease) in operating liabilities	**17,390**		**61,139**	
Net cash flow from operating activities before taxes	27,622		14,873	
Income taxes paid	(2,843)		(2,406)	
Net cash flows from operating activities		**24,779**		**12,467**
Cash flows from investing activities				
Dividends received	405		158	
Maturity of investments held to maturity*	1,634		340	
Purchase of financial assets available for sale	(12,117)		(20,330)	
Sale of financial assets available for sale*	3,371		8,722	
Purchase of tangible and intangible fixed assets	(1,998)		(1,953)	
Sale of tangible and intangible fixed assets	231		195	
Purchase of investments in subsidiaries and associates	(300)		(14,560)	
Sale of investments in subsidiaries and associates	102		1,298	
Net cash flow from investing activities		**(8,672)**		**(26,130)**
Cash flows from financing activities				
Paid dividends	(6,814)		(5,678)	
Securities issued	301		20,223	
Securities redeemed*	(10,236)		(2,810)	
Net cash flow from financing activities		**(16,749)**		**11,735**
Net increase/(decrease) in cash and cash equivalents	**(642)**		**(1,928)**	
Cash and cash equivalents at beginning of year	**11,187**		**13,115**	
Cash and cash equivalents at end of year (see Note 37)		**10,545**		**11,187**

Note: * The amount also includes received and paid coupons.

The accompanying notes are an integral part of this unconsolidated cash flow statement.

Notes to the Unconsolidated Financial Statements for the year ended 31 December 2008

1. Principal activities

Komerční banka, a.s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:

I. Providing loans, advances and guarantees in Czech Crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech Crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech Crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its subsidiary Komerční banka Bratislava, a.s.
The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35 percent (2007: 60.35 percent) of the Bank's issued share capital.

2. Events for the year ended 31 December 2008

Dividends declared in respect of the year ended 31 December 2007

At the General Meeting held on 29 April 2008, the shareholders approved a dividend for the year ended 31 December 2007 of CZK 180 per share before tax. The dividend was declared in the aggregate amount of CZK 6,832 million. An amount of CZK 508 million was allocated to the reserve fund and CZK 2,830 million was allocated to retained earnings.

Changes in the Bank's Financial Group

In May 2008, the Bank increased its equity investment in Penzijní fond Komerční banky, a.s. by CZK 300 million through the payment made over and above the share capital to other capital funds. In June 2008, the Bank decreased its equity investment in Bastion European Investments S.A. by EUR 3.6 million. For additional details of changes in the Bank's financial group, refer to Note 25.

Uncertainty about the impact of the global financial crisis

The Bank might be influenced by the global financial and economic crisis. The Bank might be exposed to increased risk mainly due to the high volatility and uncertainty regarding the valuation, possible impairment of assets, contingent liabilities and future development of the markets. Those potential risks may have an impact on the Bank's financial statements in the future.
The presented unconsolidated financial statements for the year ended 31 December 2008 are based on the current best estimates and management of the Bank believes that they present the truest and fairest view of the Bank's financial results and financial position using all relevant and available information at the financial statements date.

3. Principal accounting policies

These financial statements are unconsolidated. The consolidated financial statements are issued as of the same date. The total consolidated equity is CZK 62,974 million and total consolidated profit is CZK 13,233 million.
The principal accounting policies adopted in the preparation of these unconsolidated financial statements are set out below:

(a) Basis of accounting

The unconsolidated statutory financial statements are prepared in accordance with and comply with International Financial Reporting Standards ('IFRS') as adopted by the European Union, applicable for unconsolidated financial statements effective for the year ended 31 December 2008. As of the date of issuance of these unconsolidated financial statements, IFRS as adopted by the European Union do not differ from IFRS, except for fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the EU. In addition, the European Commission has not approved the following effective standards and interpretations, or their amendments:

- Revised IFRS 3 Business Combinations and related changes in IAS 27, 28 and 31;
- Revised IFRS 1 First-time Adoption of IFRS;
- Amendment to IAS 39 Eligible Hedged Items;
- New IFRIC 12 Service Concession Arrangements;
- New IFRIC 15 Agreements for the Construction of Real Estate;
- New IFRIC 16 Hedges of a Net Investment in a Foreign Operation;
- New IFRIC 17 Distributions of Non-cash Assets to Owners; and
- New IFRIC 18 Transfers of Assets from Customers.

The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements containing accounting policies and explanatory disclosures.

The unconsolidated financial statements are largely prepared under the historical cost convention, as modified by the fair value remeasurement of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts at the balance sheet date. Available-for-sale non-financial assets are stated at the lower of the amount before classification in this category and the estimated selling price less costs to sell. Assets that are not remeasured to fair value and suffered impairment are stated at the higher of net recoverable amount and value in use.

Assets and liabilities are not offset unless expressly permitted by IFRS.

The Bank maintains its books of account and regularly prepares the required statements in accordance with IFRS. The Bank also prepares consolidated financial statements under IFRS which show the consolidated results of the Group.

The reporting currency used in the unconsolidated financial statements is the Czech Crown ('CZK') with accuracy to CZK million.

(b) Use of estimates

The presentation of unconsolidated financial statements in conformity with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and their reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the determination of fair values of financial instruments, valuation of intangible assets, impairment of assets and provisions, are based on the information available at the balance sheet date. The current global economic crisis, its acceleration and market turbulence increase the risk that the actual results and outcomes may significant differ from these estimates. Key areas with a potential for significant differences between the actual results and the estimates principally include loan provisioning and fair values of securities. Information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are disclosed in individual notes as appropriate.

(c) Investments in subsidiaries and associates

Subsidiary undertakings are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the share capital or otherwise has power to exercise control over the operations of the entity. Associated undertakings are those companies in which the Bank, directly or indirectly, holds 20–50 percent of the entity's issued share capital.

The Bank's investments in subsidiary and associated undertakings are recognised at cost less any provisions. Investments, in which the Bank, directly or indirectly, has an equity interest less than 20 percent, are reported as *'Financial assets available for sale.'*

The Bank regularly assesses equity investments for impairment. An equity investment is impaired if its carrying amount is greater than the recoverable value.

Equity investments denominated in foreign currencies are reported on the face of the balance sheet at the historical exchange rate ruling at the acquisition date.

(d) Dates of recognition and derecognition of financial instruments from the Bank's balance sheet

All financial assets with normal delivery terms are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment). When settlement date accounting is applied, the financial asset is recognised on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its provision (collection of cash). However, in case of a portfolio of financial assets measured at fair value, the acquired financial asset is measured reflecting changes in its fair value from the purchase trade date to the sale trade date according to the categorisation into an individual portfolio.

All loans and receivables are recognised when funds are provided to customers. Loans and receivables are derecognised when repaid by the borrower. Assigned receivables are derecognised when payment is collected from the assignee, and receivables which the Bank decided to write off are derecognised at the write-off date.

The Bank remeasures derivative instruments at fair value from the trade date to the settlement date, that is, delivery of the last related cash flow.

The Bank derecognises financial liabilities from the balance sheet exclusively at the date when the financial liability extinguishes, i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or ceases to be valid.

(e) Foreign currency translation

Transactions and balances are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). The Bank's functional currency is the Czech crown (CZK), which is also the presentation currency for the unconsolidated financial statements. Transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date:

(i) Cash items denominated in foreign currencies are translated into CZK at the CNB's rate ruling at the financial statements date;

(ii) Non-cash items denominated in foreign currencies, which are stated at historical cost, are translated into CZK at the CNB's mid-rate ruling at the transaction date; and

(iii) Non-cash items denominated in foreign currencies, which are measured at fair value, are translated into CZK at the CNB's rate ruling at the date on which the fair value was determined.

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in *'Net profit/(loss) on financial operations.'* This does not apply to foreign exchange rate differences arising from the cost of equity securities available for sale, foreign exchange rate differences arising from the remeasurement of securities available for sale and foreign exchange rate differences from foreign currency non-derivative financial liabilities (current accounts, deposits) which the Bank uses to hedge against currency risk of the net investments in foreign operations and anticipated asset purchase transactions. These foreign exchange rate difference are recognised in equity (refer to (h) Securities and (r) Derivative financial instruments and hedging).

(f) Cash and cash equivalents

Cash comprises cash on hand and cash in the process of collection.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

In preparing its cash flow statement for the period, the Bank includes in cash and cash equivalents at the beginning and end of the period cash and balances with the central bank and current amounts due from and to banks.

(g) Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to a borrower are categorised as loans originated by the Bank and are stated at amortised cost in *'Loans and advances to customers'*.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue. Pursuant to the Bank's policies, penalty interest is not covered by the collateral set aside against the loan of the borrower. Default interest is not recognised as interest income on an accruals basis but on a cash basis when collected.

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its present estimated recoverable value. Estimated recoverable values are arrived at depending upon the classification of the client, taking into account collateral, if any, received by the Bank. The recognition, use and release of provisions is accounted for on a monthly basis always by reference to the loan balances at the month-end. The provision is reduced if objective reasons for loan impairment cease to exist. In such cases, the original amount is reversed and a required provision is recognised. Provisions are used upon a sale or a write-off of the loan and released to income when the reasons for maintaining the provision cease to exist (for example, when the loan is repaid). The provisioning policy is set out in Note 42(A) ('Provisioning for receivables') to these financial statements.

The Bank writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of these loans. Subsequent recoveries are credited to the profit and loss statement in *'Provision for loan losses'* if previously written off.

(h) 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. The Bank has allocated securities to the 'At fair value through profit or loss' portfolio, the 'Available for sale' portfolio, the 'Held to maturity' portfolio and the 'Loans and receivables' portfolio. All securities held by the Bank are recognised at fair value which is typically equal to the cost reflecting direct transaction costs, if any, associated with the acquisition of securities.

The Bank treats a security as quoted on an active market if the quoted market prices are readily and regularly available from the stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and these prices represent current and regular market transactions under ordinary conditions.

All financial instruments included in the 'At fair value through profit or loss' and the 'Available for sale' portfolios are recognised at fair values. The fair value is established by reference to the price quoted on a market. In circumstances where appropriate market quotations are not readily available, do not exist, are deemed unreliable or are not immediately updated to reflect the movements in the underlying market parameters, the securities held by the Bank are valued using the model of discounting future cash flows (valuation at the credit spread above the zero-risk yield curve). The parameters of the model are based on the credit spread of the relevant security and/or prices of comparable securities. Securities measured on the basis of the model are revalued at ruling market quotations at regular intervals. The length of this interval is derived from the volume of the measured securities in the portfolio. This revaluation is accompanied by the recalibration of the valuation model parameters.

The market price is determined on the basis of information published in the Reuters and Bloomberg information systems or directly from binding quotations obtained from market participants.

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention (purchases and sales with standard settlement terms) are recognised as spot transactions.

All purchases and sales of securities that do not meet the 'regular way' settlement criterion in the securities marketplace concerned are treated as financial derivatives and are recognised on the face of the balance sheet upon settlement at fair value.

The cost of debt securities is gradually increased to reflect the accrued interest income using the effective interest rate method. Interest income which includes the accrued coupon adjusted for the accrued difference between the nominal value of the security and its cost is recognised from the purchase settlement date to the sale settlement date.

Dividend income arising from equity securities is recorded as the dividends are declared and is included as a receivable in the balance sheet line *'Prepayments, accrued income and other assets'* and in *'Income from dividends'* in the profit and loss statement. Upon receipt of the dividend, the receivable is offset against the collected cash.

Transactions with treasury shares that are settled on a gross basis by the delivery of treasury shares have a direct impact on the Bank's equity.

The Bank assesses on a regular basis whether securities may be impaired, the only exception being securities at fair value through profit or loss. A financial asset is impaired if there is objective evidence of impairment or if its carrying amount is greater than its estimated recoverable amount. When an impairment of assets is identified, the Bank recognises provisions through the profit and loss statement line *'Provision for impairment of securities'*.

Financial assets at fair value through profit or loss

Securities designated as 'At fair value through profit or loss' are securities held for trading (equity and debt securities, treasury bills, bills of exchange and participation certificates) acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. These securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges or any other public securities markets.

Unrealised gains and losses arising from the fair value remeasurement of securities as well as realised gains and losses are recognised as income in the profit and loss statement line *'Net profit/(loss) on financial operations.'*

Available for sale financial assets

Available for sale financial assets are those financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity investments. This portfolio comprises equity securities and debt securities, including asset backed securities, and participation certificates. Financial assets available for sale are accounted for and stated at fair value.

Accrued interest income is recognised through the profit and loss statement. Unrealised gains or losses from the fair value remeasurement of securities are included in the *'Revaluation of available-for-sale financial assets'* in equity until their sale, maturity or impairment. Fair value changes arising from changes in foreign exchange rates are presented in equity and changes in the amortised cost arising from changes in foreign exchange rates are included in the profit and loss statement.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/book value ratios refined to reflect the specific circumstances of the issuer and according to the principle of prudence. If equity securities cannot be measured using the methods referred to above or on any other valuation basis they are carried at cost.
The estimated recoverable amount of financial assets available for sale is equal to the current fair value of the assets. The estimated recoverable amount of equity and debt securities, for which the fair value cannot be reliably determined, is equal to the present value of the expected future cash flows discounted at the current market interest rate for similar financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) assets that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
(ii) assets that the Bank upon initial recognition designates as available for sale; or
(iii) assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

These securities are measured on the same basis as investments held to maturity and are reported on the balance sheet together with amounts due from banks or customers, as appropriate.

Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective interest rate method.
The estimated recoverable amount of investments held to maturity is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate.

(i) Assets held for sale

An asset is classified as 'held for sale' under IFRS 5 if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition, must be actively marketed for sale at a price that is reasonable in relation to its current fair value and its sale must be highly probable, that is, a plan to sell leading to the location of a buyer has been initiated. The sale of assets should be completed within one year from the date of classification of assets as 'held for sale'.
Non-current assets designated as 'held for sale' are reported in the balance sheet line *'Assets held for sale'* and are no longer depreciated.
The Bank recognises an impairment loss on assets held for sale if their selling price less costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either in accordance with IFRS 5 or IAS 36.

(j) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses and increased by technical improvements. Fixed assets are depreciated indirectly through the accumulated depreciation charge. Depreciation is calculated on a straight line basis to write off the cost, net of provisions, in respect of tangible and intangible fixed assets and net of the estimated residual value in respect of cars held under finance lease (recognised in assets under IFRS) over their estimated useful economic lives and is reported in the profit and loss statement line *'Depreciation, impairment and disposal of fixed assets'*. The residual value of cars held under finance leases is determined on the basis of the purchase price following the expiration of the lease set out in the lease contract.
The Bank specifically does not depreciate land, works of art, tangible and intangible fixed assets in the course of construction and technical improvements, unless they are brought into a condition fit for use.
The Bank has applied the component approach to buildings and their technical improvements that were acquired subsequent to 1 January 2005.

During the reporting periods, the Bank used the following estimated useful economic lives in years:

	2008	2007
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	7
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lift, electro-installation	25	25
– Roof, facade	30	30
– Net book value – building or technical improvements without selected components	50	40
Technical improvements on leasehold assets, including historic buildings	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as part of internal projects)	According to the useful life, typically 4	According to the useful life, typically 4
Right of use – software	4	4
Other rights of use	According to contract	According to contract

In accordance with IAS 38, the Bank adds to the cost of intangible assets generated internally as part of internal projects external expenses and internal personnel costs incurred in developing intangible fixed assets. The Bank does not capitalise expenses incurred in research.
The Bank periodically tests its assets for indications of impairment, such as a change in their utilisation or worsened economic conditions. Where the indications of impairment are identified and the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount is the higher of net realisable value and value in use. Where assets are identified as being surplus to the Bank's requirements, management of the Bank determines a provision for asset impairment by reference to the selling price based on expert valuation reports adjusted downwards for an estimate of associated sale costs. The associated sale costs include costs of expert valuation reports, legal and economic advisory, etc. which are estimated on the basis of the Bank's historical experience, and real estate transfer tax in respect of real estate.
Repairs and renewals are charged directly to the profit and loss statement when the expenditure is incurred.

(k) Leases

Assets held under finance leases when substantially all the risks and rewards of ownership are transferred, are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. These assets are depreciated over their useful lives.
Lease payments are apportioned between interest reported in finance charges (in *Interest expense and similar expenses*) and a reduction of the outstanding lease obligation. Finance charges are allocated over the lease term so as to achieve a constant rate of interest.
Payments made under operating leases are charged to expenses on a straight line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
At present the Bank does not act as a lessor for finance leases.

(l) Provisions

In accordance with IFRS, the Bank recognises a provision when, and only when:

- It has a present obligation (legal or constructive) as a result of a past event;
- It is probable that the settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

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, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans.
Specific provisions are made for estimated losses on these commitments on the same basis as used in provisioning (refer to Note 42 (A)).

(m) Employment benefits

The Bank provides its employees with retirement benefits and disability benefits.
The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension but only if they were employed with the Bank for a minimum defined period.
Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amount of social security and health insurance contributions, discount rate).
The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions as incurred.

(n) Securities issued

Securities issued by the Bank are stated at amortised costs using the effective interest rate method. Interest expense arising on the issue of the Bank's own securities is included in the profit and loss statement line *'Interest expense and similar expense.'*
In the event of the repurchase of its own debt securities, the Bank derecognises these securities so as to reflect the economic substance of the transaction as a repayment of the Bank's commitment and decreases its liabilities in the balance sheet line *'Securities issued'*. Gains and losses arising as a result of the repurchase of the Bank's own debt securities are included in *'Net profit/(loss) on financial operations'*.

(o) Income and expense recognition

Interest income and expenses related to interest-bearing instruments are reported in the profit and loss statement in the period to which they relate on an accruals basis using the effective interest rate which is calculated, under IFRS, reflecting the fees paid by contractual parties, transaction costs and other discounts and premiums. Interest, fees and other expenses included in the calculation of the effective interest rate are recognised in *'Interest income and similar income'*.
Other fees and commissions are recognised in the period to which they relate on an accruals basis. Penalty interest is accounted for and included in interest income on a cash basis.

(p) Income taxation

Income taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic, based on the profit recognised in the profit and loss statement net of the effects of International Financial Reporting Standards. Income taxation is included in the profit and loss statement, or equity if it relates to an item directly taken to equity.
Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.
Deferred tax related to cash flow hedges where fair value changes are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss statement together with the deferred gain or loss.

(q) Repurchase agreements

Under repurchase transactions ('repos'), the Bank only provides securities held in the *'At fair value through profit or loss'* and *'Available for sale'* portfolio as collateral. These securities are recorded as assets in the balance sheet line *'Financial assets at fair value through profit or loss'* and *'Financial assets available for sale'* and the corresponding liability arising from the received loan is included in *'Amounts due to banks'* or *'Amounts due to customers'* as appropriate.

Securities purchased under reverse repurchase agreements ('reverse repos') are recorded off balance sheet where they are remeasured to fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the balance sheet line *'Due from banks'* or *'Loans and advances to customers'* as appropriate.

The Bank's off balance sheet accounts also reflect securities obtained under reverse repos and provided as collateral reflected at fair value. The corresponding liability arising from the received loan is included in *'Amounts due to banks'* or *'Amounts due to customers'* as appropriate.

The difference between the sale and repurchase price in respect of repo and reverse repo transactions is treated as interest and accrued evenly to expenses/income over the life of the repo agreement using the linear interest rate due to their short-term maturities.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Bank derecognises from off balance sheet accounts securities acquired under reverse repo transactions and recognises in the balance sheet an amount payable from a short sale which is remeasured to fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

(r) Derivative financial instruments and hedging

In the normal course of business, the Bank enters into contracts for derivative financial instruments. At the conclusion of the financial derivative contract, the Bank designates derivative instruments as either trading or hedging. The Bank also acts as an intermediary provider of these instruments to certain clients.

The derivative financial instruments used by the Bank as trading instruments include interest rate, currency and commodity forwards, swaps, securities based derivatives, emission allowances and options. The values of these instruments change pursuant to the fluctuations in interest rates, commodity prices, exchange rates, market values of securities and similar market parameters.

Derivative financial instruments are recognised at their fair value. Changes in the fair values of derivatives held for trading are directly included in the profit and loss statement line *'Net profit/(loss) on financial operations'* from the trade date to the settlement date. Fair values are obtained from quoted market prices, discounted cash flow models or options pricing models as appropriate. All derivatives are carried as assets in *'Financial assets at fair value through profit or loss'* when fair value is positive and as liabilities in 'Financial liabilities at fair value through profit or loss' when fair value is negative.

Certain derivatives, such as the option for an earlier redemption of a bond, are embedded in other (host) financial instruments and are treated and accounted for as separate derivatives when: i) they as a separate instrument meet the definition of a derivative, ii) their risks and economic characteristics are not closely related to those of the host contract, and iii) the host contract is not carried at fair value with fair value changes reported in the profit and loss statement.

The Bank uses certain derivative financial instruments to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as hedging only if the criteria set out in IFRS are met at the designation date.

The criteria for a derivative instrument to be accounted for as a hedge include:

- Compliance with the Bank's risk management strategy;
- At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to assessing whether the hedge is effective;
- The hedge is expected to be highly effective at inception and throughout the period; and
- Changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Hedging derivatives are accounted for according to the type of a hedging relationship which can be either

(i) a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge), or

(ii) a hedge of a future cash flow attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge); or

(iii) a hedge of an investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss statement along with the corresponding change in the fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the profit and loss statement line *'Net profit/(loss) on financial operations.'* On this basis, the Bank hedges the selected portfolios of foreign currency assets. The effectiveness of the hedge is regularly tested on a quarterly basis through prospective and retrospective tests.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to profit or loss over the period to the maturity of the hedged item.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the *'Hedging instruments'* in shareholders' equity. Amounts deferred in equity are transferred to the profit and loss statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the profit and loss statement. The ineffective element of the hedge is charged directly to the profit and loss statement line *'Net profit/(loss) on financial operations.* On this basis, the Bank hedges the interest rate risk associated with selected portfolios of assets or liabilities or individual assets or liabilities. The effectiveness of the hedge is tested through prospective and retrospective tests performed at the end of each quarter.

