Komerční banka, a.s.

UNCONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2008

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Deloitte.

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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

Year ended 31 December 2008

	Note	**Year ended 31 December 2008**	Year ended 31 December 2007
		CZKm	CZKm
			Adjusted
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 operating 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

	Note	31 December 2008 CZKm	31 December 2007 CZKm Adjusted
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

Year ended 31 December 2008

	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation of available-for-sale financial assets	Total
	CZKm	CZKm	CZKm	CZKm	CZKm
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 19 757 CZKm*

The accompanying notes are an integral part of this statement of changes in shareholders' equity.

Unconsolidated Cash Flow Statement

Year ended 31 December 2008

	Year ended 31 Dec 2008 CZKm	**Year ended 31 Dec 2008 CZKm**	Year ended 31 Dec 2007 CZKm Adjusted	Year ended 31 Dec 2007 CZKm Adjusted
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.

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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 Czech Crowns (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 cashflow 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.

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).

(y) 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:

CZKm	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:

CZKm	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:

	Universal banking		Investment banking		Total	
	2008	2007	**2008**	2007	**2008**	2007
	CZKm	CZKm	**CZKm**	CZKm	**CZKm**	CZKm
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:

	2008	2007
	CZKm	CZKm
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:

	Year ended 31 December 2008	Year ended 31 December 2007
	CZKm	CZKm
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:

	Year ended 31 December 2008	Year ended 31 December 2007
	CZKm	CZKm
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:

	Year ended 31 December 2008 CZKm	Year ended 31 December 2007 CZKm
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:

	Year ended 31 December 2008 CZKm	Year ended 31 December 2007 CZKm
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:

	Year ended 31 December 2008 CZKm	Year ended 31 December 2007 CZKm
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:

	2008 CZKm	2007 CZKm
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:

	Year ended 31 December 2008 CZKm	Year ended 31 December 2007 CZKm
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:

	Year ended 31 December 2008 CZKm	Year ended 31 December 2007 CZKm
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:

	2008 CZKm	2007 CZKm
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:

	Year ended 31 December 2008 CZKm	Year ended 31 December 2007 CZKm
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)

	Year ended 31 December 2008 CZKm	Year ended 31 December 2007 CZKm
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%

* *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:

	31 December 2008	31 December 2007
	CZKm	CZKm
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.

	2008	2007
	CZKm	CZKm
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:

	31 December 2008 Fair value CZKm	**31 December 2008 Cost* CZKm**	31 December 2007 Fair value CZKm	31 December 2007 Cost* CZKm
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

** 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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

Trading shares and participation certificates issued by:	**31 December 2008 CZKm**	31 December 2007 CZKm
- 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:

Emission allowances	**31 December 2008 CZKm**	31 December 2007 CZKm
- Other currencies	212	0
Total emission allowances held for trading	**212**	0

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

Emission allowances held for trading issued by:	**31 December 2008 CZKm**	31 December 2007 CZKm
- Foreign state institutions	212	0
Total emission allowances held for trading	**212**	0

Debt trading securities at fair value comprise:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 Fair value CZKm	31 December 2008 Cost* CZKm	31 December 2007 Fair value CZKm	31 December 2007 Cost* CZKm
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

** 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 Borse 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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

Shares and participation certificates available for sale issued by:	31 December 2008 CZKm	31 December 2007 CZKm
- 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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

Debt securities available for sale issued by:	**31 December 2008 CZKm**	31 December 2007 CZKm
- 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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	Gross receivable CZKm	**Collateral applied CZKm**	**Net exposure CZKm**	**Provisions CZKm**	**Carrying value CZKm**	**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:

	Gross receivable CZKm	Collateral applied CZKm	Net exposure CZKm	Provisions CZKm	Carrying value CZKm	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):

	2008 **CZKm**	2007 CZKm
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:

	Total client loan collateral 31 December 2008	**Discounted client loan collateral value 31 December 2008**	**Applied client loan collateral value 31 December 2008**	Total client loan collateral 31 December 2007	Discounted client loan collateral value 31 December 2007	Applied client loan collateral value 31 December 2007
	CZKm	**CZKm**	**CZKm**	CZKm	CZKm	CZKm
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 (physical entity)	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:

	31 December 2008 Carrying value	**31 December 2008 Cost***	31 December 2007 Carrying value	31 December 2007 Cost*
	CZKm	**CZKm**	CZKm	CZKm
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

