ANNUAL REPORT 2008

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Československá obchodní banka, a. s.

MMVIII

ČSOB

ČSOB'S BASIC INFORMATION

Business name:	**Československá obchodní banka, a. s.**
Registered office:	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
Legal status:	Joint-stock company
Registration:	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration:	21 December 1964
ID No.:	00001350
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 224 111 111
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz

KEY FIGURES

Until 31 December 2007, ČSOB had been active in both the Czech Republic and Slovakia. As at 1 January 2008, operations in Slovakia were transferred into a separate legal entity with a banking license.

The 2007 figures for the Czech Republic are pro forma and for comparison purposes only.

Consolidated, EU IFRS [1]	2008 CZ	2007 CZ	2007 CZ+SK reclassified	2006 CZ+SK reclassified
Financial statements figures				
Balance sheet at the year end (CZKm)				
Total assets	824,485	782,898	925,424	762,301
Loans and receivables – net (excl. credit institutions) [2]	393,593	340,489	391,841	309,301
Client deposits (excl. credit institutions) [3]	525,200	513,102	561,961	494,637
Debt securities in issue	43,907	41,128	46,839	40,087
Subordinated debt	11,965	12,161	12,161	5,182
Shareholders' equity [4]	55,955	55,109	56,865	52,139
Statement of income (CZKm)				
Operating income	19,175	27,429	31,637	29,451
Operating expenses	15,014	14,012	16,512	16,344
Profit before tax	374	12,638	13,867	12,442
Profit for the year [4]	1,034	9,902	10,837	9,543
Ratios *(%)*				
Return on average assets (ROAA) [5]	0.12	n/a	1.23	1.27
Cost/income ratio	78.30	51.08	52.19	55.50
Capital adequacy ratio – Bank [6, 7]	8.65	n/a	11.12	9.29
Capital adequacy ratio – consolidated [6, 7]	10.31	n/a	10.72	9.11
Total shareholders' equity to total assets [6]	6.79	7.04	6.14	6.84
Loans to deposits [6, 8]	72.30	63.79	67.40	62.53
General information [6]				
Number of clients – Bank (thousands) [9]	3,047	2,995		2,931
FTEs	8,468	8,224	10,357	10,060
Number of contact points [10]	284	251	365	339
ATMs [11]	680	637	769	715
Financial market rates				
CZK/EUR (average)	24.94	27.76		28.34
Pribor 3M (%, average)	4.04	3.09		2.30

Credit Rating [6]	Effective since	Long-term	Short-term	Financial Strength	Individual	Support
Moody's	23 February 2007	A1	Prime-1	C		
Fitch	2 December 2008	A	F1		B/C	1

1) *International Financial Reporting Standards as adopted by the EU*
2) *Doesn't include accrued interest*
3) *The "Deposits at amortized cost received from other than credit institutions" item from the consolidated balance sheet*
4) *Attributable to equity holders of the bank*
5) *Profit for the year attributable to equity holders of the bank to the average of quarterly total asset balances in the year*
6) *As at the year end*
7) *According to the ČNB methodology; the 2006 figure based on Basel I and the 2007 and 2008 figures on Basel II*
8) *New methodology in line with KBC*
9) *Figures for the Czech Republic only and according to the new methodology for unique clients statistics*
10) *Includes ČSOB branches and PSB financial centers, i.e. without approximately 3,330 post offices*
11) *Includes ČSOB's and PSB's ATMs, i.e. without some 2,700 cash desks of Albert and Hypernova stores and ČeproOil petrol stations*

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OPENING STATEMENT BY THE CEO

Ladies and gentlemen,

the year 2008 in the ČSOB group can be summarized by two statements: business activities of ČSOB and its group were very successful; at the same time, the global crisis in financial markets caused a decrease in the value of certain assets in ČSOB's portfolio. The resulting net profit attributable to equity holders of the Bank amounted to CZK 1.034 bn.

Thanks to success across all segments, we increased the total group business lending exposure by 19% and we managed to improve our position in the Czech market as measured by both outstanding loans and deposits plus assets under management. For a more detailed and comprehensive analysis of the financial and business results of the ČSOB group please refer to the Report of the Board of Directors, pp. 6 – 13 herein.