The Bank additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiaries, Komerční banka Bratislava, a.s. and Bastion European Investment S.A. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from their retranslation are included in the *'Hedging instruments'*.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 42 (C).

Certain derivative transactions, while providing economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with the related fair value gains and losses reported in the profit and loss statement line *'Net profit/(loss) on financial operations'*.

(s) Regulatory requirements

The Bank is subject to the regulatory requirements of the Czech National Bank and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk associated with the Bank's clients, liquidity, interest rate and foreign currency position.

(t) Fiduciary activities

Assets arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

(u) Share capital and treasury stock

Where the Bank purchases its own share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are recorded in equity.

(v) Contingent assets and contingent liabilities

In addition to transactions giving rise to the recognition of assets and liabilities in the balance sheet, the Bank enters into transactions under which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities off balance sheet as off-balance sheet items. The Bank monitors these transactions as they represent a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging on-balance sheet assets and liabilities).

Under IAS 37 a contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. A contingent liability is also a present obligation where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

The Bank recognises issued guarantees in accordance with IAS 39. The guarantee is initially recognised at fair value and subsequently at the higher of the value determined in accordance with IAS 37 or the amount originally reported and decreased by an accumulated accrual, if any, in accordance with IAS 18.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent asset is recognised and disclosed where an inflow of economic benefits is probable.

Off-balance sheet items also consist of interest rate and foreign currency instruments, including forwards, swaps, options and futures. For further disclosure on derivatives refer to part (r).

(w) Segment reporting

In accordance with IAS 14, the Bank reports income and assets under business segments. The Bank does not report geographical segments because The Bank's income is primarily generated on the territory of the Czech Republic and the bulk of its assets are located in the Czech Republic.

A business segment is a distinguishable component of the Bank that is engaged in providing a group of related services and that is subject to risks and returns that are different from those of other business segments. The Bank reports the 'Universal banking' and 'Investment banking' segments.

(x) Changes of accounting policies arising from the implementation of new or revised IFRSs and IASs effective from 1 January 2008 to 31 December 2008

In October 2008, an amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures relating to the reclassification of financial assets was published and became effective retrospectively as of 1 July 2008. This amendment facilitates, under extraordinary circumstances (e.g. in the period of a financial crisis) and subject to the fulfilment of specified criteria, the reclassification of non-derivative financial assets from the category of securities at fair value through profit or loss. In line with the amendment, it is also possible to reclassify financial assets from 'Financial assets available for sale' to 'Loans and receivables' subject to the fulfilment of specified criteria.

In the year ended 31 December 2008, the Bank made no reclassifications between categories of financial assets.

The below interpretations are effective for periods beginning on or after 1 January 2008:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective 1 March 2007);
- IFRIC 12 – Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13 – Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective 1 January 2008); and
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008).

These interpretations do not have a material impact on the accounting policies applied by the Bank.

(y) Changes of accounting policies arising from the implementation of new IFRSs and revised IASs effective from 1 January 2009 or later

The Bank has undertaken a detailed analysis of the revised International Financial Reporting Standards in order to identify the relevant changes and their potential impact on its accounting policies. The Bank anticipates that the application of these standards will not have a significant impact on the Bank's profit or loss or equity.

In the current reporting period or in the year ended 31 December 2007, the following standards/amended standards became effective and are to be applied for annual periods beginning on or after 1 January 2009 or 1 July 2009:

- IFRS 1 First time Adoption of IFRS: restructured version of the standard which retains the substance of the previous version and only differs in the structure. In addition, an amended version of the standard was published. This version enables the valuation of investments in a subsidiary at their deemed cost.
- IFRS 2 Share-based Payment: the amendment to the standard relates to vesting conditions which are newly limited only to the condition of continuance of the employment and performance conditions, and specifies the accounting policy for the cancellation of a contract by the counterparty.
- IFRS 3 Business Combinations: an extensive amendment to the standard changes, among others, the accounting for costs relating to acquisitions, valuation of non-control interests or contingent considerations, etc. (effective for annual periods beginning on or after 1 July 2009).
- IFRS 8 Operating Segments: this new standard replaced IAS 14 Segment Reporting. Under IFRS 8, segments are required to be identified based on internal reports (rather than industry or geography) and may newly include as a segment a component of an entity that largely supplies its products or services internally, i.e. to other operating segments of the entity.
- IAS 1 Presentation of Financial Statements: the amended standard requires the preparation of a statement of financial position also at the inception of the oldest comparative period when the entity retrospectively applies an accounting policy or makes a retrospective adjustment of the amount or classification of certain items of the financial statements. The standard also requires an entity to separately present transactions with owners (e.g. dividends) and other transactions (e.g. resulting from revaluation of assets, cash flow hedges, etc) in equity. For this reason, a Statement of Comprehensive Income is introduced, comprising the existing income statement as well as information about unrealised gains and losses recognised in equity. The revised standard also refers to a 'balance sheet' as a 'statement of financial position'.
- IAS 23 Borrowing Costs: the amended standard eliminates the option to select between the benchmark treatment (recognition of all borrowing costs as an expense) and the allowed alternative treatment (capitalisation of borrowing costs attributable to the acquisition, construction or production of a qualifying asset) and requires that borrowing costs attributable to the acquisition, construction or production of a qualifying asset (fixed asset) to be capitalised as part of the cost.

- IAS 27 Consolidated and Separate Financial Statements: The amendment to the standard involves accounting for received first dividends after the acquisition of an investment and determining the cost upon the inclusion of a newly formed parent company in the consolidation group.
- IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Financial Reporting of Interests in Joint Ventures: the amendment to the standards relates to the amendment to IFRS 3 and predominantly involves a step-by-step acquisition, allocation of the profit or loss to a non-controlling interest, loss of control, or significant influence or joint venture (effective for the period beginning on or after 1 July 2009).
- IAS 32 Financial Instruments: Disclosure and Presentation: the amended standard defines a puttable financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. An exception was additionally added whereby an instrument meeting the 'financial liability' definition is classified as an equity instrument if it meets all the requirements and criteria for equity instruments.
- IAS 39 Financial Instruments: Recognition and Measurement: the amended standard relates to hedged items and assessment of the effectiveness of the hedging of purchased options. The entity may designate as a hedged item both all changes in its cash flows or fair value and only their changes over/below the specified amount or another variable (one-side risk). In respect of the purchased option, its intrinsic rather than time value then reflects the one-side risk. The amendment also stipulates that the hedged risk or its hedged part must be a separately identifiable component of the financial instrument and changes in the cash flows or fair value of the financial instrument arising as a result of the change in the relevant risk must be reliably measurable (effective for the annual periods beginning on or after 1 July 2009).

The International Accounting Standards Board published the Annual Improvements which amend 20 standards in a total of 35 points with the primary objective of removing unintentional inconsistencies among individual standards or redundant or misleading references and improve the wording or update the obsolete terminology. Certain provisions of this complex amendment are effective for periods beginning on or after 1 January 2009, other provisions for periods beginning on or after 1 July 2009.
In addition, the following interpretations are effective for periods beginning on or after 1 January 2009:

- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 17 Distributions of Non-cash Assets to Owners; and
- IFRIC 18 Transfers of Assets from Customers.

These interpretations do not impact the accounting policies applied by the Bank (IFRIC 17 does not relate to the distribution of non-cash assets which are controlled by the same party before and after the distribution and concurrently requires that all owners of the same class of shares are treated in the same manner).

(z) Reclassification

During the year ended 31 December 2008, the Bank refined the presentation of certain items of its profit and loss statement and balance sheet to reflect the structure of the financial statements used by the parent company. The amounts and balances for 2007 were restated to reflect the presentation for the current period. The below tables include a reconciliation of individual categories.
Reconciliation of the profit and loss statement categories for the year ended 31 December:

CZK million	2007 Before reclassification	2007 After reclassification	Reference
Interest expense and similar expense	(14,200)	(14,195)	1
Income from dividends	0	158	2, 3
Net fee and commission income	9,020	7,520	4
Net profit from financial operations	1,367	2,771	2, 4
Other income	138	76	3
Personnel expenses	(5,390)	(5,395)	1
General administrative expenses	(5,475)	(5,563)	5
Provisions for loan losses	(1,271)	(1,183)	5

1. Incurred interest expenses of the accrued provision for retirement costs of CZK 5 million were reclassified from 'Interest expense and similar expense' to *'Personnel expenses'*.
2. Received dividends on financial assets available for sale in the amount of CZK 96 million were reclassified from 'Net profit from financial operations' to *'Income from dividends'*.
3. Received dividends from equity investments of CZK 62 million were reclassified from *'Other income'* to *'Income from dividends'*.
4. Net profit from exchange rate commissions (clean payments, payment card transactions) of CZK 1,500 million was reclassified from *'Net fee and commission income'* to *'Net profit from financial operations'*.
5. The costs of bonuses provided in respect of debt recovery in the amount of CZK 88 million were reclassified from *'Provisions for loan losses'* to *'General administrative expenses'*.

Reconciliation of balance sheet categories as of 31 December:

CZK million	2007 Before reclassification	2007 After reclassification	Reference
Cash and current balances with central banks	10,376	12,976	1
Financial assets at fair value through profit or loss	26,731	34,126	2
Positive fair value of hedging financial derivative transactions	9,430	2,035	2
Amounts due from banks	198,529	195,929	1
Loans and advances to clients	267,108	267,525	3, 4, 5
Prepayments, accrued income and other assets	4,597	4,180	3, 4, 5
Amounts due to central banks	0	10	6
Financial liabilities at fair value through profit or loss	0	7,711	8, 9
Negative fair value of hedging financial derivative transactions	8,613	2,750	9
Amounts due to banks	13,325	11,994	6, 7, 8
Amounts due to customers	454,289	453,762	7
Accruals and other liabilities	10,876	10,877	10
Provisions	1,665	1,664	10

1. Term placements with the Czech National Bank in the amount of CZK 2,600 million were reclassified from *'Amounts due from banks'* to *'Cash and current balances with central banks'*.
2. The category 'Positive fair value of financial derivative transactions' was split into hedging derivatives and trading derivatives. Trading derivatives were included in *'Financial assets at fair value through profit or loss'* in the amount of CZK 7,395 million.
3. Receivables arising from trading on the Prague Energy Stock Exchange in the amount of CZK 417 million were reclassified from *'Prepayments, accrued income and other assets'* to *'Loans and advances to customers'*.
4. Other receivables from the non-credit process of CZK 9 million were reclassified from *'Loans and advances to customers'* to *'Prepayments, accrued income and other assets'*.
5. Provisions for other receivables from the non-credit process of CZK 9 million were reclassified from *'Loans and advances to customers'* to *'Prepayments, accrued income and other assets'*.
6. Amounts due to central banks of CZK 10 million were reclassified from *'Amounts due to banks'* to *'Amounts due to central banks'*.
7. Amounts due to cooperative savings banks of CZK 527 million were reclassified from *'Amounts due to customers'* to *'Amounts due to banks'*.
8. Payables from sold securities in the amount of CZK 1,848 million were reclassified from *'Amounts due to banks'* to *'Financial liabilities at fair value through profit or loss'*.
9. The category *'Negative fair value of financial derivative transactions'* was split into hedging derivatives and trading derivatives. Trading derivatives were included in *'Financial liabilities at fair value through profit or loss'* in the amount of CZK 5,863 million.
10. The provision for real estate tax of CZK 1 million was reclassified from *'Provisions'* to *'Accruals and other liabilities*.

4. Source of income and expense

Set out below is a business segment analysis:

CZK million	Universal banking 2008	Universal banking 2007	Investment banking 2008	Investment banking 2007	Total 2008	Total 2007
External income	25,073	15,652	4,748	10,579	29,821	26,231
Income from other segments	2,779	8,924	(2,779)	(8,924)	0	0
Total income	**27,852**	**24,576**	**1,969**	**1,655**	**29,821**	**26,231**
External expenses	(12,895)	(12,158)	(101)	(149)	(12,996)	(12,307)
Segment result	**14,957**	**12,418**	**1,868**	**1,506**	**16,825**	**13,924**
Unallocated expenses					(2,231)	(809)
Profit/(loss) before taxation					**14,594**	**13,115**
Income taxation					(2,799)	(2,945)
Profit					**11,795**	**10,170**
Assets by segment	439,071	373,724	170,885	214,532	609,956	588,256
Unallocated assets					6	436
Total assets					**609,962**	**588,692**
Liabilities by segment	379,087	324,166	171,137	215,101	550,224	539,267
Unallocated liabilities					761	189
Total liabilities					**550,985**	**539,456**
Acquisition of assets	**1,983**	**1,944**	**15**	**9**	**1,998**	**1,953**
Depreciation and amortisation	**1,542**	**1,512**	**4**	**4**	**1,546**	**1,516**

The release of provisions during the reporting period in the "Investment banking" segment amounted to CZK 1 million (2007: a recognition of CZK 1 million), other recognition and release of provisions related only to the 'Universal banking' segment for all classes of impaired assets.

The Bank's income is primarily generated on the territory of the Czech Republic. The bulk of assets are located in the Czech Republic.

5. Net interest income and similar income

Net interest income and similar income comprise:

CZK million	2008	2007
Interest income and similar income	37,611	29,901
Interest expense and similar expense	(20,480)	(14,195)
Income from dividends	459	158
Net interest income and similar income	**17,590**	**15,864**
Of which net interest income arising from		
– Loans and advances	25,711	20,992
– Investments held to maturity	61	116
– Financial assets available for sale	1,465	1,019
– Financial liabilities at amortised cost	(10,626)	(7,897)

'Interest income and similar income' includes interest on substandard, doubtful and loss loans of CZK 613 million (2007: CZK 524 million) due from customers and interest of CZK 1 million (2007: CZK 1 million) on securities that have suffered impairment.

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 10,374 million (2007: CZK 7,774 million) and 'Interest expense and similar expense' includes interest expenses from hedging financial derivatives of CZK 9,854 million (2007: CZK 6,298 million). 'Net interest income' from these derivatives amounts to CZK 520 million (2007: CZK 1,476 million).

'Income from dividends' includes received dividends from subsidiaries and associates of CZK 236 million (2007: CZK 62 million) and received dividends from financial assets available for sale of CZK 223 million (2007: CZK 96 million). Dividends from financial assets available for sale in the form of shares amounted to CZK 54 million in the year ended 31 December 2008.

6. Net fee and commission income

Net fee and commission income comprises:

CZK million	2008	2007
Fees and commission from transactions	3,976	3,669
Fees and commissions from loans and deposits	2,674	2,604
Other fees and commissions	1,144	1,247
Total net fee and commission income	**7,794**	**7,520**

7. Net profit on financial operations

Net profit on financial operations comprises:

CZK million	2008	2007
Net realised gains/(losses) on securities held for trading	(6)	5
Net unrealised gains/(losses) on securities held for trading	1,160	411
Net realised gains/(losses) on financial assets available for sale	485	28
Net realised gains/(losses) on own bonds	0	18
Net realised and unrealised gains/(losses) on security derivatives	110	21
Net realised and unrealised gains/(losses) on interest rate derivatives	(228)	232
Net realised and unrealised gains/(losses) on trading commodity derivatives	33	10
Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities and exchange rate fees and commissions	2,779	2,046
Total net profit/(loss) on financial operations	**4,333**	**2,771**

In the year ended 31 December 2008, the line *'Net realised gains/(losses) on financial assets available for sale'* shows the net gain from the sale of the equity investment in Burza cenných papírů Praha, a.s. in the amount of CZK 485 million (refer to Note 19).
The line *'Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities'* shows the aggregate re-translation of foreign currency assets and liabilities (with the exception of securities held for trading) which represented a net gain of CZK 1,602 million in 2008 (2007: a net loss of CZK 1,750 million) and net fees and provisions from clean and documentary payments and cash transactions with clients of the Bank, in the amount of the difference between the exchange rate relating to the purchase/sale of the foreign currency determined by the Bank and the official foreign exchange rate of the Czech National Bank used for the revaluation of transactions in foreign currencies that represented the net gain of CZK 1,587 million (2007: CZK 1,500 million).
A loss of CZK 408 million (2007: gain of CZK 208 million) on the fair value of interest rate swaps for foreign currency risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from the retranslation of hedged loan receivables reported in the same line.

8. Other income

'Other income' is predominantly composed of property rental income.

9. Personnel expenses

Personnel expenses comprise:

CZK million	2008	2007
Wages, salaries and bonuses	4,112	3,771
Social costs	1,628	1,624
Total personnel expenses	**5,740**	**5,395**
Physical number of employees at the period-end	8,073	7,816
Average recalculated number of employees during the period	7,981	7,764
Average cost per employee (CZK)	**719,244**	**694,836**

'Social costs' include costs of CZK 107 million (2007: CZK 98 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 43 million (2007: CZK 43 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include expenses of CZK 74 million (2007: CZK nil) relating to provisioning for restructuring in relation to the project of the reorganisation and centralisation of back office divisions (refer to Note 33).

10. General administrative expenses

General administrative expenses comprise:

CZK million	2008	2007
Insurance of deposits and transactions	450	442
Marketing and entertainment costs	695	561
Costs of sale and banking products	1,260	1,263
Staff costs	343	287
Property maintenance charges	1,159	1,204
IT support	780	796
Office equipment and other consumption	83	77
Telecommunications, post and other services	254	243
External advisory services	675	531
Other expenses	124	159
Total general administrative expenses	**5,823**	**5,563**

'Insurance of deposits and transactions' shown as a component of 'General administrative expenses' includes an estimated balance of payments to the Deposit Insurance Fund of CZK 379 million (2007: CZK 360 million).

'General administrative expenses' include expenses of CZK 58 million (2007: CZK nil) relating to provisioning for the restructuring in relation to the project of the reorganisation and centralisation of back office divisions (refer to Note 33).

11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

CZK million	2008	2007
Depreciation of tangible and intangible fixed assets	1,546	1,516
Provisions for assets and net gain on the sale of assets	(113)	(167)
Total depreciation, impairment and disposal of fixed assets	**1,433**	**1,349**

12. Cost of risk

Provisions for loans and other credit commitments

The movement in the provisions was as follows:

CZK million	2008	2007
Balance at 1 January	(9,042)	(8,069)
Net provisioning for loan losses	(2,382)	(1,183)
Impact of loans written off and transferred	116	(57)
Exchange rate differences attributable to provisions	(133)	267
Balance at 31 December	**(11,441)**	**(9,042)**

The balance of provisions as of 31 December 2008 and 2007 comprises:

CZK million	2008	2007
Provisions for loans to banks (refer to Note 21)	(1)	0
Provisions for loans to customers (refer to Note 22)	(10,331)	(8,284)
Provisions for other loans to customers (refer to Note 22)	(1)	(3)
Provisions for guarantees and other credit related commitments (refer to Note 33)	(1,108)	(755)
Total	**(11,441)**	**(9,042)**

Provisions for securities

The balance of provisions for securities was CZK 17 million as of 31 December 2008 (2007: CZK 17 million). During the year ended 31 December 2008, the Bank recognised, used and released no provisions.

Provisions for other risk expenses

The balance of *'Provisions for other risk expenses'* of CZK 1 million (2007: a net release of CZK 253 million) principally consists of the charge for provisions of CZK 63 million (2007: CZK 73 million) and the release and use of provisions of CZK 76 million (2007: CZK 539 million) for legal disputes, together with the costs incurred by the Bank as a result of the outcome of legal disputes of CZK 12 million (2007: CZK 217 million).
Additional information on the provisions for other risk expenses is provided in Note 33.

13. Profit on subsidiaries and associates

The profit on subsidiaries and associates includes as follows:

CZK million	2008	2007
Release of provisions	0	103
Gain on the sale of investments in subsidiaries and associates	150	3
Total profit or loss on subsidiaries and associates	**150**	**106**

In May 2005, the Bank and Société Générale Asset Management S.A. (France) concluded a contract for the sale of 100 percent of shares of Investiční kapitálová společnost Komerční banky, a.s. (hereinafter "IKS"). The selling price was payable in two instalments. The first portion of the price was paid immediately as of the transaction date in cash, the second portion of the price was due after the fulfilment of pre-agreed distribution targets for IKS products sold through the Bank's distribution network in 2005 to 2008. The Bank fulfilled the distribution targets. The gain of CZK 150 million is disclosed in the line *"Gain on the sale of investments in subsidiaries and associates"*.
The balance of provisions is as follows:

CZK million	2008	2007
Balance at 1 January	(390)	(493)
Release and use of provisions	0	103
Balance at 31 December	**(390)**	**(390)**

Provisions for investments in subsidiaries and associates principally comprise provisions charged in respect of Komerční pojišťovna, a.s. on the basis of losses incurred in prior periods (for further information see Note 25).

14. Income taxes

The major components of corporate income tax expense are as follows:

CZK million	2008	2007
Tax payable – current year, reported in profit or loss	(2,735)	(2,785)
Tax paid – prior year	(4)	(1)
Deferred tax	(40)	(203)
Hedge of a deferred tax asset against foreign currency risk	(20)	44
Total income taxes	**(2,799)**	**(2,945)**
Tax payable – current year, reported in equity	3	28
Total tax expense	**(2,796)**	**(2,917)**

CZK million	2008	2007
Profit before tax	**14,594**	**13,115**
Theoretical tax calculated at a tax rate of 21% (2007: 24%)	3,065	3,148
Tax on pre-tax profit adjustments	(8)	(2)
Non-taxable income	(1,221)	(1,019)
Expenses not deductible for tax purposes	948	731
Tax allowance	(2)	(2)
Tax credit	(68)	(71)
Tax on a standalone tax base	21	0
Hedge of a deferred tax asset against foreign currency risk	20	(44)
Movement in deferred tax	40	203
Income tax expense	**2,795**	**2,944**
Prior period tax expense	4	1
Total income taxes	**2,799**	**2,945**
Tax payable on financial assets available for sale reported in equity*	(3)	(28)
Total income tax	**2,796**	**2,917**
Effective tax rate	19.18%	22.45%

Note: * This amount represents the tax payable on unrealised gains from the revaluation of financial assets available for sale which are revalued through equity under IFRS.