** 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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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 CZKm	Provisions CZKm	Carrying value CZKm
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 CZKm	Provisions CZKm	Carrying value CZKm
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:

Company name	**Investment at cost at 1 January 2008 CZKm**	**Additions CZKm**	**Decreases CZKm**	**Investment at cost at 31 December 2008 CZKm**
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:

	Internally generated assets CZKm	Software CZKm	Other intangible assets CZKm	Assets under construction CZKm	Total CZKm
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:

	Land	Buildings	Fixtures, fittings and equipment	Assets under construction	Total
	CZKm	CZKm	CZKm	CZKm	CZKm
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.

	2008	2007
	CZKm	CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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 - businessmen	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:

	31 December 2008 CZKm	31 December 2007 CZKm
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	Interest rate	Currency	Issue date	Maturity date	31 December 2008 CZKm	31 December 2007 CZKm
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,	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	2,008
CZ0002001472, CZ0002001480					1,004	1,004
Mortgage bonds of Komerční banka, a.s., CZ0002001498, CZ0002001506,	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	1,004
CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548					2,016	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
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

Risk	**Balance 2008 CZKm**	Balance 2007 CZKm
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:

	1 January 2008 CZKm	Additions CZKm	Disposals CZKm	Accrual CZKm	Foreign exchange difference CZKm	**31 December 2008 CZKm**
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	2008	2007
	CZKm	CZKm
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**
SOCIETE GENERALE 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

	31 December 2008 CZKm	31 December 2007 CZKm	**Change in the year CZKm**
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

	31 December 2008 CZKm	31 December 2007 CZKm
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:

Company	**31 December 2008 CZKm**	31 December 2007 CZKm
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:

Company	**31 December 2008 CZKm**	31 December 2007 CZKm
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:

Company	**31 December 2008 CZKm**	31 December 2007 CZKm
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 Privarte 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:

Company	**31 December 2008 CZKm**	31 December 2007 CZKm
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 Zurich	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:

	31 December 2008 CZKm	31 December 2007 CZKm
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.*

	31 December 2008	31 December 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.

	2008 **CZKm**	2007 CZKm
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

	2008	2007
	CZKm	CZKm
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		
	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total credit exposure CZKm**	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total collateral CZKm**
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:

	Total exposure			Applied collateral		
	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total credit exposure CZKm**	On-balance sheet CZKm	Off-balance sheet* CZKm	**Total collateral CZKm**
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:

	Loans before due date	**Past due loans that were not provisioned**						**Total**
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	**Total**	
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm	**CZKm**	**CZKm**
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:

	Loans before due date	Past due loans that were not provisioned						Total
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm
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 Assets CZKm	**2008 Liabilities CZKm**	2007 Assets CZKm	2007 Liabilities CZKm	**2008 positive CZKm**	**2008 negative CZKm**	2007 positive CZKm	2007 negative CZKm
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:

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
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:

	Notional value		Notional value		**Fair value**		Fair value	
	2008 Assets CZKm	**2008 Liabilities CZKm**	2007 Assets CZKm	2007 Liabilities CZKm	**2008 positive CZKm**	**2008 negative CZKm**	2007 positive CZKm	2007 negative CZKm
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:

	Up to 1 year CZKm	1 to 5 years CZKm	Over 5 years CZKm	Total CZKm
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.

Assets	**Up to 3 months CZKm**	**3 months to 1 year CZKm**	**1 year to 5 years CZKm**	**Over 5 years CZKm**	**Undefined CZKm**	**Total CZKm**
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:

	2008			2007		
	CZK	**USD**	**EUR**	CZK	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:

	Fixed interest rate 2008 CZKm	**Floating interest rate 2008 CZKm**	**No interest 2008 CZKm**	**Total 2008 CZKm**	Fixed interest rate 2007 CZKm	Floating interest rate 2007 CZKm	No interest 2007 CZKm	Total 2007 CZKm
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.

Assets	On demand up to 7 days CZKm	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
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.

	Czech crowns CZKm	Euros CZKm	US dollars CZKm	Slovak crowns CZKm	Other currencies CZKm	Total CZKm
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:

	2008 Carrying value CZKm	**2008 Fair value CZKm**	2007 Carrying value CZKm	2007 Fair value CZKm
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.