Although the imported financial crisis hit us, we managed to absorb it fully and clean troublesome assets from our portfolio, albeit at the expense of lower profit. We are entering 2009 strong and expect to return to significantly higher profit.

ČSOB's readiness to face the slowdown of the Czech economy can, in my opinion, be proved by four key metrics. First, the capital adequacy of the group exceeds 10%. Second, with about 72%, the loan to deposit ratio remains at a very healthy level. Therefore, we are not dependent on external financing, so dear these days. Third, the cost of risk is on the increase, and it is logical given the slowing performance of the Czech economy, but remains under strict control at a very good level of 0.56% of the total loan portfolio. And fourth, we managed to restrict the growth of expenses to 7%, a level comparable with the Czech Republic's inflation rate.

Many thanks to all who contributed to the growth and improvement of ČSOB group's business activities in 2008 and I wish all the best to our clients and employees for 2009 which will be a tough year for the Czech economy but will also open many new opportunities that can be seized to achieve further growth.

Pavel Kavánek
Chairman of the Board of Directors and Chief Executive Officer

The Czech economy in 2008

In 2008, the Czech economy achieved 3.2% **growth of real GDP** year-on-year. The growth slowed down significantly primarily due to weaker results in the 4th quarter (+0.2% Y/Y, -0.9% Q/Q), when the economy was fully hit by the adverse development of the external economic environment.

The sharp decrease in key trading partners' aggregate demand resulted in a fall of Czech exports. Overall, **exports** in CZK terms declined in 4Q 2008 by 13.7% Y/Y, while in the second quarter exports still grew at a 6% rate. Due to a weaker Czech koruna, a bit deeper fall was seen in export performance expressed in euro terms: from +20.8% in the second quarter it fell to -8.4% in the fourth quarter.

The decline in the growth of foreign demand mostly affected the **car industry**, which represents the core of the Czech export potential. Data on new orders do not indicate that a desirable turnaround in the development of the Czech industrial production will take place in the near future.

The growing **rate of unemployment** reflects the stagnating economic growth of the Czech economy. The tension on the labour market, which eased from 2004, has started growing again. In January 2009, the rate of unemployment reached 6.8% according to methodology applied by labour offices, while a year ago it was 6.1%. The number of job seekers per vacancy at labour offices grew from 2 in June 2008 to 5.8 in January 2009.

Czech **inflation** (CPI) returned from a level of 7.6% in January 2008 to 2.2% in January 2009. Inflation has decreased not only due to fading impact of past administrative measures on the Y/Y price increase, but also due to a turnaround in the development of prices of food, raw materials and energies on world markets and due to the absence of demand-driven inflation pressures in the domestic economy. As is the case in a lot of other countries, in the Czech Republic speculations about the risks of possible deflation soon replaced the fear of a excessive inflation.

Since the autumn of 2008, the deflation risks in the Czech economy have been significantly reduced by the development of the **exchange rate of the Czech koruna**. After its fast strengthening between June 2007 and July 2008 (by 20%), the koruna (along with the zloty and the forint) started weakening even faster: from the end of July 2008 to the end of February 2009 it lost 29% against the euro.

The Czech National Bank reacted to the changing outlook of the economic growth, inflation and the exchange rate by changes in its key **interest rates**. First, the CNB increased its two-week repo rate from the original level of 3.50% by 25 bp in February 2008, and then, from August 2008, the CNB pushed the repo rate down in four steps to 1.75% in February 2009.

Besides the efforts to ease monetary conditions at a time of economic slowdown, the CNB also wanted to lower interest rates with the aim to restore smooth functioning of the **inter-bank money market**. The slackening money market, marked by increased turbulences of the global financial system after the collapse of the US bank Lehman Brothers, raised the risk of occurrence of a credit crunch in the Czech economy.

The decline in the rate of growth last year had no significant effect on the balance of revenues and expenditures of **public budgets**. The budget deficit grew in 2008 by 0.9 percentage points against the previous year to 1.5% of GDP.

In 2008, the Czech financial sector successfully managed to counter the world financial crisis and the economic recession in developed economies. Thanks to the surplus of **liquidity** in the system and very low **indebtedness in foreign currencies**, it has remained protected from a lot of problems which banks in the eurozone and in some other economies in the region of Central and Eastern Europe have been exposed to.