Non-taxable income primarily includes dividends, gain on the sale of a subsidiary, non-taxable interest income and the release of non-tax deductible provisions and reserves. Expenses not deductible for tax purposes include the recognition of non-tax deductible reserves and provisions and non-tax deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to CAS. Tax credit arises from interest income on bonds issued by EU states.

The corporate tax rate for the year ended 31 December 2008 is 21 percent (2007: 24 percent). The Bank's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 34.

15. Distribution of net profit

For the year ended 31 December 2008, the Bank generated a net profit of CZK 11,795 million.

In accordance with the resolution of the General Meeting of Shareholders held on 29 April 2008, the aggregate balance of the net profit of CZK 10,170 million for the year ended 31 December 2007 was allocated as follows: CZK 6,832 million was paid out in dividends, CZK 508 million was allocated to the reserve fund and the remaining balance of the net profit was allocated to retained earnings.

16. Earnings per share

Earnings per share of CZK 310.81 (2007: CZK 267.96 per share) have been calculated by dividing the net profit of CZK 11,795 million (2007: CZK 10,170 million) by the number of shares in issue, that is, 38,009,852, decreased to reflect the average number of treasury shares held by the Bank during the period.

17. Cash and current balances with central banks

Cash and current balances with central banks comprise:

CZK million	2008	2007
Cash and cash equivalents	7,762	7,203
Balances with central banks	4,551	5,773
Total cash and current balances with central banks	**12,313**	**12,976**

Obligatory minimum reserves are included in *'Balances with central banks'* and they bore the interest of the Czech National Bank at 2.25 percent and 3.50 percent as of 31 December 2008 and 2007, respectively.

18. Financial assets at fair value through profit or loss

As of 31 December 2008 and 2007, financial assets at fair value through profit or loss included securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any financial assets as at fair value through profit or loss.

CZK million	2008	2007
Securities	25,801	26,731
Derivative financial instruments	18,196	7,395
Financial assets at fair value through profit or loss	**43,997**	**34,126**

For detailed information on derivative financial instruments included in the securities held for trading portfolio, refer to Note 42 (42(C) *Financial derivative instruments*).
Trading securities comprise:

CZK million	Fair value 2008	Cost* 2008	Fair value 2007	Cost* 2007
Shares and participation certificates	**3**	**3**	**74**	**74**
Emission allowances	**212**	**213**	**0**	**0**
Fixed income debt securities	15,856	15,844	17,940	18,108
Variable yield debt securities	822	829	313	313
Bills of exchange	1,000	1,000	998	999
Treasury bills	7,908	7,904	7,406	7,414
Total debt securities	**25,586**	**25,577**	**26,657**	**26,834**
Total trading securities	**25,801**	**25,793**	**26,731**	**26,908**

Note: * Acquisition cost for shares, participation certificates and emission allowances, amortised acquisition cost for debt securities

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 7,908 million (2007: CZK 7,406 million).
As of 31 December 2008, the portfolio of trading securities includes securities at a fair value of CZK 16,893 million (2007: CZK 18,327 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 8,908 million (2007: CZK 8,404 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).
Trading shares and participation certificates at fair value comprise:

CZK million	2008	2007
Shares and participation certificates		
– Czech crowns	3	74
Total trading shares and participation certificates	**3**	**74**

Trading shares and participation certificates at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Trading shares and participation certificates issued by:		
– Other entities in the Czech Republic	0	71
– Other foreign entities	3	3
Total trading shares and participation certificates	**3**	**74**

Emission allowances held for trading at fair value comprise:

CZK million	2008	2007
Emission allowances		
– Other currencies	212	0
Total emission allowances held for trading	**212**	**0**

Emission allowances held for trading at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Emission allowances held for trading issued by:		
– Foreign state institutions	212	0
Total emission allowances held for trading	**212**	**0**

Debt trading securities at fair value comprise:

CZK million	2008	2007
Variable yield debt securities		
– Czech crowns	339	313
– Other currencies	483	0
Total variable yield debt securities	**822**	**313**
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	22,807	25,064
– Other currencies	1,957	1,280
Total fixed income debt securities	**24,764**	**26,344**
Total trading debt securities	**25,586**	**26,657**

Debt trading securities at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Debt trading securities issued by:		
– State institutions in the Czech Republic	20,911	22,599
– Foreign state institutions	2,360	1,199
– Financial institutions in the Czech Republic	168	159
– Foreign financial institutions	458	382
– Other entities in the Czech Republic	1,579	1,988
– Other foreign entities	110	330
Total trading debt securities	**25,586**	**26,657**

Of the debt securities issued by state institutions in the Czech Republic, CZK 20,911 million (2006: CZK 21,747 million) represents securities eligible for refinancing with the Czech National Bank.

19. Financial assets available for sale

Financial assets available for sale comprise:

CZK million	Fair value 2008	Cost* 2008	Fair value 2007	Cost* 2007
Shares and participation certificates	826	118	839	93
Fixed income debt securities	38,448	38,448	27,065	27,401
Variable yield debt securities	6,586	6,357	6,618	6,636
Total debt securities	45,034	44,805	33,683	34,037
Total financial assets available for sale	**45,860**	**44,923**	**34,522**	**34,130**

Note: * Acquisition cost for shares and participation certificates, amortised acquisition cost for debt securities

As of 31 December 2008, the available-for-sale portfolio includes securities at a fair value of CZK 44,934 million (2007: CZK 33,481million) that are publicly traded on stock exchanges and securities at a fair value of CZK 926 million (2007: CZK 1,041 million) that are not publicly traded.

In December 2008, the Bank and the group of selling shareholders of Burza cenných papírů Praha, a.s. (hereinafter "BCPP") sold the equity investment in BCPP to Wiener Börse AG (Vienna Stock Exchange). The sold equity investment of the Bank in BCPP amounted to 11.51 percent. The net gain from the sale for the Bank amounted to 485 million (refer to Note 7).

Shares and participation certificates available for sale at fair value comprise:

CZK million	2008	2007
Shares and participation certificates		
– Czech Crowns	700	837
– Other currencies	126	2
Total shares and participation certificates available for sale	**826**	**839**

Shares and participation certificates available for sale at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	700	806
– Non-banking entities in the Czech Republic	0	31
– Non-banking foreign entities	126	2
Total shares and participation certificates available for sale	**826**	**839**

'Shares and participation certificates available for sale issued by banks in the Czech Republic' include the Bank's 13 percent shareholding in Českomoravská záruční a rozvojová banka, a.s. Based on an analysis of regularly paid dividends and an estimate of probable future cash flows, the value of the investment was determined at CZK 640 million (2007: CZK 746 million) over the acquisition cost.

Debt securities available for sale at fair value comprise:

CZK million	2008	2007
Variable yield debt securities		
– Czech Crowns	6,485	6,427
– Other currencies	101	191
Total variable yield debt securities	**6,586**	**6,618**
Fixed income debt securities		
– Czech Crowns	20,651	15,186
– Other currencies	17,797	11,879
Total fixed income debt securities	**38,448**	**27,065**
Total debt securities available for sale	**45,034**	**33,683**

Debt securities available for sale at fair value, allocated by issuer, comprise:

CZK million	2008	2007
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	9,852	4,490
– Foreign state institutions	16,099	10,931
– Financial institutions in the Czech Republic	15,202	14,777
– Foreign financial institutions	1,835	1,928
– Other entities in the Czech Republic	828	241
– Other foreign entities	1,218	1,316
Total debt securities available for sale	**45,034**	**33,683**

Of the debt securities issued by state institutions in the Czech Republic, CZK 9,011 million (2007: CZK 3,805 million) represents securities eligible for refinancing with the Czech National Bank.

Asset backed securities

The Bank maintains a portfolio of asset backed securities (ABS) denominated in USD which are carried as available for sale. The Bank establishes the value of these securities using a model which facilitates the simulation of future cash flows from these securities by modelling the development of the credit quality of underlying assets. The carrying value of these securities as of 31 December 2008, net of remeasurement, is CZK 102 million (2007: CZK 202 million).

In 2008, the Bank's exposure to ABS decreased primarily as a result of the decrease in the valuation of these securities of USD 4 million (CZK 81 million) and of the redemption of the nominal values of these securities of USD 2 million (CZK 28 million).

Other debt securities

During the year ended 31 December 2008, the Bank acquired Government bonds with a nominal value of CZK 5,250 million, EUR 236 million and USD 27 million (a total equivalent of CZK 12,117 million). During 2008, the Bank redeemed at maturity debt securities in the aggregate nominal volume of CZK 440 million and EUR 36 million (a total equivalent of CZK 1,396 million).

20. Assets held for sale

As of 31 December 2008, the Bank reported assets held for sale at a carrying amount of CZK 414 million (2007: CZK 505 million) comprising buildings and land owned by the Bank which management of the Bank decided to sell as part of the plan to optimise the distribution network. These buildings are not depreciated. The difference between the amounts as of 31 December 2008 and 2007 arises from the sale of these assets and reclassification of buildings and land that do not meet the criteria for recognition as assets held for sale back to 'Tangible fixed assets', refer to Note 27. The impact on the profit and loss statement is immaterial.

21. Amounts due from banks

Balances due from banks comprise:

CZK million	2008	2007
Deposits with banks (current accounts)	161	94
Debt securities of banks acquired under initial offerings not designated for trading	10,192	11,516
Loans and advances to banks	20,861	5,818
Advances due from the Czech National Bank (reverse repo transactions)	92,041	117,274
Term placements with other banks	17,402	61,227
Total	**140,657**	**195,929**
Provisions	(1)	0
Total amounts due from banks	**140,656**	**195,929**

Advances due from the Czech National Bank and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the Czech National Bank and other debt securities with fair value:

CZK million	2008	2007
Treasury bills	90,248	114,942
Debt securities issued by state institutions	15,490	2,747
Debt securities issued by other institutions	629	0
Shares	442	216
Total	**106,809**	**117,905**

Securities acquired as loans and receivables

As of 31 December 2008, the Bank maintains in its portfolio bonds at an amortised cost of CZK 10,170 million (2007: CZK 11,516 million) and a nominal value of CZK 10,115 million (2007: CZK 11,410 million), of which CZK 8,000 million represents a bond issued by the parent company Société Générale S.A. (2007: CZK 10,000 million) which the Bank acquired under an initial offering and normal market conditions in 2002. The bond is denominated in CZK, bears fixed interest at 4.27 percent and will mature in 2012. During 2008, the Bank partially repaid the nominal value of the bond in the amount of CZK 2,000 million. The Bank additionally carries in this portfolio two issues of securities placed by financial institutions with an aggregate nominal value of CZK 2,115 million. During 2008, the Bank purchased one issue of bonds issued by financial institutions with the nominal value of CZK 705 million.

22. Loans and advances to customers

Loans and advances to customers comprise:

CZK million	2008	2007
Loans to customers	324,564	273,954
Bills of exchange	748	851
Forfaits	1,460	940
Other amounts due from customers	2,094	67
Total gross loans and advances to customers	**328,866**	**275,812**
Provisions for loans to customers	(10,331)	(8,284)
Provisions for other amounts due from customers	(1)	(3)
Total loans and advances to customers, net	**318,534**	**267,525**

Loans and advances to customers include interest due of CZK 1,959 million (2007: CZK 1,482 million), of which CZK 1,186 million (2007: CZK 866 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as of 31 December 2008 amounting to CZK 2,079 million (2007: CZK 15 million) are collateralised by securities with fair values of CZK 2,306 million (2007: CZK 16 million).

The amount of restructured loans was immaterial in the years ended 31 December 2008 and 2007.

The loan portfolio of the Bank as of 31 December 2008 (excluding other amounts due from customers) comprises the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions (%)
Standard	297,734	118,686	179,048	0	297,734	0
Watch	13,089	4,762	8,327	930	12,159	11
Substandard	4,890	1,302	3,588	863	4,027	24
Doubtful	1,532	367	1,165	587	945	50
Loss	9,527	405	9,122	7,951	1,576	87
Total	**326,772**	**125,522**	**201,250**	**10,331**	**316,441**	

The loan portfolio of the Bank as of 31 December 2007 (excluding other amounts due from customers) comprises the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions (%)
Standard	252,431	96,363	156,068	0	252,431	0
Watch	12,456	4,716	7,740	688	11,768	9
Substandard	1,837	959	878	454	1,383	52
Doubtful	1,657	401	1,256	729	928	58
Loss	7,364	291	7,073	6,413	951	91
Total	**275,745**	**102,730**	**173,015**	**8,284**	**267,461**	

Loans classified as loss in the above table include amounts of CZK 5,194 million (2007: CZK 4,414 million), on which interest is not being accrued.

Set out below is the breakdown of loans by sector (net of other amounts due from customers):

CZK million	2008	2007
Food industry and agriculture	15,812	15,501
Metallurgy and metal processing	8,009	7,961
Automotive industry	7,025	5,022
Production of electric and electronic equipment	2,530	2,273
Electricity, gas and water industry	7,480	5,108
Construction industry	9,188	9,878
Wholesale	27,583	24,291
Insurance, banking	38,667	34,572
Real estate	19,454	11,970
Public administration	11,907	10,746
Commercial services	12,377	9,887
Other industry	55,256	44,886
Individuals	111,484	93,650
Total loans to clients	**326,772**	**275,745**

The majority of loans were provided to entities on the territory of the Czech Republic.

Set out below is an analysis of types of collateral underlying on balance sheet loans and advances to customers:

CZK million	Total client loan collateral 2008	Discounted client loan collateral value 2008	Applied client loan collateral value 2008	Total client loan collateral 2007	Discounted client loan collateral value 2007	Applied client loan collateral value 2007
Guarantees of state and governmental institutions	3,428	2,829	2,594	4,091	3,262	2,945
Bank guarantee	20,588	20,218	19,401	18,295	17,613	16,347
Guaranteed deposits	733	728	453	783	783	595
Issued debentures in pledge	0	0	0	15	15	15
Pledge of real estate	189,410	121,032	83,589	155,733	98,670	66,818
Pledge of movable assets	6,274	532	499	6,243	528	471
Guarantee by legal entity	18,569	11,074	9,439	12,444	6,212	5,324
Guarantee by individual (natural person)	2,172	344	272	2,810	473	388
Pledge of receivables	41,159	8,113	7,084	40,470	8,135	7,284
Insurance of credit risk	2,194	2,081	1,979	1,829	1,731	1,730
Other	4,288	740	212	5,925	1,220	813
Total nominal value of collateral	**288,815**	**167,691**	**125,522**	**248,638**	**138,642**	**102,730**

Pledges on industrial real estate represent 15 percent of total pledges on real estate (2007: 14 percent).

Trade finance losses

During 1999, the Bank incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Bank. As of 31 December 2008, on balance sheet loans to this client included an amount of CZK 1,352 million (2007: CZK 1,226 million) that was fully provided for. The year-on-year increase in the balance between 2007 and 2008 arises from a foreign exchange rate difference. The Bank did not report any off balance sheet receivables from this client in 2008 and 2007. The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

23. Investments held to maturity

Investments held to maturity comprise:

CZK million	Carrying value 2008	Cost* 2008	Carrying value 2007	Cost* 2007
Fixed income debt securities	1,417	1,417	2,982	2,982
Total investments held to maturity	**1,417**	**1,417**	**2,982**	**2,982**

Note: * Amortised acquisition cost

As of 31 December 2008, investments held to maturity include bonds of CZK 1,417 million (2007: CZK 2,982 million) that are publicly traded on stock exchanges.
Debt securities held to maturity comprise:

CZK million	2008	2007
Fixed income debt securities		
– Czech Crowns	0	1,369
– Other currencies	1,417	1,613
Total fixed income debt securities	**1,417**	**2,982**

Fixed income debt securities held to maturity, allocated by issuer, comprise:

CZK million	2008	2007
Fixed income debt securities issued by:		
– State institutions in the Czech Republic	0	1,369
– Foreign state institutions	1,417	1,613
Total fixed income debt securities	**1,417**	**2,982**

Of the debt securities issued by state institutions in the Czech Republic, CZK nil (2007: CZK 1,369 million) represents securities eligible for refinancing with the Czech National Bank.
No purchase or sale within this portfolio took place during the year ended 31 December 2008. During 2008, debt securities in the total nominal amount of CZK 1,341 million and EUR 8 million (a total equivalent of CZK 1,556 million) were redeemed at maturity.

24. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

CZK million	2008	2007
Prepayments and accrued income	247	235
Settlement balances	383	1,274
Receivables from securities trading	965	1,102
Other assets	1,885	1,569
Total prepayments, accrued income and other assets	**3,480**	**4,180**

25. Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

CZK million	2008	2007
Investments in subsidiary undertakings	23,095	22,897
Investments in associated undertakings	482	483
Total investments in subsidiaries and associates	**23,577**	**23,380**

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2008:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment CZK million	Provisions CZK million	Carrying value CZK million
ALL IN REAL ESTATE LEASING, a.s.	100	100	Supporting banking services	Prague	39	35	4
Komerční banka Bratislava, a.s.	100	100	Banking services	Bratislava	466	0	466
Penzijní fond Komerční banky, a.s.	100	100	Additional pension insurance	Prague	530	0	530
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
Protos, uzavřený investiční fond, a.s.	89.64	100	Financial services	Prague	11,705	0	11,705
Bastion European Investment S.A.	99.98	99.98	Financial services	Brussels	3,712	0	3,712
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,323	0	4,323
Total					23,130	35	23,095

Associated undertakings

The following companies are associated undertakings of the Bank as of 31 December 2008:

Company name	Direct holding (%)	Group holding (%)	Principal activity	Registered office	Cost of investment CZK million	Provisions CZK million	Carrying value CZK million
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	355	482
CBCB, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0*	0	0
Total					837	355	482

Note: * The value of CBCB is CZK 240 thousand.

Set out below is an overview of year-on-year movements in investments, by issuer:

CZK million Company name	Investment at cost at 1 January 2008	Additions	Decreases	Investment at cost at 31 December 2008
ALL IN REAL ESTATE LEASING, a.s.	39	0	0	39
Komerční banka Bratislava, a.s.	466	0	0	466
Penzijní fond Komerční banky, a.s.	230	300	0	530
Factoring KB, a.s.	1,190	0	0	1,190
Protos, uzavřený investiční fond, a.s.	11,705	0	0	11,705
Bastion European Investment S.A.	3,814	0	102	3,712
ESSOX s.r.o.	1,165	0	0	1,165
Modrá pyramida stavební spořitelna, a.s.	4,323	0	0	4,323
Total subsidiaries	**22,932**	**300**	**102**	**23,130**
Komerční pojišťovna, a.s.	838	0	0	838
CBCB, a.s.	0*	0	0	0*
Total associates	**838**	**0**	**0**	**838**

Note: * The value of CBCB is CZK 240 thousand.

Changes in equity investments in subsidiaries and associates in 2008

In May 2008, the Bank, as the sole shareholder, increased the equity of Penzijní fond Komerční banky, a.s. (hereinafter "PFKB") by CZK 300 million through the payment over and above the share capital to other capital funds. The equity of PFKB was increased primarily in an effort to strengthen the financial position of the entity. The increase of other capital funds is not subject to the registration in the Register of Companies.

In June 2008, the Bank decreased the equity of Bastion European Investments S.A. by EUR 3.6 million. This decrease was only made by the Bank as the majority shareholder of Bastion European Investments S.A. The decrease in the equity was planned.

26. Intangible fixed assets

The movements in intangible fixed assets during the year ended 31 December 2008 are as follows:

CZK million	Internally generated assets	Software	Other intangible assets	Assets under construction	Total
Cost					
31 December 2007	4,935	1,153	339	757	7,184
Additions	0	0	0	1,227	1,227
Disposals/Transfers	726	116	13	(855)	0
31 December 2008	**5,661**	**1,269**	**352**	**1,129**	**8,411**
Accumulated amortisation and provisions					
31 December 2007	3,345	781	317	33	4,476
Additions	630	166	19	0	815
Disposals	0	0	0	0	0
Impairment charge	0	0	0	(33)	(33)
31 December 2008	**3,975**	**947**	**336**	**0**	**5,258**
Net book value					
31 December 2007	1,590	372	22	724	2,708
31 December 2008	**1,686**	**322**	**16**	**1,129**	**3,153**

During the year ended 31 December 2008, the Bank invested CZK 236 million (2007: CZK 161 million) in research and development through a charge to operating expenses.

27. Tangible fixed assets

The movements in tangible fixed assets during the year ended 31 December 2008 are as follows:

CZK million	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
Cost					
31 December 2007	161	10,166	6,399	326	17,052
Reallocation from assets held for sale	0	76	0	0	76
Additions	0	272	404	771	1,447
Disposals/Transfers	0	(150)	(1,091)	(683)	(1,924)
31 December 2008	**161**	**10,364**	**5,712**	**414**	**16,651**
Accumulated depreciation and provisions					
31 December 2007	0	4,294	5,370	0	9,664
Reallocation of accumulated depreciation of assets held for sale	0	24	0	0	24
Additions	0	346	385	0	731
Disposals	0	(66)	(1,083)	0	(1,149)
Impairment charge	0	(25)	(2)	0	(27)
31 December 2008	**0**	**4,573**	**4,670**	**0**	**9,243**
Net book value					
31 December 2007	161	5,872	1,029	326	7,388
31 December 2008	**161**	**5,791**	**1,042**	**414**	**7,408**

As of 31 December 2008, the net book value of assets held by the Bank under finance lease agreements was CZK nil (2007: CZK 4 million). As of 31 December 2008, the Bank recognised provisions against tangible assets of CZK 23 million (2007: CZK 50 million). These provisions primarily included provisions charged in respect of leasehold improvements.