Macroeconomic indicators of the Czech Republic

Indicator	Measurement unit	2008	2007	2006	2005	2004
GDP	%, Y/Y	3.2	6.0	6.8	6.3	4.5
Industrial output	%, Y/Y	0.4	9.0	11.2	6.7	9.6
Construction output	%, Y/Y	0.6	6.7	6.6	4.2	9.7
Inflation rate	%, average	6.3	2.8	2.5	1.9	2.8
Unemployment rate	%, average	4.4	5.3	7.1	7.9	8.3
Current account	% of GDP	-3.1	-3.2	-2.6	-1.3	-5.2
Gross foreign indebtedness	% of GDP	42.0	38.9	37.1	38.3	35.9
Public budgets balance	% of GDP	-1.5	-0.6	-2.6	-3.6	-3.0
Public debt	% of GDP	29.8	28.9	29.6	29.8	30.4
Money supply growth (M2)	%, at year-end	6.5	13.2	9.9	8.0	4.4
Long-term yields*	%, at year-end	4.09	4.65	3.68	3.61	4.04
PRIBOR 3m	%, average	4.04	3.09	2.30	2.01	2.36
CZK/EUR	average	24.94	27.76	28.34	29.78	31.90
CZK/USD	average	17.04	20.31	22.61	23.95	25.70

* *Yields on 10-year government bonds*

Source: Czech National Bank, Czech Statistical Office, Ministry of Finance of the Czech Republic, Eurostat

REPORT OF THE BOARD OF DIRECTORS

The strategy of the ČSOB group is fully aligned with KBC's strategy for the region of Central and Eastern Europe and Russia. Hence, the **ČSOB group's vision** is to deliver to its clients the best banking and insurance offer in the Czech Republic tailored to the needs of the Czech market.

1. Highlights and Events of 2008

- The ČSOB group business lending increased by 19% Y/Y, while the total of AUM and deposits remained flat.
- The ČSOB group reconfirmed its strong liquidity position with a loan/deposit ratio of 72%.
- As a consequence of global financial crisis, the ČSOB group revalued the whole CDO portfolio to zero (CZK 8.5 bn net effect) and recorded the net impact of revaluation and impairments on the exposure to Lehman Brothers (CZK 292 m) and Icelandic banks (CZK 512 m).
- Despite these measures, the ČSOB group reported 2008 net profit of CZK 1.0 bn. Underlying net profit increased by 22% Y/Y and reached CZK 12.7 bn.
- The capital position remains strong with a consolidated capital adequacy ratio of 10.31% and a solvency ratio of ČSOB Pojišťovna at 193%.
- Net interest income showed a strong Y/Y growth of 14%, while net fee and commission income was up by 2%. Underlying operating income as a whole increased by 15%.
- The 7% increase of operating expenses is in line with the level of inflation.
- The underlying cost/income ratio is at 46.6%.

	2008	2007
C/I ratio (reported)	78.3%	51.1%
C/I ratio (underlying)	46.6%	49.5%
Net interest margin	2.85%	2.81%
ROAC (underlying)	40.1%	39.0%
LLR	0.56%	0.18%

	31/12/08	31/12/07
L/D ratio	72.3%	63.8%
CAD group (Basel II)	10.31%	10.49%
Solvency ratio – insurance	193%	177%
NPLs/total loans	2.20%	1.61%

Notes: NIM (net interest margin) is a ratio of net interest income and average interest earning assets (based on internal management system). ROAC (return on allocated capital) is net profit, including minority interests, of a business unit, corrected for income on allocated instead of real equity / average allocated equity to business unit (in line with the KBC policy). L/D ratio is calculated according to the KBC group methodology. NPLs are non-performing loans defined as loans overdue more than 90 days; total loans is the sum of all drawn loans (based on internal management system). LLR is a loan-loss ratio defined as total credit costs / granted loan portfolio.

Main events

1 January 2008
ČSOB in the Slovak Republic (former foreign branch of the Czech Republic-based ČSOB) starts operating as a new legal entity under the official business name Československá obchodná banka, a.s.
The merger of Zemský PF and ČSOB PF Progres was completed.

20 February 2008
ČSOB PF Progres and ČSOB PF Stabilita increased their equity by CZK 200 m each in line with the increasing number of participants.

27 February 2008
Mr. Petr Hutla, ČSOB's Senior Executive Officer for Human Resources and Transformation, was elected a new member of the Bank's Board of Directors. Henceforth, the Board of Directors has six members instead of five.

11 April 2008
The Commercial Registry recorded the increase of Hypoteční banka's equity by CZK 1,618,221 ths. As a result, the ownership stake of ČSOB increased to 99.90% from 99.87%.

14 April 2008
ČSOB transferred the entire ownership stake in ČSOB Poisťovňa to KBC Insurance.

3 June 2008
The annual general meeting of ČSOB was held. KBC Bank, as the sole shareholder, approved ČSOB's financial reports and decided to pay a dividend from the 2007 profit: the total amount was CZK 9.181 bn, i.e. CZK 1,568 per share, and the payment date was set to 25 June 2008.

1 August 2008
Mr. Karel Svoboda was appointed Senior Executive Officer for Operation and Facilities and a member of the top executive management.

7 November 2008
ČSOB closed a contract to sell its ownership interest on the Prague Stock Exchange. Under the contract, ČSOB sold 1,000 shares with a total nominal value of CZK 1 m (a 0.38% stake in PSE) to Wiener Börse AG.

30 November 2008
Trading with the security ČSOB VAR1/2008 (the last publicly traded security issued by ČSOB) on the Free market of the Prague Stock Exchange was terminated.

2 December 2008
In line with the worsening situation in financial markets, Fitch Ratings downgraded the long-term rating of ČSOB to A+ from AA-.

22 December 2008
ČSOB VAR/2018 with a total nominal amount of CZK 100 m was registered for public trading on the Free market of the Prague Stock Exchange.

2008 Awards

For the 10th time in its history, ČSOB was declared the *Best Bank Czech Republic* by the Global Finance magazine. In addition, ČSOB won three specialized awards from the magazine: *Best Trade Finance Provider*, *Best FX Bank* and *Best Sub-Custodian*.

With 13 medals, of which three were golden, the ČSOB group was the most successful Czech financial group in the *Zlatá koruna* contest.

ČSOB was awarded the title of *MasterCard Corporate Bank of the Year 2008* in the vote of Czech financial directors.

The ACQ Finance magazine named ČSOB the *Bank of the Year*.

In a poll of college students held as part of the *jobpilot.cz Employer of the Year*, ČSOB was elected as the Most Desired Company.

Innovation Leadership 2008

ČSOB and PSB:
– CashBack expanded to the Čepro EuroOil petrol stations network
– Possibility to change PIN at an ATM
– PaySec – a system for on-line payments (available for clients of any bank – not only ČSOB or PSB)

PSB:
- FLEXI card – a consumer loan granted through card
- TV Banka – the possibility to access a current account via a TV set
- Education saving account with advantageous conditions for students
- Subsidy advisory tool for businessmen
- Payment order with Maxkarta via ATM

ČSOB Pojišťovna (ČSOB Insurance):
- Variace – unit-linked life insurance
- Account online – a web application for administration of insurance contracts
- Domov Expres – a house insurance package concluded on-line

Hypoteční banka (Mortgage Bank):
- Investment mortgage – a mortgage combined with CPF or life insurance
- Express protocol – a web application for tracking the building works
- Mortgage Expres – household insurance within a mortgage

ČMSS (Building Society):
- Special bonuses to building saving contracts and the Liška plus program

ČSOB mutual funds
- ČSOB IS focused on capital protected funds in 2008 – the number of newly launched CPFs reached 59. The offer of socially responsible mutual funds in euros expanded significantly (Alternative energy, ECO World, Sustainable Euroland) and ČSOB IS launched two socially responsible capital protected funds (ČSOB Sustainables 2 and ČSOB Climate Change 2).
- As for the structure of the mutual funds, a unique structure of a lookback fund was introduced (CSOB World Lookback 1,2,3; CSOB Europe Lookback 1), along with innovated fixed click funds and bonus funds.
- A unique open-ended ČSOB Commodity Fund was launched; the fund tracks a multi-commodity index in CZK which eliminates the currency risk for the client.
- Mutual funds focused on selected topics were launched, incl. breweries, emerging markets, sport & relax, developing nations currencies, Asian click fund, BRIC, new multinational companies etc.