28. Financial liabilities at fair value through profit or loss

As of 31 December 2008 and 2007, financial liabilities at fair value through profit or loss include only liabilities arising from sold securities and negative fair values of financial derivative instruments held for trading. The Bank identified no other financial liability as at fair value through profit or loss.

CZK million	2008	2007
Sold securities	947	1,848
Derivative financial instruments	19,199	5,863
Financial liabilities at fair value through profit or loss	**20,146**	**7,711**

For detailed information of financial derivative instruments included in the portfolio for trading, refer to Note 42 (42(C) Financial derivative instruments).

29. Amounts due to banks

Amounts due to banks comprise:

CZK million	2008	2007
Current accounts	1,928	1,873
Amounts due to banks	8,254	10,121
Total amounts due to banks	**10,182**	**11,994**

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 419 million (2007: CZK 1,958 million).

30. Amounts due to customers

Amounts due to customers, by type of deposit, comprise:

CZK million	2008	2007
Current accounts	292,514	303,343
Savings accounts	12,829	7,800
Term deposits	115,778	101,835
Depository bills of exchange	37,232	38,413
Other payables to customers	2,751	2,371
Total amounts due to customers	**461,104**	**453,762**

As of 31 December 2007 and 2008, the Bank recorded no liabilities arising from repurchase loans from customers.
Amounts due to customers, by type of customer, comprise:

CZK million	2008	2007
Private companies	192,075	193,439
Other financial institutions, non-banking entities	11,002	17,380
Insurance companies	7,950	5,885
Public administration	3,985	5,322
Individuals	150,752	142,090
Individuals – entrepreneurs	25,956	25,937
Government agencies	55,322	50,103
Other	8,679	8,218
Non-residents	5,383	5,388
Total amounts due to customers	**461,104**	**453,762**

31. Securities issued

Securities issued comprise bonds of CZK 692 million (2007: CZK 466 million) and mortgage bonds of CZK 34,919 million (2007: CZK 44,029 million). Publicly tradable mortgage bonds are issued to fund the Bank's mortgage activities.
Debt securities are repayable, according to remaining maturity, as follows:

CZK million	2008	2007
In less than one year	3,630	3,899
In one to two years	0	3,632
In two to four years	0	0
In five to ten years	17,894	17,938
In ten to fifteen years	3,203	3,163
Over fifteen years	10,884	15,863
Total debt securities	**35,611**	**44,495**

During the year ended 31 December 2008, the Bank repaid mortgage bond CZ0002000383 with the nominal volume of CZK 3,500 million and repurchased mortgage bonds with the aggregate nominal volume of CZK 5,000 million, refer to the following table.

The debt securities detailed above include the following bonds and notes issued by the Bank:

Name CZK million	Interest rate	Currency	Issue date	Maturity date	2008	2007
Mortgage bonds of Komerční banka, a.s., CZ0002000268	5.5%	CZK	21 Aug 2003	21 Aug 2009	3,630	3,702
Mortgage bonds of Komerční banka, a.s., CZ0002000383	4.5%	CZK	5 Aug 2004	5 Aug 2008	0	3,592
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	4,895	5,026
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,562	10,633
Mortgage bonds of Komerční banka, a.s., CZ0002000854	3.74%	EUR	1 Sept 2006	1 Sept 2016	930	1,035
Mortgage bonds of Komerční banka, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,203	3,219
Mortgage bonds of Komerční banka, a.s., CZ0002001324, CZ0002001332	5.06% for the first twelve annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,065	1,070
Mortgage bonds of Komerční banka, a.s., CZ0002001340, CZ0002001357	5.02% for the first eleven annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,060	1,066
Mortgage bonds of Komerční banka, a.s., CZ0002001365, CZ0002001373, CZ0002001381, CZ0002001399	4.23% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	0	2,012
Mortgage bonds of Komerční banka, a.s., CZ0002001431, CZ0002001449, CZ0002001456, CZ0002001464, CZ0002001472, CZ0002001480	4.14% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	0 1,004	2,008 1,004
Mortgage bonds of Komerční banka, a.s., CZ0002001498, CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	0 2,016	1,004 2,008
Mortgage bonds of Komerční banka, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	2,049	2,008
Bonds of Komerční banka, a.s., CZ0003701427	4.22%	CZK	18 Dec 2007	1 Dec 2017	692	466
Mortgage bonds of Komerční banka, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	814	904
Mortgage bonds of Komerční banka, a.s., CZ0002001753	Rate of the interest rate swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	3,691	3,738

Name CZK million	Interest rate	Currency	Issue date	Maturity date	2008	2007
Mortgage bonds of Komerční banka, a.s., CZ0002001746	Rate of the interest rate swap sale in CZK for 5 years plus 150 bps	CZK	28 Dec 2007	28 Dec 2037	0	0
Total bonds					**35,611**	**44,495**

Note: Six-month PRIBOR was 375 basis points as of 31 December 2008 (2007: 414 basis points).
Three-month PRIBID was 323 basis points as of 31 December 2008 (2007: 401 basis points).
The value of interest rate swap CZK sale average for five years as of 31 December 2008 was 288 bps (2007 – 436 bps)
The value of the interest rate swap CZK sale average for ten years as of 31 December 2008 was 327 bps (2007 – 459 bps)
* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, swap sale for two to thirty years

32. Accruals and other liabilities

Accruals and other liabilities comprise:

CZK million	2008	2007
Settlement balances and outstanding items	7	99
Payables from securities trading and issues of securities	1,648	2,356
Payables from payment transactions	5,300	5,618
Other liabilities	2,882	2,659
Accruals and deferred income	139	145
Total accruals and other liabilities	**9,976**	**10,877**

'Payables from payment transactions' in the year ended 31 December 2008 decreased due to a lower amount of payments passed onto the Czech National Bank's clearing centre.
'Other liabilities' largely include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).
Deferred income fees from banking guarantees is reported in *'Accruals and deferred income'* in the amount of CZK 21 million (2007: CZK 21 million).

33. Provisions

Provisions comprise:

CZK million	2008	2007
Provisions for contracted commitments	736	909
Provisions for other credit commitments	1,108	755
Provision for restructuring	132	0
Total provisions	**1,976**	**1,664**

In 2008, the Bank recognised a provision for restructuring with respect to the project of reorganisation and centralisation of back office divisions. The reserve was recognised in the amount of estimated expenses for severance pay costs, advisory services and other expenses required to effect the restructuring according to the detailed plan of reorganisation. The recognition of the provision is posted to the profit and loss statement line *'Personnel costs'* and *'General administrative expenses'*.
The provisions for other credit commitments are held to cover credit risks associated with issued credit commitments. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements and the provision for jubilee bonuses.
Set out below is an analysis of the provision for other credit commitments:

CZK million	Balance 2008	Balance 2007
Risk		
Provision for off balance sheet commitments	932	619
Provision for undrawn loan facilities	176	136
Total	**1,108**	**755**

Movements in the provisions for contracted commitments are as follows:

CZK million	1 January 2008	Additions	Disposals	Accrual	Foreign exchange difference	31 December 2008
Jubilee bonuses	92	8	6	6	0	100
Other provisions for contracted commitments	817	80	282	0	21	636
Total	909	88	288	6	21	736

As of 31 December 2008, the Bank held a provision of CZK 2 million (2007: CZK 200 million) for the amount of future lease rental payments arising from the unutilised leased buildings which the Bank intends to vacate. This provision is included in *'Other provisions for contracted commitments'*.

34. Deferred tax liability

Deferred tax liability is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is 20 percent in 2009 and 19 percent starting from 2010. Deferred tax liability is as follows:

CZK million	2008	2007
Banking reserves and provisions	281	258
Provisions for assets	89	132
Non-banking reserves	127	125
Depreciation	(328)	(307)
Leases	0	(1)
Revaluation of hedging derivatives – equity impact	(883)	210
Revaluation of financial assets available-for-sale – equity impact	(10)	(34)
Other temporary differences	47	49
Net deferred tax asset/(liability)	**(677)**	**432**

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign currency equity investment. Deferred tax recognised in the financial statements:

CZK million	2008	2007
Balance at the beginning of the period	**432**	**(637)**
Movement in net deferred tax liability – profit and loss impact	(40)	(203)
Movement in net deferred tax liability – equity impact	(1,069)	1,272
Balance at the end of the period	**(677)**	**432**

The changes in tax rates had no significant impact on the deferred tax in 2008. The impact of changes in tax rates represented a reduction of the deferred tax asset of CZK 41 million in 2007.

35. Subordinated debt

As of 31 December 2008 the Bank had subordinated debt of CZK 6,003 million (2007: CZK 6,004 million). The nominal value of the subordinated debt received by the Bank at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity until with the Bank's option for early repayment after five years and thereafter as of any interest payment date. Interest payments are made on a monthly basis.

36. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with a nominal value of
CZK 500 each (ISIN: CZ0008019106).
Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2008:

Name of the entity	Registered office	Ownership percentage
Société Général S.A.	29 Bld Haussmann, Paris	60.35
State Street Bank & Trust Company	Frenklin Street 225, Boston	9.13
Nortrust Nominees Limited	50 Bank St. Canary Wharf, London	5.33

Société Générale S.A., being the only entity with a qualified holding in the Bank, is a French joint stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and the following of the French Commercial Code, as well as current by-laws.
As of 31 December 2008, the Bank held 54,000 treasury shares at a cost of CZK 150 million (2007: 54,000 treasury shares at a cost of CZK 150 million).

Capital management

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. As part of the capital planning process, the Bank takes into account both internal and external factors which are reflected in the corresponding internal targets expressed in targeted Tier 1 values and the capital adequacy ratio. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.
The Bank's capital principally consists of the following balances: share capital, reserve funds, undistributed profit and subordinated debt.
The Czech National Bank, as the local regulatory authority, oversees the Bank's compliance with the capital adequacy ratio both on a stand-alone and consolidated basis. The Bank's regulatory capital is divided into Tier 1 and Tier 2. The capital components are subject to various limits; for example, subordinated debt may not exceed 50 percent of the Tier 1 capital.
The ruling banking regulation, known as Basel II, is based on the three-pillar concept. The first pillar is devoted to the description and quantification of credit, operational and market risks and was implemented under the direct supervision of the regulator. The second pillar allows banks to apply their own approach to risks, but concurrently requires coverage of all types of risks to which the Bank is exposed. The third pillar focuses on reporting requirements with the aim of providing the market with better information on the Bank.
As part of the first pillar of Basel II, the Bank began to use the following approaches starting from 2008:

- Special approach to the calculation of capital requirements relating to credit risks based on internal rating (Internal Rating Based Advanced Approach)
- Special approach to the calculation of the capital requirement to the operational risk (Advanced Measurement Approach).

Under the second pillar of Basel II which requires the creation of the system for the internal evaluation of the capital adequacy in relation to the risk profile (internally determined capital system), the Bank determined and formalised this system and outlined the relating capital adequacy strategy. The system is based on the Pillar 1 Plus method when mitigation factors are determined for risks not covered by the first pillar either of qualitative nature, e.g. in the form of control processes, or quantitative nature with an impact on the future income of the Bank or directly on the additional capital requirement. The risks already described in the first pillar are actually assessed in the second pillar. In addition, the Bank analyses impacts of stress testing on all risks over a specific time period. For stress testing purposes, the Bank developed a set of macroeconomic "Global Economic Scenarios" which facilitates the evaluation of the impacts of the scenario in a comprehensive manner across all risks to which the Bank is exposed and thus mutually integration of the impact of individual risks. The Bank prepared the Information on the Internally Determined Capital System and submitted it to the Czech National Bank for the first time in the year ended 31 December 2008.

37. Composition of cash and cash equivalents as reported in the cash flow statement

CZK million	2008	2007	Change in the year
Cash and balances with central banks	12,313	12,976	(663)
Amounts due from banks – current accounts	161	94	67
Amounts due to central banks	(1)	(10)	9
Amounts due to banks – current accounts	(1,928)	(1,873)	(55)
Total	**10,545**	**11,187**	**(642)**

38. Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2008. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 139 million (2007: CZK 193 million) for these legal disputes. The Bank has also recorded an accrual of CZK 354 million (2007: CZK 298 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2008, the Bank assessed lawsuits filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank makes provisions against these instruments on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2008, the Bank had capital commitments of CZK 387 million (2007: CZK 128 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions against these instruments on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans

Principal off balance sheet exposures include unutilised overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. The Bank does not recognise a provision for revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements (that is, their use is not contingent upon the customers maintaining other specific credit standards). The Bank recognises a provision for irrevocable commitments as and when required (according to a customer's solvency).

Financial commitments and contingencies comprise:

CZK million	2008	2007
Non-payment guarantees including commitments to issued non-payment guarantees	32,272	25,676
Payment guarantees including commitments to issued payment guarantees	9,128	9,414
Received bills of exchange/acceptances and endorsements of bills of exchange	68	75
Committed facilities and unutilised overdrafts	28,704	19,189
Undrawn credit commitments	55,246	47,881
Unutilised overdrafts and approved overdraft loans	46,705	52,888
Unutilised discount facilities	62	146
Unutilised limits under Framework agreements to provide financial services	46,841	50,100
Letters of credit uncovered	1,091	1,033
Stand by letters of credit uncovered	687	719
Confirmed letters of credit	276	67
Letters of credit covered	139	80
Total contingent revocable and irrevocable commitments	**221,219**	**207,268**

The Bank provides a variety of credit facilities to its largest clients. Of the Bank's committed facilities and guarantees, CZK 35,273 million (2007: CZK 35,148 million) is revocable.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As of 31 December 2008, the Bank recorded provisions for these risks amounting to CZK 1,108 million (2007: CZK 755 million) – for further information see Note 33.

Set out below is the breakdown of financial commitments and contingencies by sector:

CZK million	2008	2007
Food industry and agriculture	5,997	6,489
Metallurgy and metal processing	5,688	4,669
Automotive industry	4,346	5,823
Production of electric and electronic equipment	3,500	4,575
Electricity, gas and water industry	22,175	18,756
Construction industry	42,243	34,905
Wholesale	18,309	18,841
Insurance, banking	16,868	18,470
Real estate	5,088	4,818
Public administration	11,674	10,208
Commercial services	15,475	13,841
Other industry	54,087	50,447
Individuals	15,769	15,426
Contingent liabilities	**221,219**	**207,268**

The majority of commitments and contingencies originate on the territory of the Czech Republic.

39. Related parties

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 on making financial or operational decisions. As of 31 December 2008, the Bank was controlled by Société Générale which owns 60.35 percent of its issued share capital.
A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions were carried out on commercial terms and at market rates.

Amounts due to and from the Group companies

The following table summarises loans issued to the Group companies and their deposits with the Bank:

CZK million

Company	2008	2007
Bastion European Investment S.A.	3,627	3,629
ESSOX s.r.o.	6,344	4,937
Factoring KB, a.s.	2,340	2,468
Komerční banka Bratislava, a.s.	3,791	2,643
Modrá pyramida stavební spořitelna, a.s.	554	553
Total loans	**16,656**	**14,230**
ALL IN REAL ESTATE LEASING, a.s.	3	3
ESSOX s.r.o.	105	18
Factoring KB, a.s.	4	4
Komerční banka Bratislava, a.s.	410	2
Modrá pyramida stavební spořitelna, a.s.	541	24
Penzijní fond Komerční banky, a.s.	1,009	0
Protos, uzavřený investiční fond, a.s.	597	5,588
Total deposits	**2,669**	**5,639**

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds with the nominal amount of CZK 10,250 million (2007: CZK 15,250 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds with the nominal amount of CZK 903 million (2007: CZK 903 million) issued by the Bank.
As of 31 December 2008 and 2007, other amounts due to and from the Group companies were immaterial.
Interest income from loans granted to Group companies:

CZK million

Company	2008	2007
Bastion European Investment S.A.	141	148
ESSOX s.r.o.	220	143
Factoring KB, a.s.	87	52
Komerční banka Bratislava, a.s.	201	95
Modrá pyramida stavební spořitelna, a.s.	38	35
Total interest from loans granted by Bank	**687**	**473**

In addition to interest on loans from the Bank's Financial Group, other income in the year ended 31 December 2008 amounted to CZK 387 million (2007: CZK 378 million) and total expenses amounted to CZK 918 million (2007: CZK 544 million).
As of 31 December 2008, the Bank reported guarantees granted to the Group companies totalling CZK 2 million (2007: CZK 2 million).

Amounts due to and from the Société Générale Group entities

In addition to the information about Komerční banka group entities, principal balances due from the Société Générale Group entities include:

CZK million

Company	2008	2007
ALD Automotive Czech Republic, s. s r. o.	2,717	1,590
Investiční kapitálová společnost KB, a.s.	12	0
Komerční pojišťovna, a.s.	57	4
SG Equipment Finance Czech Republic, s. s r.o.	8,763	6,720
SG Express bank	2	0
SG London	0	352
SG New York	4	0
SG Private Banking (Suisse)	2	0
SG Vostok	53	0
SG Erich	9	0
SGBT Luxemburg	138	1
Société Générale Paris	29,018	13,002
Total	**40,775**	**21,669**

In addition to the information about Komerční banka group entities, principal balances owed to the Société Générale Group entities include:

CZK million

Company	2008	2007
General bank of Greece SA	1	0
IKS Money Market Plus Fond	551	0
Investiční kapitálová společnost KB, a. s.	263	85
Komerční pojišťovna, a.s.	181	365
Romanian bank for development	1	0
SG Amsterdam	4	0
SG Cyprus LTD	23	18
SG Equipment Finance Czech Republic, s. s r.o.	1,847	2,028
SG New York	7	0
SG Private Banking Switzerland	36	1
SG Zürich	1	0
SGBT Luxemburg	257	0
Société Générale Paris	16,352	10,644
Société Générale Warsaw	3	169
Splitska Banka	1	0
Total	**19,528**	**13,310**

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading (refer also to Note 21), issued bonds and subordinated debt (refer also to Note 35).

As of 31 December 2008, the Bank also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 162,040 million (2007: CZK 141,363 million) and CZK 172,008 million (2007: CZK 148,997 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2008 and 2007, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2008, the Bank made total income of CZK 14,879 million (2007: CZK 8,609 million) and total expenses of CZK 16,903 million (2007: CZK 8,648 million) with Société Générale Paris. Income includes interest income from debt securities issued by Société Générale Paris, income from interbank deposits, fees from transactions with securities, interest income on hedging derivatives and profit from financial operations. Expenses comprise expenses of interbank deposits and subordinated debt, loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

In the years ended 31 December 2008 and 2007, the Bank realised no material amounts of income or expenses with other Société Générale Group entities.

Remuneration and amounts due from the members of the Management and Supervisory Boards and Directors' Committee

Remuneration paid to the members of the Management and Supervisory Boards during the years was as follows:

CZK million	2008	2007
Remuneration to the Management Board members*	58	40
Remuneration to the Supervisory Board members**	5	4
Remuneration to the Directors' Committee members***	85	82
Total	148	126

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2008 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2008 but including bonuses for 2007, figures for expatriate members of the Management Board include remuneration net of bonuses for 2008 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Management Board does not include accommodation related services.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2008 to the current and former members of the Supervisory Board, amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.

*** Remuneration to the Directors' committee members represents the sum of compensation and benefits paid in 2008 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2008, the total balance reflects his/her aggregate annual remuneration.

CZK million	2008	2007
Number of the Management Board members	6	5
Number of the Supervisory Board members	9	8
Number of the Directors' Committee members*	16	17

Note: * These figures include all members of the Management Board who are also members of the Directors' Committee.

As of 31 December 2008, the Bank recorded an estimated payable of CZK 13 million (2007: CZK 15 million) for Management Board bonuses.

In respect of loans and guarantees as of 31 December 2008, the Bank recorded loan receivables totalling CZK 6 million (2007: CZK 4 million) granted to the members of the Management Board, Directors' Committee and Supervisory Board. During 2008, draw-downs of CZK 3 million were made under the loans granted to the members of the Directors' Committee. Loan repayments made by the members of the Management Board and the Directors' Committee during 2008 amounted to CZK 1 million.

40. Movements in the revaluation of hedging instruments in the statement of changes in shareholders' equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate category of equity in the hedging reserve.