ČSOB Leasing:
- A new brand for operative leasing products – ČSOB Autolease

2. Financial Results [1)]

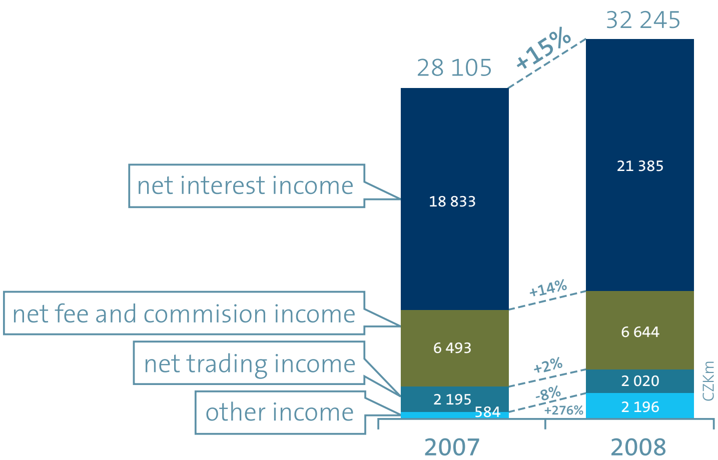
The consolidated IFRS net profit of the ČSOB group attributable to equity holders of the bank for 2008 totaled CZK 1.034 bn, i.e. 90% less compared to 2007. Total underlying profit increased by 22% to CZK 12.720 bn. To arrive from the reported net profit to the underlying net profit, one has to deduct the impact of the fair value changes of ALM positions used as economical hedges recognized into P/L (CZK 1.554 bn) and impacts of the financial crisis (CZK 10.132 bn in aggregate). The latter includes the following items: the ČSOB group decided to conservatively revalue the whole CDO portfolio to zero (a CZK 8.509 bn net effect); net impact of revaluation and impairments on the exposure to Lehman Brothers (CZK 292 m) and Icelandic banks (CZK 512 m) and impairments on equity portfolios in PFs (CZK 819 m).

1) All financial figures set out below were drawn from ČSOB's 2008 audited, consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated. All 2007 figures are pro-forma excluding the results of the operations in the Slovak Republic.

Consolidated Statement of Income

Total reported operating income of the ČSOB group amounted to CZK 19,175 m, i.e. a 30% decrease from CZK 27,429 m in 2007. The underlying operating income reached CZK 32,245 m in 2008, i.e. 15% higher than CZK 28,105 m a year earlier. The main driver of the increase was net interest income.

Underlying Operating Income



Net interest income (NII) increased by 14% Y/Y to CZK 21,385 m thanks to a double-digit growth in NII across all business segments of the ČSOB group.

Net fee and commission income increased by 2% Y/Y to CZK 6,644 m. The growth from the number of transactions was offset by lower sales fees from mutual funds.

Net trading income [2)] as reported under IFRS fell to CZK -11,050 m. The key driver of this decrease is the revaluation to zero of the CDO portfolio. Excluding the impacts of the financial crisis, the underlying net trading income decreased by 8% to CZK 2,020 m.

Other operating income [3)] increased to CZK 2,196 m. The two largest contributors to the increase were service fees paid by ČSOB SK (invoiced in 2008 for the first time) and lower contributions to pensions funds clients.

Total operating expenses amounted to CZK 15,014 m in 2008, which is a nominal Y/Y increase of 7% from CZK 14,012 m in 2007. The increase is in line with the level of inflation that reached 6.3%.

Staff expenses increased by 4% to CZK 6,686 m. The increase of personnel expenses is a result of a higher number of FTEs and higher base salaries since July 2008.

General administrative expenses rose by 6% to CZK 6,972 m. The increase was driven by fees paid to the Czech Post, communication expenses (including data network) and marketing.

Depreciation and amortization reached CZK 1,457 m. The number is 17% higher than CZK 1,248 m in 2007. The increase is a result of additional investment in IT.

Provisions fell by 57% to CZK 101 m from CZK 235 m in 2007. The lion's share in the decrease is attributable to the category of pending legal issues and other.

Impairment losses grew by 307% to CZK 3,903 m, compared to CZK 960 m in 2007. Most of the difference is due to the impacts of the financial crisis, especially impairments on the AFS portfolio of pension funds and on the exposure to Lehman Brothers.

2) NTI = Net gains from financial instruments at fair value through P/L
3) Other operating income = net realized gains on available-for-sale financial assets + dividend income + other net income

Share of profit of associates decreased by 36% to CZK 116 m.

Income tax expenses of the ČSOB group in 2008 ended up negative (i.e. they were added to the profit before tax to arrive at profit after tax) at CZK – 720 m, compared to CZK 2,699 m in 2007. The reason is that the current tax expense was more than offset by deferred tax benefit.

Consolidated Balance Sheet

As at the end of 2008, consolidated assets totaled CZK 824,485 m, i.e. an increase of 5% compared to the end of 2007. The growth of loans and receivables and financial assets available for sale was partially offset by lower volume of Financial assets held for trading.

As at the end of 2008, **loans and receivables** as reported under IFRS totaled CZK 411,644 m and **deposits from other than credit institutions** [4] amounted to CZK 525,200 m.

Financial Health

The financial health of the ČSOB group can be illustrated by selected 2008 figures. The group reconfirmed its **strong liquidity** position with a loan/deposit ratio at 72%.[5] The group maintained a **strong capital position** with a consolidated capital adequacy ratio at 10.31% and ČSOB Pojišťovna's solvency ratio at 193%. The **quality of loan portfolio** remained very high with non-performing loans standing at 2.2 % of the loan book and cost of credit (loan-loss ratio) at 0.56%. As for **profitability and efficiency**, the underlying return on allocated capital (ROAC) [6] and underlying cost-income ratio reached 40.1% and 46.6%, respectively. Hence, the ČSOB group entered 2009 in good shape and ready to absorb the negative effects of the expected slowdown of the Czech economy.

3 Business results [7]

Group business lending [8] rose by 19% to CZK 404.2 bn. The increase is based on growth across all the business lending.

Traditionally, the largest in absolute terms is **financing of housing needs** which neared CZK 200 bn, i.e. up 25% Y/Y. Within this segment, mortgages increased by 23% Y/Y to CZK 98.7 bn, building loans by 26% Y/Y to CZK 55.4 bn (ČMSS consolidated proportionally by 55%). ČSOB's new production of mortgages in 2008 reached CZK 39.6 bn, which was a decrease of 2% against a 20% drop in the overall mortgage market.

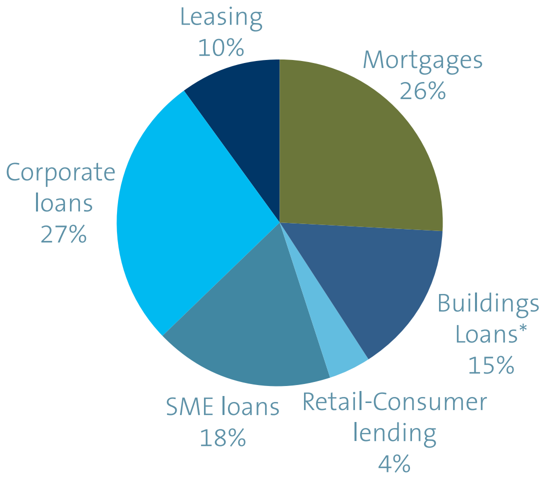
Corporate loans were the second largest segment in 2008 with the total outstanding amount exceeding the CZK 100 bn mark as the loanbook grew 6% Y/Y.

SME lending reached CZK 68.9 bn (up 17% Y/Y). Outstanding balances of investment loans were steadily growing throughout the year. Reduction in overdrafts and revolving loans in the fourth quarter went hand in hand with lower demand of Czech companies for working capital. New turnover of **ČSOB Leasing** equaled CZK 21.8 bn; outstanding loans and leases expanded by 10% Y/Y. The entire leasing market decreased in 2008 as the growth of the Czech economy slowed down. The portfolio of **ČSOB Factoring** increased by 4.3% to CZK 4.155 bn.