CZK million	2008	2007
Cash flow hedge fair value at 1 January	(751)	3,857
Deferred tax asset/(liability) at 1 January	210	(926)
Balance at 1 January	**(541)**	**2,931**
Movements during the year		
Gains/(losses) from changes in fair value	5,912	(3,265)
Deferred income tax	(1,196)	783
	4,716	**(2,482)**
Transferred to interest income/expense	(492)	(1,469)
Deferred income tax	103	353
	(389)	**(1,116)**
Change in the hedge of foreign currency risk of foreign currency investments	(106)	126
	(106)	**126**
Cash flow hedge fair value at 31 December	4,563	(751)
Deferred tax asset/(liability) at 31 December	(883)	210
Balance at 31 December	**3,680**	**(541)**

41. Movements in the revaluation of available-for-sale financial assets

CZK million	2008	2007
Reserve from fair-value revaluation at 1 January	409	996
Deferred tax liability/income tax liability at 1 January	(86)	(250)
Balance at 1 January	**323**	**746**
Movements during the year		
Gains/(losses) from changes in fair value	529	(559)
Deferred tax liability/income tax liability	26	157
	555	**(402)**
(Gains)/losses from the sale	0	(28)
Deferred tax liability/income tax liability	0	7
	0	**(21)**
Reserve from fair-value revaluation at 31 December	938	409
Deferred tax liability/income tax liability at 31 December	(60)	(86)
Balance at 31 December	**878**	**323**

42. Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Assessment of credit risk is based on quantitative and qualitative criteria, the output of which is rating. The Bank uses several types of ratings, depending on the type and profile of the counterparty, and related transactions. As a result, specific ratings are assigned to the Bank's clients, and newly also to specific clients' transactions. In relevant cases the same rating procedure is applied to respective guarantors and sub-debtors, which provides for a better assessment of the quality of accepted guarantees and collateral. In 2008, the Bank continued in the process of developing its rating models, predominantly with the aim of increasing the complexity of the assessed data, extending the use of advanced statistical methods and reflecting current trends in the development of the risk profile of individual client and product portfolios of the Bank. Concurrently, the Bank prepared a detailed analysis of procedures of providing and measuring loans reflecting the updated models together with the results of the stress testing with the aim of further optimising the benefit/risk ratio for the Bank. Reflecting the intent to use statistical models in credit risk management to the maximum

extent possible, the Bank focused on the further development of models for provisioning requirements. During 2008, the Bank started an extensive internal training focused on expanding the knowledge of new rating models, their impact on the evaluation of clients and transactions, measurement of capital adequacy of the Bank, pricing and provisioning.
All rating models are monitored on a quarterly basis and back tested in order to ensure their adequacy. The Bank takes corrective measures in respect of identified inconsistencies resulting from the setting of the model.

a) Ratings for business clients

For businessmen, corporate clients and municipalities, the Bank uses the obligor rating with the aim of evaluating the probability of default of the counterparty and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collateral and to evaluate the potential loss from counterparty transactions. Both these models are also used for regular updates of the Probability of Default (PD) of all client exposures reported in accordance with the Basel II requirements.
For large and mid-size clients, the obligor rating is the combination of the financial rating based predominantly on financial data and economic rating obtained through the evaluation of non-financial information relating to a particular client. In 2008, the Bank predominantly focused on the monitoring and back testing of these models (models were updated in 2007). Concurrently, the Bank proceeded to update a statistical model for the monthly automated monitoring of corporate clients (the early warning system). The update of the model will be implemented in the first quarter of 2009.
In the businessmen and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Bank. When clients are funded using simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour in the Bank (behavioural rating). Given the update of models referred to above in the latter half of 2007, the Bank focused on the monitoring and back testing of these models in 2008.
In the municipalities segment, the obligor rating is based on the evaluation of financial data of clients and expert evaluation of their economic situation. During 2008, the Bank proceeded to make a significant update of the model towards achieving an increased complexity of the automatically evaluated data. The Bank prepared a model based on the combination of the financial rating resulting from the evaluation of financial statements of clients for the last four reporting periods and the economic rating based on the evaluation of non-financial information relating to a particular client. The new model will be implemented in the latter quarter of 2009.

b) Ratings for Banks and Sovereign

For banks and other financial institutions the Bank uses a central economic rating model developed by Société Générale S.A. The model is based on variables in a qualitative questionnaire, including the quantitative financial criteria, and the country support questionnaire. Central models have also been developed for sovereigns and other financial institutions (namely insurance companies, brokers and funds).

c) Ratings for individual clients

The Bank uses two types of ratings with the aim of evaluating default risk for individuals: the application rating which results from the evaluation of personal data of clients, data on the behaviour in the Bank and the data of clients from available external registers, and behavioural rating which is based on the evaluation of the information on the clients' behaviour in the Bank. The application rating is primarily used for active applications of clients for funding, while the behavioural rating which includes the calculation of pre-approved limits for simple products with low exposure is used for active offers of funding for clients by the Bank. Behavioural rating of clients is concurrently used for regular updates of the probability of default of all client exposures reported in accordance with the Basel II requirements.
In 2008, the Bank updated the behavioural model rating with the objective of increasing the complexity of the evaluated data to include data from subsidiaries and increasing the accuracy and potential of the simplified procedure of providing loans to clients with low risk profile. The updated model was also reflected in all models of application rating of which it is part. As in the previous year, the behavioural model was the key factor impacting the quality of retail lending.
In 2008, the Bank focused on further developing the models for the Loss Given Default (LGD) calculation, specifically for the mortgage loans segment. The Bank completed the transition to the fully statistical models with an increased prediction ability.
Pursuant to the updates of the rating and LGD models and the results of stress testing models, the Bank initiated a thorough review of the process of pricing all loan products provided to individuals with the aim of eliminating potential loss production and prepare the retail division of the Bank for the anticipated worsening of the economic situation.
In order to further boost the synergies in the Group and to support the potential of the cross selling between Group entities, the Bank updated the model evaluating client behaviour data in Modrá pyramida stavební spořitelna a.s. The updated model further increased the acquisition potential of the Bank through consumer loans and credit cards with pre-determined limits offered to persons who are not clients of the Bank.

d) Credit registers

During 2008, the Bank significantly reassessed the policies for evaluating data from internal and external credit registers integrated in the process of client assessment and lending. The used three-grade scale for evaluating data from the credit registers was replaced by the five-grade scale which facilitates a more accurate identification of problematic applicants for loans and more efficient setting of the related approval policies. In 2008, the evaluation of data from loan registers was one of the most significant factors impacting the evaluation of the client's application for funding.

e) Credit fraud prevention

During 2008, the Bank streamlined its fraud prevention and credit fraud response processes. The coordination of these processes was centralised and responsibilities for their individual parts were clarified. The Bank launched a large project with the aim of creating an automated system integrating algorithms for the verification of client data from applications for funding with publicly available registers, algorithms for signalling an increased risk of credit fraud and the centralised system of reporting and responding to credit fraud. The new system will be fully integrated with the key applications of the Bank and will be used within the entire Group.

Credit risk concentration

Credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, setting of internal limits, reporting and mitigation of the risk as appropriate). The Bank aims not to take any excessive credit concentration risk. Procedures of credit concentration risk management cover individual counterparts as well as economically connected groups, countries and industry sectors. The system of internal limits is established such that the Bank complies with regulatory limits set on concentration risk.

The Bank's maximum credit exposure as of 31 December 2008:

	Total exposure			Applied collateral		
CZK million	On-balance sheet	Off-balance sheet*	Total credit exposure	On-balance sheet	Off- balance sheet*	Total collateral
Balances with central banks	4,551	x	4,551	0	x	0
Financial assets at fair value through profit or loss	43,997	x	43,997	0	x	0
Positive fair value of hedging financial derivative transactions	9,147	x	9,147	0	x	0
Financial assets available for sale	45,860	x	45,860	0	x	0
Amounts due from banks	140,656	3,797	144,453	93,020	99	93,119
Loans and advances to customers	328,866	217,422	546,288	125,522	15,161	140,683
Corporate clients**	215,288	201,653	416,941	53,820	13,832	67,652
Of which: top corporate clients	101,621	120,886	222,507	34,424	9,143	43,567
Individuals – non-businessmen	111,484	15,769	127,253	71,702	1,329	73,031
Of which: mortgage loans	90,288	6,384	96,672	70,888	1,124	72,012
consumer loans	17,326	1,068	18,394	814	198	1,012
Other amounts due from customers	2,094	x	2,094	0	x	0
Investments held to maturity	1,417	x	1,417	0	x	0
Total	574,494	221,219	795,713	218,542	15,260	233,802

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – businessmen.

The maximum credit exposure is presented in gross values net of the impact of provisions.

The Bank's maximum credit exposure as of 31 December 2007:

CZK million	Total exposure On-balance sheet	Off-balance sheet*	Total credit exposure	Applied collateral On-balance sheet	Off- balance sheet*	Total collateral
Balances with central banks	5,773	x	5,773	0	x	0
Financial assets at fair value through profit or loss	34,126	x	34,126	0	x	0
Positive fair value of hedging financial derivative transactions	2,035	x	2,035	0	x	0
Financial assets available for sale	34,522	x	34,522	0	x	0
Amounts due from banks	195,929	4,714	200,643	121,141	7	121,148
Loans and advances to customers	275,812	202,554	478,366	102,730	15,476	118,206
Corporate clients**	182,095	187,128	369,223	45,749	14,409	60,158
Of which: top corporate clients	83,108	109,467	192,575	23,249	9,847	33,096
Individuals – non-businessmen	93,650	15,426	109,076	56,981	1,067	58,048
Of which: mortgage loans	74,957	6,677	81,634	55,535	972	56,507
consumer loans	15,329	486	15,815	1,446	92	1,538
Other amounts due from customers	67	x	67	0	x	0
Investments held to maturity	2,982	x	2,982	0	x	0
Total	551,179	207,268	758,447	223,871	15,483	239,354

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals – businessmen.

The maximum credit exposure is presented in gross values net of the impact of provisions.

Classification of receivables

The Bank classifies its receivables arising from financial activities into five categories according to Regulation of the Czech National Bank No. 123/2007. The classification reflects both quantitative criteria (payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring). In July 2008, the Bank newly implemented the default sharing principle for co-debtors and guarantors in respect of the default receivables in the classification in accordance with the Basel II principles.

The structure of the credit portfolio according to the classification is regularly reported to the Czech National Bank and investors.

Characteristics of receivables that are not categorised

Pursuant to the Regulation issued by the Czech National Bank, the Bank does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically amounts receivable arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Provisioning for receivables

All significant impaired credit exposures (i.e. classified as Watch, Substandard, Doubtful or Loss according to CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committees or, whenever required, by recovery specialists. Provisions are established on the basis of the present value of estimated future cash-flows to the Bank and after due consideration of all available information, including the estimated value of collateral and expected duration of the recovery process. The remaining exposures are provisioned based on statistical models. These models were developed based on the Basel II principles using the LGD (Loss Given Default) database which is established in respect of historically observed losses for clients not individually assessed. This new model was implemented in August 2007. In 2008, the model for the calculation of provisions was updated.

As of 31 December 2008, the Bank reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Standard	311,376	7,152	34	1	0	0	7,187	318,563
Watch	11,277	290	206	79	0	0	575	11,852
Total	**322,653**	**7,442**	**240**	**80**	**0**	**0**	**7,762**	**330,415**

As of 31 December 2007, the Bank reported the following loans before due date and past due loans that were not provisioned:

CZK million	Loans before due date	Past due loans that were not provisioned 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Standard	252,530	5,611	0	0	0	0	5,611	258,141
Watch	11,300	22	5	1	0	0	28	11,328
Total	**263,830**	**5,633**	**5**	**1**	**0**	**0**	**5,639**	**269,469**

The amount of the used collateral in respect of past due loans that were not provisioned was CZK 3,960 million (2007: CZK 2,363 million).

Loan collateral

The amount of the recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral realisation, length of realisation, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically for all real estate collateral, which represents the most frequent type of collateral, the Bank uses independent valuations performed or supervised by a dedicated specialised department.
In 2007, the Bank fully implemented in its internal system the new rules for assessment of collateral eligibility according to CNB Regulation No.123/2007. The Bank's compliance with the new rules was validated by the CNB as part of the validation of the IRBA Basel II approach in September 2007.

Recovery of amounts due from borrowers

In order to address the growing volume of retail loans portfolio, the Bank continues improving the efficiency of its pre-recovery and recovery processes. This also includes the intensified and enhanced use of external recovery channels which cover approximately 23 percent of total exposure of the portfolio in the recovery regime. Specific attention was paid to analysing and implementing the new insolvency legislation into the Bank's recovery process. The new insolvency legislation is expected to significantly impact credit activities in both corporate and retail client segments.

Credit risk hedging instruments

The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Revocable contractual commitments

The Bank monitors revocable contractual commitments on the same basis as irrevocable commitments. The risk is identified on a client basis and is monitored monthly, but no provisions or reserves are created. As of 31 December 2008, the revocable commitments account for 20 percent (2007: 21 percent) of all the Bank's revocable and irrevocable commitments.

Credit risk of financial derivatives

The daily measuring of counterparty risk generated by financial derivatives is based on two indicators: the Current Average Risk indicator (CAR), and the Credit Value at Risk indicator (CVaR). Both indicators calculate the cost associated with the replacement of a defaulting client of the Bank at current market conditions and take into consideration specific parameters such as the type of the derivative product, current market parameters, time-to-maturity and the nominal amount of the defaulted transaction, as well as the volatility of the underlying assets. Doing so, CAR measures the average of the Bank's estimated potential exposures over the remaining life of the derivative instrument, while CVaR measures the Bank's potential maximum exposure with a confidence level of 99 percent, and thus better reflects the maximum counterparty risk levels in case of adverse market scenarios.

As of 31 December 2008, the Bank posted a credit exposure of CZK 30,887 million (2007: CZK 22,073 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as of 31 December 2008 of all outstanding agreements. The netting agreement is taken into account where applicable.

(B) Market risk

Segmentation of the Bank's financial operations

For market risk management purposes, the Bank has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions entered into by the Bank's dealers for trading purposes or for accommodating customer needs. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.

In order to measure market risks, the Bank operates a system of limits that monitors its market positions.

Products traded by the Bank

Products that are traded by the Bank and can bear market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards, options), interest rate instruments (interest rate swaps, FRAs, interest rate futures, interest rate options), corporate and governmental bonds, emission allowances as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.). Transactions with these products are concluded either for proprietary purposes, for accommodating the clients' requests or for hedging of the Bank's positions (e.g. interest rate swaps, FRAs and currency swaps). Certain structured derivative transactions for the clients have been designed to meet the clients' hedging needs. Related market risks are eliminated by the Bank via back-to-back transactions concluded with the market.

Market risk in the Market Book

In order to measure market risks inherent in the activities of the Market Book, the Bank uses the Value-at-Risk concept as an aggregate metric.

The VaR method ('historical simulation') has been used by the Bank since 2003. This method reflects correlations between various financial markets and underlying instruments. It uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99 percent VaR indicator captures the loss that would be incurred after eliminating the top 1 percent most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses, out of the 250 considered scenarios.

The validity of the Value-at-Risk is verified through a back-testing process which compares the Value-at-Risk results with actual trading results and hypothetical overnight results. Any excesses are analysed to ensure the 99 percent confidence level. The Value-at-Risk calculations and results are monitored by the Bank's management.

The Global Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR 701,000 and EUR 991,000 as of 31 December 2008 and 2007, respectively. The average Global Value-at-Risks were EUR 960,000 and EUR 667,000 for the years ended 31 December 2008 and 2007, respectively.

In addition, the Bank also performs stress tests that capture the events with a lower probability of occurrence than Value-at-Risk scenarios, and that measure on a daily basis potential losses relevant to all open positions generated by larger shocks. Several types of stress tests for foreign exchange, interest rate and equity exposures are used. They are developed either based on actual large shock events in the past (such as the bond crisis of 1998) or from a hypothetical crisis that could harm the positions. Various specific metrics such as sensitivities, positions and holding periods are used to obtain a detailed picture of risks and strategies.

Market risk in the Structural Book

The Bank manages foreign exchange risk so as to achieve minimum risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk ('EaR') for net interest income. The indicators are monitored separately for CZK, USD and EUR, and the sum of other foreign currencies. The EaR indicator shows the maximum departure of the planned net interest income over a one-year period attributable to the movements in interest rates with a 99 percent confidence level from the initial value. EaR is set using stochastic simulations of random scenarios of interest rate developments and a change in interest income relative to the initial value is established for each scenario. The calculation of EaR for net interest income involves a stress-testing approach to the interest rate risk within the Structural Book.

The indicator of sensitivity to a change in market interest rates shows a change in the Bank's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As of 31 December 2008, the interest rate risk sensitivity was CZK 121 million (2007: CZK 23 million). The Bank is limited by this indicator and the level of the limit is determined to be approximately 2 percent of capital.

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as FRAs and interest rate swaps) and appropriate investments in securities or a selection of interest rate parameters of other assets and liabilities.

(C) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict inadequate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading:

	Notional value		Notional value		Fair value		Fair value	
	2008	2008	2007	2007	2008	2008	2007	2007
CZK million	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	332,427	332,427	296,197	296,197	5,686	6,311	1,909	1,929
Interest rate forwards and futures*	474,815	474,815	379,466	379,466	998	969	226	220
Interest rate options	1,772	1,772	2,753	2,753	5	5	7	7
Total interest rate instruments	**809,014**	**809,014**	**678,416**	**678,416**	**6,689**	**7,285**	**2,142**	**2,156**
Foreign currency instruments								
Currency swaps	120,121	121,209	100,377	99,851	2,707	3,793	1,812	1,254
Cross currency swaps	29,917	29,981	21,164	19,977	1,023	1,107	1,316	150
Currency forwards	32,662	32,103	21,087	21,363	1,083	589	327	611
Purchased options	51,904	50,966	37,944	38,040	3,636	0	1,089	0
Sold options	50,966	51,904	38,040	37,944	0	3,640	0	1,089
Total currency instruments	**285,570**	**286,163**	**218,612**	**217,175**	**8,449**	**9,129**	**4,544**	**3,104**
Other instruments								
Futures on debt securities*	364	364	1,329	1,329	0	0	0	0
Forwards on emission allowances	13,510	13,494	6,519	6,433	1,921	1,656	433	330
Equity forwards	1	1	0	0	0	0	0	0
Commodity forwards	298	298	1,218	1,218	49	48	44	43
Commodity swaps	4,616	4,616	1,674	1,674	1,049	1,042	230	228
Purchased commodity options	564	564	24	24	39	0	2	0
Sold commodity options	564	564	24	24	0	39	0	2
Total other instruments	**19,917**	**19,901**	**10,788**	**10,702**	**3,058**	**2,785**	**709**	**603**
Total	**1,114,501**	**1,115,078**	**907,816**	**906,293**	**18,196**	**19,199**	**7,395**	**5,863**

Note: * Fair values include only forwards, with regard to futures the Bank places funds on a margin account which is used on a daily basis to settle fair value changes and receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading at nominal values per remaining maturity:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	101,915	168,638	61,874	332,427
Interest rate forwards and futures*	399,388	75,427	0	474,815
Interest rate options	0	1,772	0	1,772
Total interest rate instruments	**501,303**	**245,837**	**61,874**	**809,014**
Foreign currency instruments				
Currency swaps	116,417	3,203	501	120,121
Cross currency swaps	1,804	25,439	2,674	29,917
Currency forwards	24,036	8,054	572	32,662
Purchased options	28,083	23,821	0	51,904
Sold options	27,656	23,310	0	50,966
Total currency instruments	**197,996**	**83,827**	**3,747**	**285,570**
Other instruments				
Futures on debt securities	364	0	0	364
Forwards on emission allowances	4,800	8,710	0	13,510
Forwards on shares	1	0	0	1
Commodity forwards	298	0	0	298
Commodity swaps	4,221	395	0	4,616
Purchased commodity options	321	243	0	564
Sold commodity options	267	297	0	564
Total other instruments	**10,272**	**9,645**	**0**	**19,917**
Total	**709,571**	**339,309**	**65,621**	**1,114,501**

Note: * The remaining maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off balance sheet exposures are reversed.

Financial derivative instruments designated as hedging:

CZK million	Notional value 2008 Assets	Notional value 2008 Liabilities	Notional value 2007 Assets	Notional value 2007 Liabilities	Fair value 2008 Positive	Fair value 2008 Negative	Fair value 2007 Positive	Fair value 2007 Negative
Interest rate swaps for cash flow hedging	263,314	263,314	224,537	224,537	9,147	5,013	1,835	2,750
Interest rate swaps for fair value hedging	3,737	3,737	3,515	3,515	0	212	200	0
Total	**267,051**	**267,051**	**228,052**	**228,052**	**9,147**	**5,225**	**2,035**	**2,750**

Remaining maturity of derivatives designated as hedging:

CZK million	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	38,911	132,492	91,911	263,314
Interest rate swaps for fair value hedging	0	0	3,737	3,737
Total	**38,911**	**132,492**	**95,648**	**267,051**

The Bank treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met.

During 2008, the Bank recorded the following hedges:

(i) Interest rate risk hedge:

a. The fair value of a provided long-term loan is hedged by an interest rate swap;

b. Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's profit and loss statement on an ongoing basis); and

c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's profit and loss statement on an ongoing basis).

(ii) Foreign exchange risk hedge:

a. In selected material cases, the Bank hedges future cash flows of firm commitments arising from the Bank's contractual obligations (e.g., contractual payments to third parties in a foreign currency), the hedging instrument includes foreign currency assets (e.g., securities); and

b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent upon foreign exchange rate developments, by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market).

(iii) Hedge of an investment in a foreign subsidiary:

a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market and short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probably forecasted transaction that is not longer anticipated to be effected.
Further information on hedges is provided in Notes 3, 5 and 7 to these financial statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section B of this note.
The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the 'undefined' category.

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	1,909	0	0	0	10,404	12,313
Financial assets at fair value through profit or loss	8,462	12,065	4,895	379	18,196	43,997
Positive fair values of hedging financial derivative transactions	0	0	0	0	9,147	9,147
Financial assets available for sale	2,551	3,093	21,202	18,189	825	45,860
Assets held for sale	0	0	0	0	414	414
Amounts due from banks	125,143	8,102	6,001	1,410	0	140,656
Loans and advances to customers, net	154,447	51,011	99,589	13,487	0	318,534
Investments held to maturity	0	109	736	572	0	1,417
Income taxes receivable	0	0	0	0	6	6
Prepayments, accrued income and other assets	0	0	0	0	3,480	3,480
Investments in subsidiaries and associates	0	0	0	0	23,577	23,577
Intangible fixed assets	0	0	0	0	3,153	3,153
Tangible fixed assets	0	0	0	0	7,408	7,408
Total assets	**292,512**	**74,380**	**132,423**	**34,037**	**76,610**	**609,962**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	947	0	0	0	19,199	20,146
Negative fair values of hedging financial derivative transactions	0	0	0	0	5,225	5,225
Amounts due to banks	9,796	386	0	0	0	10,182
Amounts due to customers	138,035	14,284	490	43	308,252	461,104
Securities issued	4,990	5,533	0	25,088	0	35,611
Income tax	0	0	0	0	84	84
Deferred tax liability	0	0	0	0	677	677
Accruals and other liabilities	0	0	0	0	9,976	9,976
Provisions	0	0	0	0	1,976	1,976
Subordinated debt	6,003	0	0	0	0	6,003
Total liabilities	**159,772**	**20,203**	**490**	**25,131**	**345,389**	**550,985**
On balance sheet interest rate sensitivity gap at 31 December 2008	**132,740**	**54,177**	**131,933**	**8,906**	**(268,779)**	**58,977**
Derivatives*	319,434	432,055	245,279	109,214	0	1,105,982
Total off balance sheet assets	**319,434**	**432,055**	**245,279**	**109,214**	**0**	**1,105,982**
Derivatives*	346,662	414,630	306,858	37,896	0	1,106,046
Undrawn portion of loans**	(5,274)	(2,829)	6,667	1,436	0	0
Undrawn portion of revolving loans**	(1,183)	478	158	547	0	0
Total off balance sheet liabilities	**340,205**	**412,279**	**313,683**	**39,879**	**0**	**1,106,046**
Net off balance sheet interest rate sensitivity gap at 31 December 2008	**(20,771)**	**19,776**	**(68,404)**	**69,335**	**0**	**(64)**
Cumulative interest rate sensitivity gap at 31 December 2008	**111,969**	**185,922**	**249,451**	**327,692**	**58,913**	**x**
Total assets at 31 December 2007	334,511	62,969	102,574	33,499	55,139	588,692
Total liabilities at 31 December 2007	169,552	10,113	5,248	19,499	335,044	539,456
Net on balance sheet interest rate sensitivity gap at 31 December 2007	**164,959**	**52,856**	**97,326**	**14,000**	**(279,905)**	**49,236**
Net off balance sheet interest rate sensitivity gap at 31 December 2007	**(40,422)**	**(5,656)**	**(16,587)**	**63,852**	**0**	**1,187**
Cumulative interest rate sensitivity gap at 31 December 2007	124,537	171,737	252,476	330,328	50,423	x

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards, interest rate options, interest rate futures and cross currency swaps.

** Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2008 and 2007:

%	CZK	2008 USD	EUR	CZK	2007 USD	EUR
Assets						
Cash and balances with central banks	0.42	x	x	2.15	x	x
Treasury bills	3.87	x	x	3.60	x	x
Amounts due from banks	2.61	2.21	3.20	3.66	5.32	4.45
Loans and advances to customers	5.21	1.76	5.32	4.76	5.41	5.01
Interest earning securities	4.27	6.07	3.27	5.07	4.99	3.83
Total assets	**3.85**	**3.20**	**3.77**	**3.94**	**5.18**	**4.11**
Total interest earning assets	**4.44**	**3.47**	**4.13**	**4.38**	**5.28**	**4.54**
Liabilities						
Amounts due to central banks and banks	1.49	0.36	3.99	2.13	4.10	3.94
Amounts due to customers	1.09	1.23	1.78	1.05	2.59	2.10
Debt securities	4.36	x	3.72	3.62	x	3.74
Subordinated debt	3.76	x	x	3.73	x	x
Total liabilities	**2.02**	**0.97**	**1.91**	**1.29**	**2.27**	**2.24**
Total interest bearing liabilities	**1.39**	**1.23**	**2.04**	**1.30**	**2.59**	**2.31**
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	4.05	3.31	3.68	3.85	5.02	4.29
Undrawn portion of loans	4.79	2.49	4.32	4.63	x	4.94
Undrawn portion of revolving loans	6.60	1.58	3.39	7.42	5.44	4.44
Total off balance sheet assets	**4.38**	**3.30**	**3.66**	**4.32**	**5.03**	**4.32**
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	3.96	3.19	3.79	3.67	5.01	4.36
Undrawn portion of loans	4.79	2.49	4.32	4.63	x	4.94
Undrawn portion of revolving loans	6.60	1.58	3.39	7.42	5.44	4.44
Total off balance sheet liabilities	**4.31**	**3.17**	**3.77**	**4.18**	**5.01**	**4.38**

Note: The above table sets out the average interest rates for December 2008 and 2007 calculated as a weighted average for each asset and liability category.

In the first half of 2008, the CZK interest rates of the money market remained approximately on the constant level of around 4 percent. The 2T REPO rate declared by the Czech National bank amounted to 3.75 percent in the first half of 2008. In the second half of 2008, the money market saw a significant change in market spreads which increased from 10 bb to 35 or even to 40 bb. The 2T REPO rate declared by the Czech National Bank continually decreased by 1.5 percent, and this decrease was not fully absorbed by the rates of the monetary market, their decrease did not exceed 100 bb. The interest rates of the derivative market remained on the same level in the first half of the year and decreased by more than 100 bb in the second half of the year. The EUR rates of the monetary market in the first three quarters slightly increased by 100 bb. At the end of the year, they declined by 200 bb. The EUR interest rates of the derivative market slightly increased at the beginning of the year, but they also declined in the second half of the year and they were 100 bb below the level at the beginning of the year.

The USD interest rates of both monetary and derivative markets saw a significant decline in 2008. The rates of the monetary market decreased by 300 bb in average, when the monthly rate decreased by more than 400 bb below the level of 1 percent. The rates of the derivative market copied the decrease in the rates of the monetary market, but at a slower rate of the change.

Breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

CZK million	Fixed interest rate 2008	Floating interest rate 2008	No interest 2008	Total 2008	Fixed interest rate 2007	Floating interest rate 2007	No interest 2007	Total 2007
Assets								
Cash and balances with central banks	50	1,909	10,354	12,313	2,600	1,738	8,638	12,976
Financial assets at fair value through profit or loss	24,764	822	18,411	43,997	26,344	313	7,469	34,126
Positive fair values of hedging financial derivative transactions	0	0	9,147	9,147	0	0	2,035	2,035
Financial assets available for sale	38,448	6,586	826	45,860	27,065	6,618	839	34,522
Amounts due from banks	9,565	130,725	366	140,656	9,099	186,523	307	195,929
Loans and advances to customer	175,003	140,192	3,339	318,534	140,729	125,603	1,193	267,525
Investments held to maturity	1,417	0	0	1,417	2,982	0	0	2,982
Liabilities								
Amounts due to central banks	1	0	0	1	10	0	0	10
Financial liabilities at fair value through profit or loss	0	0	20,146	20,146	0	0	7,711	7,711
Negative fair values of hedging financial derivative transactions	0	0	5,225	5,225	0	0	2,750	2,750
Amounts due to banks	4,429	5,507	246	10,182	5,888	5,803	303	11,994
Amounts due to customers	7,894	449,644*	3,566	461,104	6,620	442,443*	4,699	453,762
Securities issued	19,831	15,780	0	35,611	23,551	20,944	0	44,495
Subordinated debt	0	6,003	0	6,003	0	6,004	0	6,004

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up are included in the 'No interest' category.

* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Management Board. Liquidity is monitored on a bank wide level, with the Market Book also having a stand-alone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (especially not based on the undiscounted cash flows), as such the information on undiscounted cash flows is not provided.

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

CZK million	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	9,827	0	0	0	0	2,486	12,313
Financial assets at fair value through profit or loss	1,000	7,156	11,895	5,076	459	18,411	43,997
Positive fair values of hedging financial derivative transactions	0	0	0	0	0	9,147	9,147
Financial assets available for sale	46	2,713	1,803	19,524	20,949	825	45,860
Assets held for sale	0	0	414	0	0	0	414
Amounts due from banks	79,036	44,050	7,845	6,579	3,116	30	140,656
Loans and advances to customers	8,107	30,962	69,066	75,298	115,561	19,540	318,534
Investments held to maturity	0	0	109	736	572	0	1,417
Income taxes receivable	0	0	0	0	0	6	6
Prepayments, accrued income and other assets	1,363	0	0	0	0	2,117	3,480
Investments in subsidiaries and associates	0	0	0	0	0	23,577	23,577
Intangible fixed assets	0	0	0	0	0	3,153	3,153
Tangible fixed assets	0	0	0	0	0	7,408	7,408
Total assets	**99,379**	**84,881**	**91,132**	**107,213**	**140,657**	**86,700**	**609,962**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss	947	0	0	0	0	19,199	20,146
Negative fair values of hedging financial derivative transactions	0	0	0	0	0	5,225	5,225
Amounts due to banks	4,965	449	143	1,338	3,287	0	10,182
Amounts due to customers	394,982	46,270	15,796	3,239	817	0	461,104
Securities issued	0	67	3,838	0	31,706	0	35,611
Income tax	0	0	84	0	0	0	84
Deferred tax liability	0	0	0	0	0	677	677
Accruals and other liabilities	9,587	386	0	0	0	3	9,976
Provisions	36	154	648	150	55	933	1,976
Subordinated debt	0	3	0	0	6,000	0	6,003
Equity	0	0	0	0	0	58,977	58,977
Total liabilities	**410,518**	**47,329**	**20,509**	**4,727**	**41,865**	**85,014**	**609,962**
On balance sheet liquidity gap at 31 December 2008	**(311,139)**	**37,552**	**70,623**	**102,486**	**98,792**	**1,686**	**0**
Off balance sheet assets*	33,833	91,687	74,518	83,826	3,748	0	287,612
Off balance sheet liabilities*	37,229	124,983	196,504	122,804	8,616	19,287	509,423
Net off balance sheet liquidity gap at 31 December 2008	**(3,396)**	**(33,296)**	**(121,986)**	**(38,978)**	**(4,868)**	**(19,287)**	**(221,811)**
Total assets at 31 December 2007	150,206	81,561	80,195	95,343	117,999	63,388	588,692
Total liabilities at 31 December 2007	417,808	45,389	10,753	8,587	47,342	58,813	588,692
Net on balance sheet liquidity gap at 31 December 2007	(267,602)	36,172	69,442	86,756	70,657	4,575	0
Net off balance sheet liquidity gap at 31 December 2007	(2,273)	(19,260)	(112,478)	(26,388)	(22,319)	(23,114)	(205,832)

Note: * Off balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and payables under guarantees, letters of credit and committed facilities.

(F) Foreign exchange position

The table below provides an analysis of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

CZK million	Czech crowns	Euros	US dollars	Slovak crowns	Other currencies	Total
Assets						
Cash and current balances with central banks	10,244	1,400	207	229	233	12,313
Financial assets at fair value through profit or loss	40,373	986	166	1,825	647	43,997
Positive fair values of hedging financial derivative transactions	8,763	250	133	0	1	9,147
Financial assets available for sale	27,836	15,262	2,762	0	0	45,860
Assets held for sale	414	0	0	0	0	414
Amounts due from banks	109,924	26,282	1,842	2,503	105	140,656
Loans and advances to customers	280,654	32,579	2,945	1,934	422	318,534
Investments held to maturity	0	1,218	199	0	0	1,417
Income taxes receivable	6	0	0	0	0	6
Prepayments, accrued income and other assets	2,515	897	11	0	57	3,480
Investments in subsidiaries and associates, net	19,400	3,711	0	466	0	23,577
Intangible fixed assets	3,153	0	0	0	0	3,153
Tangible fixed assets	7,408	0	0	0	0	7,408
Total assets	**510,690**	**82,585**	**8,265**	**6,957**	**1,465**	**609,962**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities at fair value through profit or loss	19,169	612	131	161	73	20,146
Negative fair values of hedging financial derivative transactions	4,159	721	306	39	0	5,225
Amounts due to banks	4,509	4,547	16	1,066	44	10,182
Amounts due to customers	413,284	38,969	7,617	311	923	461,104
Securities issued	34,680	931	0	0	0	35,611
Income tax	83	0	0	0	1	84
Deferred tax liability	677	0	0	0	0	677
Accruals and other liabilities	7,325	1,873	758	0	20	9,976
Provisions	1,000	192	760	23	1	1,976
Subordinated debt	6,003	0	0	0	0	6,003
Equity	58,977	0	0	0	0	58,977
Total liabilities	**549,867**	**47,845**	**9,588**	**1,600**	**1,062**	**609,962**
Net FX position at 31 December 2008	**(39,177)**	**34,740**	**(1,323)**	**5,357**	**403**	**0**
Off balance sheet assets included in the FX position*	1,125,540	188,080	54,279	12,777	3,561	1,384,237
Off balance sheet liabilities included in the FX position*	1,087,131	224,631	53,440	15,518	4,093	1,384,813
Net off balance sheet FX position at 31 December 2008	**38,409**	**(36,551)**	**839**	**(2,741)**	**(532)**	**(576)**
Total net FX position at 31 December 2008	**(768)**	**(1,811)**	**(484)**	**2,616**	**(129)**	**(576)**
Total assets at 31 December 2007	503,535	61,986	15,445	4,828	2,898	588,692
Total liabilities at 31 December 2007	532,021	44,912	8,313	1,101	2,345	588,692
Net FX position at 31 December 2007	(28,486)	17,074	7,132	3,727	553	0
Off balance sheet net FX position at 31 December 2007	28,943	(15,834)	(7,440)	(3,615)	(532)	1,522
Total net FX position at 31 December 2007	457	1,240	(308)	112	21	1,522

Note: * Off balance sheet assets and liabilities include amounts receivable and payable arising from spot, forward and option transactions.

(G) Operational risk

In 2008, pursuant to the approval of the Advanced Measurement Approach (AMA) by the Czech National Bank, the Operational Risk Management Department of the Bank increased the efficiency of management of related risks and determined the principle of interconnection of individual management instruments, i.e. collection of data, risk control self assessment, scenario analysis and key risk indicators. The acquired knowledge is assessed on a regular basis and provided to the management of the Bank for establishing the global operational risk management strategy.

Among others, the Bank extended its activities in operational risks to include the definition of controls under 'Permanent Supervision' which serve as a basis for reviewing the adequacy of the functioning of the established operational risk management tools.

(H) Legal risk

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50 percent. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

(I) Estimated fair value of assets and liabilities of the Bank

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and balances with central banks

The carrying values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Amounts due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis, the fair value of loss loans is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are estimated based on discounted cash flow models using the interest rate currently offered at the balance sheet date.

(e) Amounts owed to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand at the balance sheet date. The carrying value of term deposits at variable interest rates approximates their fair values at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the balance sheet date.

(f) Debt securities issued

The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is equal to an estimate made by the Bank.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

CZK million	Carrying value 2008	Fair value 2008	Carrying value 2007	Fair value 2007
Financial assets				
Cash and current balances with central banks	12,313	12,313	12,976	12,976
Amounts due from banks	140,656	141,459	195,929	195,840
Loans and advances to customers, net	318,534	325,057	267,525	273,166
Investments held to maturity	1,417	1,442	2,982	2,940
Financial liabilities				
Amounts due to central banks and banks	10,183	10,186	12,004	11,990
Amounts due to customers	461,104	461,006	453,762	453,665
Securities issued	35,611	36,666	44,495	43,570
Subordinated debt	6,003	6,003	6,004	6,003

43. Assets under management

As of 31 December 2008, the Bank managed client assets in the amount of CZK 928 million (2007: CZK 2,852 million), of which no assets were from the Bank's subsidiaries. The Bank is transferring asset management services to other trustees.

44. Post balance sheet events

In January 2009, the Board of Directors approved the intention to transform Komerční banka Bratislava, a.s. from a subsidiary to a foreign branch with the effective date of 1 January 2009.

The financial situation of one significant the Bank's client strongly deteriorated after the balance sheet date with the important negative impact on the recoverability of the net receivable owed by that client.

Survey of Financial Results 2003–2008

According to International Financial Reporting Standards (IFRS)

CZK mil.	Consolidated data	2008	2007	2006	2005	2004	2003
Financial Performance	Net Interest Income	21,261	18,790	16,274	14,643	13,264	12,166
	Net Fees and Commissions	8,050	7,756	8,769	8,736	8,936	9,075
	Net Banking Income	33,714	29,670	26,421	24,502	23,752	22,491
	Total Operating Costs	(14,507)	(13,629)	(12,400)	(12,135)	(12,475)	(12,529)
	Net Profit/(Loss)	13,233	11,225	9,211	8,911	8,938	8,669
	Net Profit/(Loss) per share (CZK)	348.70	295.74	242.52	234.44	235.15	228.07
	Total Assets	699,044	661,819	598,090	513,856	473,411	456,663
	Loans and Advances to Customers, net	364,040	304,938	252,505	189,212	158,085	131,130
	Amounts Due to Customers	554,570	540,229	481,294	388,431	373,371	353,569
	Total Shareholders' Equity	62,974	50,654	50,257	51,327	44,814	41,401
	Return on Average Equity, ROAE (%)	23.29	22.25	18.13	18.54	20.73	22.58
	Return on Average Assets, ROAA (%)	1.94	1.78	1.66	1.81	1.92	1.92
	Cost/Income Ratio (%)	43.0	45.9	46.9	49.6	52.5	55.7
Capital Adequacy*	Capital Adequacy (%)	12.13	10.10	11.87	13.19	12.89	14.78
	Tier 1 Ratio (%)	10.77	8.87	10.35	13.71	12.66	14.08
	Tier 1	37,624	33,945	32,084	34,704	29,554	28,302
	Tier 2	6,000	6,008	6,000	0	1,389	2,388
	Total Regulatory Capital	40,776	38,658	36,809	33,381	29,398	29,707
	Risk-weighted-assets for Investment portfolio	287,384	372,714	296,915	243,876	217,052	191,016

CZK mil.	Unconsolidated data	2008	2007	2006	2005	2004	2003
Financial Performance	Net Interest Income	17,590	15,864	14,858	13,623	12,406	11,937
	Net Fees and Commissions	7,794	7,520	8,691	8,718	8,703	8,711
	Net Banking Income	29,821	26,231	24,631	23,392	22,717	21,844
	Total Operating Costs	(12,996)	(12,307)	(11,590)	(11,593)	(11,788)	(11,750)
	Net Profit/(Loss)	11,795	10,170	8,747	9,148	9,299	9,262
	Net Profit/(Loss) per share (CZK)	310.81	267.96	230.32	240.68	244.66	243.68
	Total Assets	609,962	588,692	512,250	492,732	448,294	447,565
	Loans and Advances to Customers, net	318,534	267,525	223,171	185,225	155,379	131,042
	Amounts Due to Customers	461,104	453,762	398,137	370,058	358,825	349,505
	Total Shareholders' Equity	58,977	49,236	48,654	50,314	43,578	40,399
	Return on Average Assets, ROAE (%)	21.80	20.78	17.68	19.49	22.15	24.98
	Return on Average Equity, ROAA (%)	1.97	1.85	1.74	1.94	2.08	2.09
	Net Interest Margin (%)	3.24	3.17	3.23	3.14	3.04	3.00
	Cost/Income Ratio (%)	43.6	46.9	47.1	49.6	51.9	53.8
Capital Adequacy*	Capital Adequacy (%)	14.19	11.04	13.08	13.58	12.83	15.37
	Tier 1 Ratio (%)	12.66	9.78	11.46	13.95	13.35	14.48
	Tier 1	39,471	36,575	33,814	34,543	29,312	27,734
	Tier 2	6,000	6,000	6,000	0	0	2,272
	Total Regulatory Capital	42,705	41,287	38,589	33,637	28,235	29,437
	Risk-weighted-assets for Investment portfolio	257,119	364,095	281 909	238 465	208 502	184 613

Note: *According to the Czech National Bank methodology based on Basel I for 2003-2007, Basel II since 2008.

Legal Information

Identification Details of the Company Entered in the Commercial Register as of 31 December 2008

(excerpt from the Commercial Register maintained with the Metropolitan Court of Prague Section B, File No. 1360)

Date of incorporation:	5 March 1992
Business name:	Komerční banka, a.s.
Registered office:	Prague 1, Na Příkopě 33, building identification number 969, postcode 114 07
Identification number:	45 31 70 54
Legal form:	public limited company
Shares:	38,009,852 listed ordinary bearer shares in the nominal value of CZK 500
Registered capital:	CZK 19,004,926,000, of which paid up: 100%

Objects of business

I. The Bank shall carry on business pursuant to Act No. 21/1992 Coll., the Banking Act, as amended. The business activities of the Bank shall include:

a) acceptance of deposits from the public,
b) granting of loans,
c) investing in securities on the Bank's own account,
d) financial leasing,
e) making and receiving payments and administration of clearing system,
f) issuing of payment instruments, such as payment cards and traveller's cheques,
g) provision of guarantees,
h) issue of letters of credit,
i) provision of collection services,
j) provision of investment services including:
- main investment services of reception and transmission, on behalf of investors, of orders in relation to one or more of investment instruments,
- main investment services of execution of orders on behalf of investors in relation to one or more of investment instruments,
- main investment services of dealing in investment instruments for the Bank's own account,
- main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more of investment instruments,
- main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues,
- ancillary services of safekeeping and administration in relation to one or more of investment instruments,
- ancillary services of safe custody,
- ancillary services of granting credits or loans to an investor to allow him to carry out a transaction in one or more of investment instruments, where the firm granting the credit or loan is involved in the transaction,
- ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings,
- ancillary services related to underwriting,
- ancillary services of investment advice concerning one or more of investment instruments,
- ancillary services of foreign-exchange service where these are connected with the provision of investment services;

k) dealing on the Bank's own account or on the client's account in foreign currencies and gold,
l) financial brokerage,
m) foreign exchange operations (foreign exchange purchase),
n) provision of depository services,
o) provision of banking information,

p) rental of safe-deposit boxes,
q) issue of mortgage bonds,
r) activities directly related to those mentioned in paragraphs a)–q).

II. The Bank shall further carry on business activities for business enterprises that provide supporting banking services and for financial institutions that are controlled by the Bank. The extent of the business activities shall cover:

a) accounting consultants activities, book-keeping, tax record keeping,
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real property,
e) organization of specialised courses, training, and other educational programs including teaching,
f) business, financial, organisational, and economic consultants activity,
g) data processing, database services, network (web) administration.