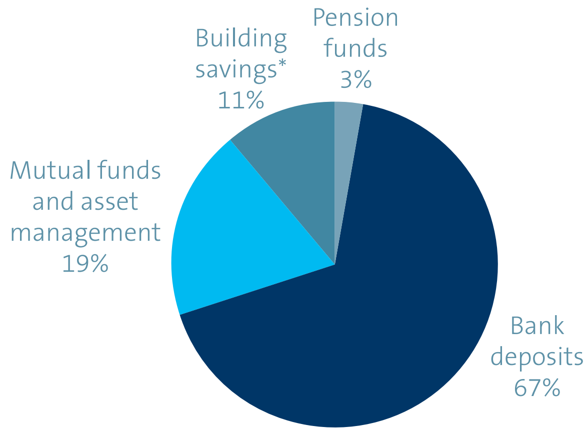
Consumer lending (i.e. retail lending excluding housing loans) rose by 27% and exceeded CZK 15 bn. By 31 December 2008, ČSOB had issued approx. 100,000 credit cards.

4) The amount doesn't include accured interest
5) For a detailed analysis of the development of loans and deposits, please, refer to the section Business results below
6) Allocated capital is the amount of capital which needs to be put aside for a certain activity and as such is a function of the risk weighted assets (according to the KBC's methodology)
7) Based on internal management system
8) Group business lending = Loans and receivables – Due from banks – ALM (securities) – historical bad debts +/- eliminations (ČMSS 55%)

Total Group Lending



Total AUM and Deposits



** Note: ČMSS consolidated proportionally by 55%*

The volume of deposits plus assets under management (pension funds, mutual funds and discretionary asset management) remained flat at CZK 693.1 bn despite the global financial crisis.

The amount of **deposits** was flat Y/Y as business deposit growth was offset by a decrease of non-banking short-term money market deposits. Building savings recorded 5% growth, with the strongest dynamics towards the end of the year.

AUM in **mutual funds and asset management** decreased by 5% Y/Y to CZK 133.8 bn due to the financial market decline. The decrease was recorded by ČSOB's capital protected funds (a Y/Y decrease of 9% to CZK 34.6 bn) as well as standard mutual funds (a Y/Y decrease of 9% to CZK 40.5 bn). The "post-Icelandic" nervousness among Czech clients resulted in an outflow from money market funds in the fourth quarter which, together with a decrease in asset prices, pushed the AUM in ČSOB's money market funds down by CZK 7.6 bn to CZK 75.1 bn as at the year end.

AUM in ČSOB **pension funds** increased by 15% Y/Y and reached CZK 22.7 bn. As at 31 December 2008, ČSOB PFs had 681,000 clients (number three in the market), i.e. an 11% increase.

Insurance

Total gross written premium was up 5% Y/Y at CZK 9.485 bn. The lion's share of the increase can be attributed to non-life insurance with gross written premium up 12% Y/Y to CZK 4.063 bn evenly spread across all product groups. Life gross written premium stood flat at CZK 5.422 bn because of lower sales in single premium life insurance.

ČSOB Group Market Position

1.

Total AUM[1]	**23.3%**	↘
Building Loans[1]	43.9%	→
Building Savings[1]	35.9%	↗
Housing Loans[1]	32.5%	↗
Mutual Funds[3]	33.9%	↗
Leasing[2]	13.6%	↘

2.

Total Loans+Leases[1]	**20.2%**	↗
Mortgages[1]	25.7%	↗
Bank Deposits[1]	22.0%	↘
Factoring[2]	21.4%	↗

3.