Statutory body – Board of Directors

Function	Name	Birth Number/ Date of Birth	Address	Date of Entry into Office	Member of the Board of Directors from
Chairman	Laurent Goutard	610513/7379	Prague 6, Heineho 342/4, postcode 160 00	2 December 2008	2 December 2008
Member	Didier Colin	630420/7459	Prague 1, Vlašská 5/361, postcode 110 00		
Member	Jan Juchelka	710919/5148	Poděbrady V, Máchova 92, Nymburk District, postcode 290 01		1 July 2006
Member	Peter Palečka	591103/6692	Černošice, Jahodová 1565, Prague-West District, postcode 252 28		6 October 2005
Member	Patrice Taillandier-Thomas	12 November 1958	Prague 2, Belgická 14, postcode 120 00		1 February 2008
Member	Vladimír Jeřábek	680407/0790	Brno, Útěchov, Mladá 95/2a, postcode 644 00		1 June 2008

Acting on behalf of the Bank

The Board of Directors as the statutory body shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.
Signing on behalf of the Bank: Either all members of the Board of Directors jointly or any two members of the Board jointly shall sign on behalf of the Bank.

Supervisory Board

Function	Name	Birth Number/ Date of Birth	Address	Date of Entry into Office	Member of the Board of Directors from
Chairman	Didier Alix	16 August 1946	14, bis Rue Raynouard, 75016 Paris, French Republic	14 June 2005	29 April 2005
Vice-Chairman	Jean-Louis Mattei	8 September 1947	24, Rue Pierre et Marie Curie, 75005 Paris, French Republic	14 June 2005	29 April 2005
Member	Petr Laube	490708/118	Prague 5, Košíře, Kvapilova 958/9	29 April 2005	
Member	Pavel Krejčí	631108/0644	Olomouc, Rolsberská 30, postcode 772 00		28 May 2005
Member	Nina Trlicová	495713/056	Ústí nad Labem, Jeseniova 401/30		28 May 2005
Member	Jan Kučera	511030/013	Náchod, Ovocná 1576, postcode 574 01		28 May 2005
Member	Christian Achille Frederic Poirier	30 November 1948	19, Rue Mademoiselle, 78000 Versailles, French Republic		29 April 2005
Member	Séverin Cabannes	21 July 1958	14, Rue de Voisins, 78430 Louveciennes, French Republic		29 April 2005
Member	Bořivoj Kačena	430224/105	Prague 4, Vavákova 1486/4A, postcode 148 00		29 April 2008

Other facts

Manner of the Company's establishment

In accordance with the privatisation project of the state financial institution Komerční banka, with the registered office in Prague, Na příkopech 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole promoter, established the public limited company styled Komerční banka, a.s., based on the Founding Deed of 3 March 1992 under section 172 of the Commercial Code.

Information on Komerční banka Securities

Komerční banka Shares

Type:	ordinary share
Form:	bearer share
Representation:	dematerialised
Total value of the issue:	CZK 19,004,926,000
Total number of shares:	38,009,852
Nominal value of 1 share:	CZK 500
ISIN:	CZ0008019106

Public tradability

Komerční banka shares are publicly traded on stock exchange markets in the Czech Republic – the Prague Stock Exchange and RM-SYSTEM.

Rights vested in the shares

Rights pertaining to ordinary shares are in accordance with Act No. 513/1991 Coll., the Commercial Code, as amended. No special rights are attached to the shares.

Shareholders' voting rights are governed by the nominal value of the shares. Each CZK 500 of nominal share value is equivalent to one vote.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the annual general meeting based upon the Bank's financial result and in accordance with the conditions stated in the generally binding legal regulations. Dividend rights accrue to shareholders who own shares 30 calendar days following the date of the annual general meeting that approved payment of the dividend. If the Board of Directors decides to register the rights for payment of a dividend in the records of dematerialised securities, those shareholders shall have a right to a dividend whose right is registered in the records of dematerialised securities 30 calendar days after the date of the annual general meeting that approved the dividend. The dividend is payable 30 days after the decisive day on which the shareholder's right arose, in accordance with the previous sentence of this provision. The right to payment of the dividend is time-barred from four years after its declared payment date. In the event of a shareholder' death, his or her legal heir shall be authorised to exercise all rights attached to the shares.

On the Bank's liquidation and dissolution, the means of liquidation is governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the annual general meeting in the proportion of the nominal value of the shares held by the Bank's shareholders.

For further information about trading in shares, share prices and dividends, please refer to the chapter Komerční banka Share Price.

Komerční banka global depository receipts

Global depository receipts (GDRs) were issued for shares of Komerční banka administered by The Bank of New York ADR Department (that are held on its asset account at the Securities Centre). In principle, GDRs bear the same rights as shares of the Bank and they may be reconverted into shares. One GDR represents one third of one share of Komerční banka.

The GDR programme was launched at the end of June 1995. In issuing the first tranche, Komerční banka marked its entry into the international capital markets. A second issue followed in 1996.

From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as of 31 December 2008 was 1,512,924.

Bonds of Komerční banka (outstanding)

List of outstanding bonds issued by Komerční banka

No.	Bonds	Issue Date Maturity Date	Volume in CZK Number of pcs. (as of 31 Dec. 2008)	Interest Rate	Pay-out of Interest	Quotation at BCPP
1.	HZL 2003/2009 ISIN: CZ0002000268[1), 3)]	21 August 2003 21 August 2009	3,530,000,000 353,000	5.5% p.a.	yearly	yes
2.	HZL 2005/2015 ISIN: CZ0002000565[1)]	2 August 2005 2 August 2015	5,200,000,000 520,000	3M PRIBID +min.(-0.10% p.a.; [-0.1*3MPRIBID]% p.a.)	quarterly	yes
3.	HZL 2005/2015 ISIN: CZ0002000664[1)]	21 October 2005 21 October 2015	10,000,000,000 1,000,000	4.40% p.a.	yearly	yes
4.	HZL 2006/2016 ISIN: CZ0002000854[1)]	1 September 2006 1 September 2016	EUR 34,136 th. 42,670	3.74% p.a.	yearly	no
5.	HZL 2007/2019 ISIN: CZ0002001142[2)]	16 August 2007 16 August 2019	3,000,000,000 30	5.00% p.a.	yearly	no
6.	HZL 2007/2037 ISIN: CZ0002001324[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
7.	HZL 2007/2037 ISIN: CZ0002001332[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
8.	HZL 2007/2037 ISIN: CZ0002001340[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
9.	HZL 2007/2037 ISIN: CZ0002001357[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
10.	HZL 2007/2037 ISIN: CZ0002001365[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
11.	HZL 2007/2037 ISIN: CZ0002001373[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
12.	HZL 2007/2037 ISIN: CZ0002001381[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
13.	HZL 2007/2037 ISIN: CZ0002001399[2)]	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
14.	HZL 2007/2037 ISIN: CZ0002001431[2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
15.	HZL 2007/2037 ISIN: CZ0002001449[2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
16.	HZL 2007/2037 ISIN: CZ0002001456[2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
17.	HZL 2007/2037 ISIN: CZ0002001464[2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
18.	HZL 2007/2037 ISIN: CZ0002001472[2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
19.	HZL 2007/2037 ISIN: CZ0002001480[2)]	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
20.	HZL 2007/2037 ISIN: CZ0002001498[2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
21.	HZL 2007/2037 ISIN: CZ0002001506[2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
22.	HZL 2007/2037 ISIN: CZ0002001514[2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no

No.	Bonds	Issue Date Maturity Date	Volume in CZK Number of pcs. (as of 31 Dec. 2008)	Interest Rate	Pay-out of Interest	Quotation at BCPP
23.	HZL 2007/2037 ISIN: CZ0002001522[2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
24.	HZL 2007/2037 ISIN: CZ0002001530[2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
25.	HZL 2007/2037 ISIN: CZ0002001548[2)]	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
26.	HZL 2007/2037 ISIN: CZ0002001555[2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
27.	HZL 2007/2037 ISIN: CZ0002001563[2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
28.	HZL 2007/2037 ISIN: CZ0002001571[2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
29.	HZL 2007/2037 ISIN: CZ0002001589[2)]	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
30.	2007/2017 ISIN: CZ0003701427[1)]	18 December 2007 1 December 2017	690,300,000 767	4.216% p.a.	yearly 1 December	no
31.	HZL 2007/2017 ISIN: CZ0002001761[1)]	19 December 2007 19 December 2017	813,060,000 9,034	4.09% p.a.	yearly	no
32.	HZL 2007/2037 ISIN: CZ0002001753[1)]	21 December 2007 21 December 2037	3,300,000,000 330	RS plus 1.5% p.a	yearly	no
33.	HZL 2007/2037 ISIN: CZ0002001746[1)]	28 December 2007 28 December 2037	50,000,000 5	RS plus 1.5% p.a	yearly	no

Note.: * Prague Stock Exchange
HZL = mortgage bonds, RS = reference rate
[1)] dematerialised bonds
[2)] bonds in documentary form
[3)] part of issue cancelled by the issuer's decision

All bonds with the exception of mortgage bonds ("HZL") ISIN CZ0002000854 are denominated in CZK and made out to the bearer. HZL ISIN CZ0002000268 and HZL ISIN CZ0002000565 were issued under the KB Debt Issuance Programme approved by a decision of the Czech Securities Commission dated 6 May 2003. The 10-Year Debt Issuance Programme with the maturity of any single issue of up to 10 years enables the Bank to issue mortgage bonds in a maximum amount of CZK 15 billion outstanding.
The bonds listed in the table under numbers 5–33 were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. The 30-Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.
Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, issuance terms and conditions, or supplements to the bond programmes were approved by the Czech Securities Commission or the Czech National Bank.

Public tradability

All heretofore unredeemed bonds presented in the table as quoted on the PSE were admitted for trading on the official free market of the Prague Stock Exchange.

Transferability

The transferability of bonds is unlimited.

Rights vested in the bonds

Rights and obligations pertaining to the bonds are governed by and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the issuance terms and conditions of each issue.
Bonds bear interest from the date of issue, and coupon payments are made at quarterly, yearly or other stated intervals. The bonds' returns are paid by the issuer – Komerční banka, a.s., having its registered office at Na Příkopě 33, Prague 1.
The bonds will be redeemed by Komerční banka, a.s., Na Příkopě 33, Prague 1, in the whole amount of the nominal value (except for HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bonds ISIN CZ0003701427) on the maturity day. HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bonds ISIN CZ0003701427 are amortising bonds.

Information on Remuneration to Auditors for Services Provided in 2008

For services performed during 2008, KB and the consolidated KB Group provided remuneration to the auditors as follows:

Type of service – CZK thousand, excl. VAT	KB	KB Group*
Statutory audit	15,104	23,366
Audit related services	0	640
Legal and tax related services	0	0
Other	256	345
Total	**15,360**	**24,351**

Note: * The consolidated KB Group includes Komerční banka, ESSOX, Factoring KB, Komerční banka Bratislava, Komerční pojišťovna, Modrá pyramida stavební spořitelna, Penzijní fond Komerční banky, Protos and Bastion European Investment S.A..

Information disclosed pursuant sec. 213 of Decree No. 123/2007 Coll.

Information about consolidated capital, CZK million	31 December 2008
a) Aggregate information about the conditions and main characteristics of capital and its components	
The Bank's share capital is fully subscribed and paid, it amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with nominal value of CZK 500 each. The shares are dematerialised and are publicly traded on public markets. The Bank has accepted subordinated debt in the total amount of CZK 6 billion. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity as at 27 December 2016 with the Bank's option for early repayment after five years and thereafter as of any interest payment date. The subordinated debt is part of Tier 2 capital. The Bank calculates capital both on a stand-alone and consolidated basis.	
b) Total original capital (Tier 1)	**37,624**
of which: paid up share capital entered in the commercial register	19,005
own shares	(150)
share premium	149
obligatory reserve funds	3,474
other funds from distribution of profit	1,089
retained earnings	20,790
goodwill from consolidation	(3,405)
final exchange rate differences from consolidation	4
minority interests	1,132
other goodwill than from consolidation	(146)
other intangible asset (besides goodwill)	(3,504)
negative difference from revaluation of AFS capital market instruments	(815)
c) Total additional capital (Tier 2)	**6,000**
d) Total capital designated to cover market risks (Tier 3)	**0**
e) Total deductible items from original and additional capital	**2,847**
of which: deductible items due to an insufficient coverage of expected credit losses	1,601
f) Total capital after the consideration of deductible items from original and additional capital and stipulated limits applicable to items of capital	**40,776**

Information about consolidated capital, CZK million	31 December 2008
Total capital requirements	**26,884**
a) relating to credit risk	**22,991**
relating to credit risk pursuant to the Standardised Approach in IRB, to total exposures	**3,207**
of which: to exposures to central governments and banks	17
to exposures towards institutions	25
to corporate exposures	880
to retail exposures	2,270
to other exposures	14
relating to credit risk pursuant to the IRB Approach	**19,784**
of which: to exposures to central governments and banks	589
to exposures towards institutions	2,237
to corporate exposures	12,788
to retail exposures	2,473
to equity exposures (simplified method of risk weight)	242
of which: to exposures quoted on regulated markets	0
to other equity exposures	242
to securitised exposures	73
to other exposures	1,382
b) relating to settlement risk	**0**
c) relating to position, foreign exchange and commodity risks	**913**
d) relating to the operational risk	**2,981**

Note: The bank discloses no other capital requirement.

Rations (KB standalone), CZK thousand	31 December 2008
Capital adequacy	14.19%
Return on average assets (ROAA)	1.85%
Return on average equity (ROAE)	30.48%
Assets per employee	75,641
Operating costs per employee	1,355
Profit/Loss after tax per employee	1,461

Description of Real Estate Owned by the Bank

Komerční banka manages real estate used mostly for the business activities for which it is licensed under existing legislation. Summary of the real estate managed by the Bank:

As of 31 December 2008	Number	From which KB owns
Buildings (area includes all floors)	437	177

Note: See also the Notes to the Unconsolidated Financial Statements according to IFRS, Notes No. 20 – Assets held for sale and 27 – Tangible fixed assets.

Investments

Financial investments made by the Bank

(balance as of the end of the year)

CZK million, IFRS	31 December 2008	31 December 2007
Bonds and treasury bills	72,027	63,322
Shares	829	913
Emissions allowances	212	0
Equity investments in subsidiary and associated undertakings	23,577	23,380
Total	96,655	87,615

Main investments – excluding financial investments*

(balance as of the end of the year)

CZK million, IFRS	31 December 2008	31 December 2007
Tangible fixed assets	7,408	7,384
Intangible fixed assets	3,153	2,708
Total tangible and intangible fixed assets	**10,561**	**10,092**
Tangible fixed assets held under finance leases	0	4

Note: * Net book value of investments

See also the Notes to the Unconsolidated Financial Statements according to IFRS, Notes No. 26 – Intangible fixed Assets and 27 – Tangible fixed assets.

Main ongoing investments – excluding financial investments

In 2008, the Bank made non-financial investments in a total of CZK 2.0 billion. Most of that amount was invested in the area of information technologies for the purchase, developments, upgrading of software, hardware and consultancy. Significant amounts were also invested into development and equipment of the distribution network and into real estate owned by the Bank. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2009 will not exceed CZK 1.9 billion. The biggest portion of the total amount represents investments related to information technologies and development of the distribution network. The Bank's investment plans may change in the future depending on developments in related conditions, i.e. the actual investments may differ from the plan.

Governing Law

KB, as an issuer of publicly traded securities, is governed in its activities in particular by the following laws:

- Act No. 21/1992 Coll., the Banking Act, as subsequently amended
- Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended
- Act No. 513/1991 Coll., the Commercial Code, as subsequently amended
- Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on amendment to the Trade Licensing Act

Legal Disputes

With respect to its overall financial situation, Komerční banka regards as significant all litigations involving amounts exceeding CZK 10 million and any bankruptcy proceeding in which Komerční banka is a creditor with a claim exceeding CZK 50 million. The reason for the higher claims threshold in bankruptcy proceedings is the fact that the average recovery from bankruptcies usually does not exceed 20%. Therefore, the outcomes of bankruptcy proceedings have in general less significant impact on the Bank's financial position.

As of 31 December 2008, Komerční banka was a party to legal proceedings as a plaintiff in 8 significant litigations. The total sum involved in these litigations is CZK 686.8 million. Komerční banka is a bankruptcy creditor with a claim exceeding CZK 50 million in 28 bankruptcy proceedings, the total amount of filed claims is about CZK 10.8 billion.

As of 31 December 2008, Komerční banka was a party to legal proceedings as the defendant in 11 significant litigations. The total sum involved in these litigations is about CZK 2.5 billion.

Information concerning the provisions created for litigations in which Komerční banka is a defendant is stated in the Notes to the Unconsolidated Financial Statements according to IFRS, Note 38 – Commitments and Contingent Liabilities.

Licences and Trademarks

In the banking market currently there is an upward trend of stressing the legal protection of products. To this trend is related also the legal protection of product names and images of Komerční banka. One of the possible ways of protection is to register a trademark at the appropriate office. Registration of trademarks enhances not only the legal protection of each product of the Bank, but it simplifies the orientation between Komerční banka's different products as well.

Komerční banka owns 123 trademarks, which are entered in the public register of trademarks maintained mainly by the Industrial Property Office of the Czech Republic. Further 19 trademarks have been entered into the registration process and as expected these trademarks will be registered at the Industrial Property Office of the Czech Republic as well. Komerční banka has likewise registered several trademarks at the Industrial Property Office in the Slovak Republic. The Bank also offers usage of trademarks based on licence agreements to its subsidiaries.

Expenses on Research and Development

In 2008, Komerční banka spent through operating expenses CZK 236 million on research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems including development of internet applications.

Report on Relations Among Related Entities for the year ended 31 December 2008

(hereinafter the "Report on Relations")

Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained at the Municipal Court in Prague, Section B, File 1360, (hereinafter "KB" or the "Bank"), is part of a business group (holding company) in which the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entity (hereinafter "related entities") exist.
This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2008, that is, from 1 January 2008 to 31 December 2008 (hereinafter the "reporting period").

I. Introduction

In the period from 1 January 2008 to 31 December 2008, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Hausmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter "SG" or "SG Paris").
During the course of the reporting period, the Bank entered into arrangements with the following related entities:

a) SG's head office and branch offices

Company	Registered office
SG Paris*	29, Boulevard Hausmann, Paris, France
SG London	Exchange House, Primrose Street, London, Great Britain
SG New York	1221 Avenue of the Americas, 10020, New York, USA
SG Tokyo	Ark Mori Building, 12-32 Akasaka 1 Chrome, Minato-ku, 107-6015 Tokyo, Japan
SG Zürich	Sihlquai 253, 8031 Zürich, Switzerland
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Postfach 101935, Mainzer Landstrasse 36, D60325, Frankfurt am Main, Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Vienna	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands

Note: * Including the branch offices

(b) SG's subsidiaries

Company	Registered office	SG's share of voting power
ALD Automotive s.r.o.	U Stavoservisu 527/1, Prague 10, 100 40, Czech Republic	100.00
Banca Romana Pentrui Devzoltare (B.R.D.)	Boulevard Ion Mihalache no.1-7, sector I, Bucharest, Romania	58.32
ECS International Czech Republic, s.r.o.	Prague 5, Smíchov, Anděl Park, Radlická 14/3201,150 00, Czech Republic	100.00
Europe Computer Systemes	immeuble Défense Parc 2, 106 rue des Trois Fontanot, 92000 Nanterre, France	100.00
European Fund Services, SA	17 rue Antoine Jans L-1820 Luxembourg, Luxembourg	100.00
EURO-VL Luxembourg	16, Boulevard Royal, L 2449 Luxembourg, Luxembourg	100.00
Franfinance, SA	57-59 Avenue De Chatou, 92500 Rueil Malmaison, France	100.00
General Bank of Greece	109 Messogion Avenue, 11510 Athens, Greece	52.32
Investiční kapitálová společnost KB a.s.	Dlouhá 34/713, Prague 1, 110 15, Czech Republic	100.00
Komerční pojišťovna, a.s.	Karolínská 1/650, Prague 8, 186 00, Czech Republic	100.00
Lyxor International Asset Management (LIAM)	Tour Société Générale, 17 Cours Valmy, 92800 Puteaux, France	100.00
N.S.G.B.	5 Champollion Street, Cairo, Egypt	77.20
Newedge Group (Frankfurt branch)	Neue Mainzer Strase 52, 60311 Frankfurt am Main, Germany	100.00
Newedge Group (UK Branch)	10 Bishops Square, London, E1 6EG, UK	100.00
SG Asset Management	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Asset Management Alternative Investments	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Cyprus Ltd.	7/9 Grivas Dighenis Avenue, Nicosia, Cyprus	51.00
SG Equipment Finance Czech Republic s.r.o	Antala Staška 2027/79, Prague 4 – Krč, 140 00, Czech Republic	100.00
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	97.95
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneve 11, Switzerland	77.62
SG Securities (London) LTD	8 Salisbury Square, London, EC4Y 8BB, UK	100.00
SG Splitska Banka	Rudjera Boskovica 16, 21000 Split, Croatia	99.76
SG Vostok	5 Nikitsky Pereulok, 103009 Moscow, Russia	100.00
SGA Société Générale Acceptance N.V.	PO Box 837, Curacao De Ruyterjade 58A, Netherlands Antilles	100.00
SG Asset Management Banque (SGAM Banque)	170 place Henri Renault, 92400 Courbevoie, France	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100.00
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	99.70
Sogecap	50 avenue du Général de Gaulle, 92093 Paris, la Défense CEDEX, France	100.00

II. Arrangements with Related Entities

A. Contracts and Agreements with the Controlling Entity and Other Related Entities

Banking Transactions

During the reporting period, KB entered into the following contractual agreements with related entities that were subject to banking secrecy restrictions:

Deposit Arrangements

In the deposit segment, KB entered into arrangements with 28 branches and subsidiaries of the SG Group. As of 31 December 2008, KB maintained a total of 64 accounts, of which 27 were loro accounts for branches and subsidiaries of the SG Group, 30 were current accounts and 7 overdraft accounts opened for non-banking entities of the SG Group. The average monthly overdraft balance on loro accounts (borrowing) was CZK 146 million, the average monthly credit balance (deposit) was CZK 259.2 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 294.6 million; the average monthly overdraft balance on these accounts was CZK 121.4 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 5.1 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 8.5 million. For the year ended 31 December 2008, KB paid CZK 154.3 million to clients arising from deposits on current and overdraft accounts.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, SG Tokyo, SG New York, SG Frankfurt, SG Zürich, SG Warsaw, SG Vostok, SG Express Bank and B.R.D. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 5.2 million; the average monthly overdraft balance on nostro accounts was CZK 24.7 million. Interest income on nostro accounts for the reporting period was CZK 0.2 million; interest expenses amounted to CZK 0.1 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 4.3 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 5.6 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 0.9 million. Interest expenses paid by KB on loro accounts amounted to CZK 3.2 million and interest income amounted to CZK 3.8 million in the reporting period.

Four SG subsidiaries held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 543.2 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 29.4 million for the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan Arrangements

In the loan segment, KB provided 444 loans in the aggregate amount of CZK 11,385.3 million at the end of the reporting period. The average balance of the loans during the reporting period was CZK 10,201.1 million. The aggregate amount of interest income was CZK 412.8 million.

At the end of the reporting period, the aggregate number of payment guarantees issued for the benefit of related entities of the SG Group was nine in the amount of CZK 6.0 million, and the number of non-payment guarantees was 60 in the amount of CZK 46.8 million. At the end of the reporting period, KB issued three export letters of credit of CZK 7.1 million to one SG Group entity. The aggregate amount of income arising from the fees for the issued guarantees was CZK 0.6 million in the reporting period. At the end of the reporting period, KB received guarantees from eight SG Group entities as collateral for the loans provided to clients in the aggregate amount of CZK 13,099.7 million.

Investment Banking Arrangements

In the investment banking segment, KB carried out transactions with 14 branches and subsidiaries from within the SG Group. The total number of transactions was 16,113. The aggregate amount of on-balance sheet transactions was CZK 462,304 million and off-balance sheet transactions was CZK 657,479.4 million, of which:

(a) Foreign currency transactions (spots, forwards, swaps) were realised in the total number of 4,120 transactions in the aggregate amount of CZK 233,265.4 million;
(b) Interest rate derivative transactions (interest rate swaps and futures) were realised in the total number of 2,519 transactions in the aggregate amount of CZK 348,542.1 million;
(c) Option transactions with foreign currency instruments were realised in the total number of 5,737 transactions in the aggregate amount of CZK 51,672.1 million;
(d) Depository transactions – KB implemented 2,247 transactions in the amount of CZK 370,495.9 million;
(e) Securities held for trading – a total of 563 transactions in the amount of CZK 91,808.1 million;
(f) Commodity transactions were realised only with SG Paris; KB implemented 641 transactions in the amount of CZK 11,919.7 million; and
(g) Emission allowance transactions – KB realised a total of 286 transactions in the aggregate amount of CZK 12,080.1 million with SG Paris during the reporting period.

All of the banking products were provided under standard terms and conditions, according to KB's price list, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

Other Arrangements

I. Contracts and Agreements Entered into during the Reporting Period

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Contractual party	Performance by KB	Counter-performance	Damage incurred by KB
Framework agreement on the lending of cars	ALD Automotive s.r.o.	Free of charge (for three months)	Adjustments to terms and conditions of lending cars of various brands and types in the number which corresponds to KB's needs	None
Contract for cooperation in organising a contest	ALD Automotive s.r.o.	Organisation of a contest for bank advisors and KB business centres	Prize contribution	None
Service level agreement	European Fund Services S.A.	Mediation of purchases of securities	Settlement of securities transactions	None
Agreement on shareholders' transactions	Investiční kapitálová společnost KB, a.s.	Cooperation in administration of cross-border funds	Cooperation in administration of cross-border funds	None
Amendments 6 and 7 to the Contract for the provision of purchases or sales of securities	Investiční kapitálová společnost KB, a.s.	Provision of purchases or sales of securities	Fees according to the price list	None
Amendment 6 to the Framework contract for temporary allocation of employees	Investiční kapitálová společnost KB, a.s.	Allocation of employees	Contractual fee	None
Amendment 1 to the Custody contract	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendment 2 to the Contract for the settlement of securities transactions and administration of securities (Custody contract)	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Amendment 5 to the Framework treasury contract	Investiční kapitálová společnost KB, a.s.	Conclusion of derivative transactions	Contractual fee	None
Amendment 5 to the Contract for the custody, administration and settlement of transactions with investments	Investiční kapitálová společnost KB, a.s.	Custody, administration and settlement of investment transactions	Contractual fee	None
Amendment 9 to the Framework contract for the purchase and sale of foreign securities	Investiční kapitálová společnost KB, a.s.	Provision of purchases or sales of securities	Contractual fee	None
Framework contract for transactions on the financial market	Investiční kapitálová společnost KB, a.s.	Conclusion of repurchase transactions and buy and sell back transactions	Conclusion of repurchase transactions and buy transactions and sell back	None
Contract for the provision of purchases or sales of securities	Investiční kapitálová společnost KB, a.s.	Provision of purchases or sales of securities for the mutual funds of IKS KB	Contractual fee	None
Amendments 2 and 3 to the Contract for collective insurance for MC, VISA and AMERICAN EXPRESS payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment 1 to the Contract for the mediation of "VITAL"	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Amendments 2,3 and 4 to the Contract for the mediation of "VITAL INVEST"	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Amendment 7 to the Insurance contract for collective insurance of persons	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment 9 to the Contract for cooperation in providing insurance for "AMERICAN EXPRESS" payment cards	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Amendments 9 and 10 to the Contract for the cooperation in providing insurance for "EC/MC" and "VISA" payment cards	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Amendment I to the Contract for the mediation of "RISK LIFE FOR MORTGAGE LOANS"	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Agreement on the decrease in the commission for the lump-sum and extraordinary insurance premium within the "Vital Invest" programme	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Contractual party	Performance by KB	Counter-performance	Damage incurred by KB
Contract for the provision and settlement of transactions with securities and their administration (Custody Contract)	Komerční pojišťovna, a.s.	Provision of custody	Contractual fee	None
Contract for the provision of Call Centre services	Komerční pojišťovna, a.s.	Provision of Call Centre services	Contractual fee	None
Contract for cooperation in organising a contest	Komerční pojišťovna, a.s.	Organisation of a contest for bank advisors and KB business centres	Prize contribution	None
Cooperation contract	Komerční pojišťovna, a.s.	Representation of the contractual parties in respect of VAT payments	Contractual fee	None
Contact bank Agreement	LIAM	Mediation of the sale of participation certificates	Commission	None
Distribution Agreement	LIAM	Mediation of the sale of participation certificates	Commission	None
Agreement on the KB Call Centre services	SG Equipment Finance Czech Republic s.r.o.	Provision of Call Centre services	Contractual fee	None
Contract for cooperation in organising a contest	SG Equipment Finance Czech Republic s.r.o.	Organisation of a contest for bank advisors and KB business centres	Prize contribution	None
Attachment 1 to the Appointment Letter of Process Agent	SG London	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the UK	None
Attachment 1 to the Appointment Letter of Process Agent for KB for ISDA Masters Agreement	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the USA	None
8x Agreement relating to the Structured Product	SG Paris	Mediation of sales or subscription of structured products	Commission	None
Bankers Blanket Bond	SG Paris	Insurance premium	Banking risk insurance	None
Business Interruption	SG Paris	Insurance premium	Insurance of business interruption	None
Cash letter service agreement	SG Paris	Cheque cashing	Cheque issuance	None
Directors & Officers Liability	SG Paris	Insurance premium	Liability insurance for the members of the Board of Directors	None
Amendment to the Sub-Custodian service agreement – KB Kapitál konzervativní, KB Kapitál růstový	SG Paris	Contractual fee	Provision of custody	None
Amendment to the Sub-Custodian service agreement – IKS Ametyst 2, IKS Ametyst 3	SG Paris	Contractual fee	Provision of custody	None
Amendment 1 to the ISDA Master Agreement	SG Paris	Mediation of trading with emission allowances	Contractual fee	None
LABO 2 Agreement	SG Paris	Contractual fees according to the price list	Review in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None
Professional Indemnity	SG Paris	Insurance premium	Liability insurance	None
Service Level Agreement	SG Paris	Fee according to the price list	Processing of outgoing payments	None
Service Level Agreement	SG Paris	Administration of benefits to expats	Administration of benefits to expats	None
Cooperation contract	SG Paris	Setting out the framework conditions and terms for cooperation in the internal audit segment	Setting out the framework conditions and terms for cooperation in the internal audit segment	None
Notification Regarding Global Data Sharing	SG Zürich	Provision of client data	Processing of client data	None

II. Performance Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Contractual party	Performance by KB	Counter-performance	Damage incurred by KB
Purchase contract	ALD Automotive s.r.o.	Payment of lease instalments	Provision of cars	None
Framework contract	ALD Automotive s.r.o.	Payment of lease instalments	Finance lease and lease of movable assets (full-service leasing)	None
Cooperation contract	ALD Automotive s.r.o.	Mediation of the finance lease as part of the KB "Fleet Lease" product	Contractual fee	None
Six Contracts for the lease of non-residential premises	ALD Automotive s.r.o.	Provision of non-residential premises	Lease payments	None
Evaluation contract	ECS International Czech Republic, s.r.o.	Lease payments	Leases of IT equipment	None
Clearing agreement	Fimat International Banque S.A. Germany	Fees according to the price list	Settlement of futures option transactions concluded by KB on the EUREX or OTC through FIMAT	None
Full Service Agreement	Fimat International Banque S.A. Germany	Fees according to the price list	Securities and forward transactions	None
General Agreement on Securities	Fimat International Banque S.A. Germany	Fees according to the price list	Securities lending	None
Master Netting Agreement	Fimat International Banque S.A. Germany	Fees according to the price list	Trading with commodity futures	None
Derivates Commission List	Fimat International Banque S.A. Germany	Fees according to the price list	Conclusion and settlement of foreign exchange transactions	None
Confidentiality agreement	Investiční kapitálová společnost KB, a.s.	Confidentiality relating to administration of investment instruments	Provision of confidential information	None
Custody contract	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Distribution agreement including amendments	Investiční kapitálová společnost KB, a.s.	Mediation of the sale of participation certificates	Contractual fee	None
General Agreement	Investiční kapitálová společnost KB, a.s.	Cooperation in distribution, marketing, communication and processing of data	Contractual fee	None
Licence agreement	Investiční kapitálová společnost KB, a.s.	Provision of the KB trade mark	Contractual fee	None
Framework contract on the temporary allocation of employees	Investiční kapitálová společnost KB, a.s.	Allocation of employees	Contractual fee	None
Framework contract on payment for debt services	Investiční kapitálová společnost KB, a.s.	Provision of depository services and other services for mutual funds	Contractual fee	None
Framework contract on securing a cash receivable through the transfer of securities	Investiční kapitálová společnost KB, a.s.	Conclusion of repurchase and buy/sell transactions	Contractual fee	None
Framework contract for the purchase and sale of foreign securities	Investiční kapitálová společnost KB, a.s.	Provision of purchases or sales of securities traded on foreign markets for IKS mutual funds	Contractual fee	None
Framework Treasury contract	Investiční kapitálová společnost KB, a.s.	Conclusion of derivative transactions (swap, option, forward)	Contractual fee	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Contractual party	Performance by KB	Counter-performance	Damage incurred by KB
Contract for the lease of non-residential premises	Investiční kapitálová společnost KB, a.s.	Provision of non-residential premises	Lease payments	None
Contract for the provision of purchases or sales of securities	Investiční kapitálová společnost KB, a.s.	Provision of securities transactions for IKS KB's clients	Contractual fee	None
Contract for the settlement of transfers of securities	Investiční kapitálová společnost KB, a.s.	Settlement of securities transactions for IKS mutual funds on the Czech market	Contractual fee	None
Contract for the provision of services on the short-term bonds market	Investiční kapitálová společnost KB, a.s.	Services on the market of short-term bonds for the IKS mutual funds	Contractual fee	None
Contract for the provision of custody – KB Kapitál dynamický fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the provision of custody – KB Kapitál konzervativní fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the provision of custody – KB Kapitál růstový fond	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the provision of custody – Protos, uzavřený investiční fond, a.s.	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Contract for the custody, administration and settlement of transactions with investments	Investiční kapitálová společnost KB, a.s.	Custody, administration and settlement of investment transactions	Contractual fee	None
Contract for the performance of the activities of a depositary (29 x)	Investiční kapitálová společnost KB, a.s.	Depository services for individual funds of IKS, a.s.	Contractual fee	None
Agreement including amendments	Investiční kapitálová společnost KB, a.s. and EURO – VL Luxemburg SA	Contractual fees	Maintenance of accounts in favour of KB as a depositary of the IKS KB funds	None
Contract for the provision and settlement of securities transactions and administration of securities (Custody contract) including Amendment 1	Investiční kapitálová společnost KB, a.s.	Provision of custody	Contractual fee	None
Agreement on sending electronic notices about clearing operations	Komerční pojišťovna a.s.	Sending electronic notices about clearing operations	Fees according to the price list	None
Insurance contract for collective insurance of persons	Komerční pojišťovna a.s.	Insurance premium	Provision of insurance	None
Contract on credit card acceptance – Internet	Komerční pojišťovna a.s.	Credit card acceptance	Fees according to the price list	None
Contract for cooperation in organising a contest for the "Vital" and "Vital Grant" product support	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Contractual fee	None
Contract for mutual cooperation	Komerční pojišťovna a.s.	Provision of services	Provision of services	None
Framework contract on securing a cash receivable through the transfer of securities	Komerční pojišťovna a.s.	Provision of funding	Interest payments and transfer of securities as securing instruments	None
Agreement on cooperation	Komerční pojišťovna a.s	Cooperation in product development and in other business activities	Cooperation in product development and in other business activities	None
Licence agreement	Komerční pojišťovna a.s	Provision of the KB trade mark	Contractual fee	None
Framework contract for distribution	Komerční pojišťovna a.s	Mediation of the conclusion of insurance contracts	Commission	None
Framework contract for the processing of personal data	Komerční pojišťovna a.s	Processing of personal data	Provision of data	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Contractual party	Performance by KB	Counter-performance	Damage incurred by KB
Contract for collective insurance for MC, VISA and AMERICAN EXPRESS payment cards	Komerční pojišťovna a.s.	Insurance premium	Provision of insurance	None
Contract for the "PATRON" collective insurance, as amended by Amendment 1	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for collective insurance of persons	Komerční pojišťovna a.s.	Insurance premium	Provision of insurance	None
Contract for cooperation in the provision of insurance for EC/MC and VISA payment cards	Komerční pojišťovna a.s.	Mediation of insurance contracts	Commission	None
Contract for cooperation in the provision of insurance for American Express payment cards	Komerční pojišťovna a.s.	Mediation of insurance contracts	Commission	None
Contract for the maintenance of payroll records	Komerční pojišťovna a.s.	Maintenance of payroll records	Contractual fees	None
Contract for mediation of "MERLIN" and "PROFI MERLIN"	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of "TRAVEL INSURANCE"	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of "VITAL", "VITAL GRANT" and "VITAL PLUS"	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of "VITAL INVEST"	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contracts for the lease of non-residential premises (Brno, Jihlava) including the Amendment	Komerční pojišťovna a.s.	Provision of non-residential premises	Lease payments	None
Insurance contract – insurance of risks arising from the abuse of payment cards	Komerční pojišťovna a.s.	Insurance premium	Provision of insurance and insurance benefit	None
Framework contract for the "Spektrum" insurance programme including Amendment 1	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for investment advisory	Komerční pojišťovna a.s.	Provision of investment advisory services	Contractual fee	None
Contract for the "PATRON" and "PROFI PATRON" collective insurance products	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for collective insurance for payment cards	Komerční pojišťovna a.s.	Insurance premium	Provision of insurance	None
Contract for business representation in the sale of products as part of the Vital and Vital Plus programmes	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of "RISK LIFE FOR MORTGAGE LOANS"	Komerční pojišťovna a.s.	Mediation of the conclusion of insurance contracts	Commission	None
EURO Medium Term Note Master Purchase Agreement	SG Asset Management	Contractual fees	Transactions with securities issued by SGA Société Générale Acceptance NV	None
Introducing Broker Agreement	SG Asset Management	Mediation of purchases of SGAM funds to KB's clients	Contractual fee	None
Brokerage Conformity Agreement	SG Asset Management Alternative Investments	Distribution of securities issued by SGAM FUND in the Czech Rep.	Contractual fee	None
Contact Bank Agreement	SG Asset Management Alternative Investments	Mediation of sales of securities	Contractual fee	None
Distribution agreement	SG Asset Management Alternative Investments	Mediation of sales of securities	Contractual fee	None
3x Contracts for the lease of non-residential premises	SG Equipment Finance Czech Republic s.r.o.	Provision of non-residential premises	Lease payments	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Contractual party	Performance by KB	Counter-performance	Damage incurred by KB
Master guarantee agreement	SG Equipment Finance Czech Republic s.r.o.	Provision of a guarantee under the conditions set in the contract	Contractual fee	None
Contract for the provision of purchases or sales of securities	SG Equipment Finance Czech Republic s.r.o.	Mediation of sales of securities	Contractual fees	None
Cooperation contract	SG Equipment Finance Czech Republic s.r.o.	Mediation of finance leases under the "KB Leasing" product	Mediation fees	None
Service level agreement	SG Frankfurt	Fees	Realisation of the payments of clients	None
Appointment Letter of Process Agent	SG London	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the UK	None
Terms for Business for Treasury, Equities, Derivates and Fixed Income Products	SG London	Free of charge	Business terms for the provision of investment services	None
Appointment Letter of Process Agent for KB for ISDA Masters Agreement	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the USA	None
Service Level Agreement	SG New York	Fees according to the price list	Processing of outgoing payments	None
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	Mediation of derivatives sales	Contractual fee	None
11x Agreement relating to the Structured Product including the Amendment	SG Paris	Mediation of sales or subscription of a structured product	Commission	None
2x Addendum to the Sub-Custodian agreement	SG Paris	Contractual fees	Provision of custody	None
ACPI-subscribing product of SG on KB's points of sale	SG Paris	Mediation of sales of selected SG products	Contractual fee	None
Agreement	SG Paris	Contractual fee	Provision of consulting services in the area of human resources	None
Agreement relating to the use of the Class Custody Tool	SG Paris	Contractual fees	Provision of custody	None
Custodian Services Agreement	SG Paris	Contractual fees	Provision of custody	None
Custody contract	SG Paris	Administration of securities traded on a stock exchange	Fees according to the price list	None
Agreements relating to the provision of management and advisory services – "Management support agreement" (including Amendments 1 and 2)	SG Paris	Contractual fee	Provision of management and consulting services	None
EUR Account Maintenance & Clearing Service Agreement	SG Paris	Fees according to the price list	Conditions and terms for the maintenance of and payments related to KB's NOSTRO account denominated in EUR with SG Paris	None
Hosting Contract	SG Paris	Contractual fee	Processing of data	None
Introduction Broker Agreement	SG Paris	Mediation of purchases of SGAM funds	Contractual fee	None
ISDA Master agreement	SG Paris	Mediation of trading with emission allowances	Contractual fee	None
ISDA Master agreement	SG Paris	Fees	Mediation of transactions with all types of derivatives on the interbank market	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Contractual party	Performance by KB	Counter-performance	Damage incurred by KB
Agency contract	SG Paris	Processing and mediation of the purchase and sale of securities and their transfer in SCP	Contractual fee	None
Service agreement – SNAP services	SG Paris	Fees	Transmission of swift messages	None
Service Level Agreement including the Amendment	SG Paris	Fees according to the price list	Mediation of payments	None
SG Paris – PayAway	SG Paris	Free of charge	Mediation of foreign payments at the payer's order to selected African countries	None
SG Paris – SurePay	SG Paris	Free of charge	Mediation of foreign payments at the payer's order to selected Euro-zone countries	None
SG Paris – Word Pay	SG Paris	Fees	Processing and transfer of payments	None
SG-LABO Agreement	SG Paris	Fees according to the price list	Review of swift reporting in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None
Contract for the provision of communication services	SG Paris	Fees	Provision of communication services	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Administration of securities traded in France	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Custody for mutual funds	None
Subordinated loan agreement	SG Paris	Interest	Provision of subordinated debt	None
Clearing agreement	SG Zürich	Fees according to the price list	Maintenance of a nostro account	None

B. Other Legal Acts Implemented by the Bank in the Interest of the Controlling Entity and Other Related Entities

Pursuant to a decision of the General Meeting held on 29 April 2008, the shareholder, SG Paris, received dividends for the year ended 31 December 2007 in the aggregate amount of CZK 4,169,040,894.

On the basis of an agreement to purchase bonds entered into with SG Paris, KB received interest of 4.2719 percent p.a., that is, CZK 413 million, for the year ended 31 December 2008.

C. Measures Taken or Implemented by the Bank in the Interest of or at the Initiative of the Controlling Entity and Other Related Entities

During the reporting period, KB did not take or implement any measures that would be in the interest of or at the initiative of the related entities.

III. Conclusion

The Bank's Board of Directors has reviewed all arrangements put in place between the Bank and the related entities during the reporting period and states that the Bank incurred no damage as a result of any contracts, agreements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

In Prague on 10 March 2009

Laurent Goutard
Chairman of the Board of Directors
Komerční banka, a.s.

Peter Palečka
Member of the Board of Directors
Komerční banka, a.s.

Komerční banka, a.s.
Na Příkopě 33, 114 07 Prague 1
tel.: +420 485 262 800
fax: +420 224 243 020
e-mail: mojebanka@kb.cz
internet: www.kb.cz

Contact for shareholders and investors:
Investor Relations
tel.: +420 955 532 155–6, 955 532 734
fax: +420 224 229 315
e-mail: investor_relations@kb.cz

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KB