Pension funds[4]	15.7%	↗
Corp/SME Loans[1]	15.4%	↘
Consumer Loans[1]	14.6%	↗

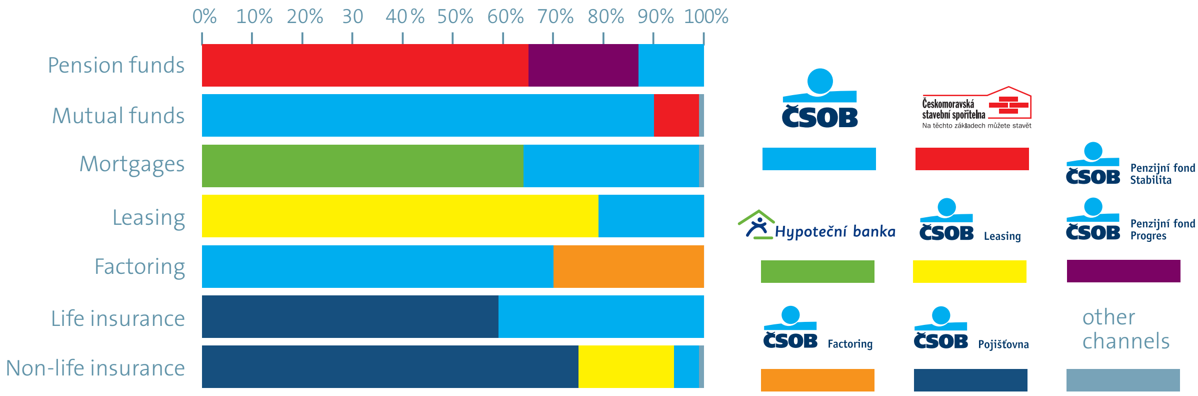
Insurance	MS		Rank
Life[2]	9.6%	↘	5
Non-life[2]	5.1%	↗	5
Total[2]	**7.0%**	↗	**4**

Notes: Arrows show Y/Y change. Market shares as at 31 December 2008
1) Market share according to the outstanding volume at the given date
2) Market share according to the volume of new business in the year to the given date
3) Incl. institutional funds and third parties funds; MS according to outstanding volume at the given date
4) Market share according to the number of clients at the given date

Source: ČNB, financial associations

ČSOB Group Synergies

The concept of multibranding and multichannel distribution gives ČSOB a major competitive advantage, which delivers strong outcomes. The following figure documents well the 2008 cross-selling activities within the ČSOB group. This distribution model allows the ČSOB group to efficiently combine diversification with specialization.



The ČSOB group's long-term success in **financing housing needs** has been built especially on the power of the brands of Hypoteční banka (the "green" brand), ČSOB (the "blue" brand) and ČMSS (the "Fox" brand). The combined efforts of "green" brokers and "blue" branches succeed in further raising the ČSOB group's market share in mortgages. While the entire mortgage market decreased by 20% in 2008, new sales of the ČSOB group's mortgages remained nearly flat Y/Y. In 2008, ČMSS further strengthened its top position in the market – one in five Czech citizens is a client of ČMSS.

The increase in the number of **pension funds** clients results from the excellent performance of the distribution channels, in particular the agent network of ČMSS (over 84,000 contracts sold) and the ČSOB branch network (over 17,000 contracts).

For new production in **leasing and factoring**, the ČSOB branch network accounts for around one-fourth of ČSOB Leasing's new production and 70% of that of ČSOB Factoring.

As for **insurance**, the ČSOB bank network also managed to sell two-fifths of the ČSOB Pojišťovna's life insurance gross premium in 2008. As for non-life insurance, ČSOB Pojišťovna was largely aided by ČSOB Leasing which sold 19% non-life insurance gross premium in 2008.

ČSOB is successful in selling more products per customer. The **penetration ratio** increased by the end of the year to almost 5 in the retail segment and to almost 4 in the SME segment.

Bancassurance

In 2008, more than two-thirds of ČSOB mortgages were linked with life insurance and more than three-fourths with property insurance. There were some bancassurance innovations, e.g. Investment mortgage (a mortgage combined with CPF or life insurance), Mortgage Express (household insurance within a mortgage) or Domov Express (house insurance package concluded on-line).

	2008	2007
Life insurance/ČSOB mortgages	69 %	68 %
Property insurance/ČSOB mortgages	88 %	75 %
Consumer loans insurance/ČSOB consumer loans	78 %	77 %

Note: number of new contracts insured/all insurable

Company Profile

ČSOB profile

Československá obchodní banka, a. s. is a universal bank operating in the Czech Republic. ČSOB was established by the state in 1964 as a bank to provide foreign trade financing and convertible currency operations. It was privatized in 1999 when KBC Bank, a member of Belgium's KBC group, became the majority owner. ČSOB took over Investicní a Poštovní banka, a.s. in 2000. ČSOB had been active in both Czech and Slovak markets until 2007; the Slovak branch was separated as at 1 January 2008.

ČSOB's business profile comprises the following segments: retail (individuals), SMEs, corporate and non-banking financial institutions, financial markets and private banking. ČSOB is operating under two retail brands in the Czech Republic – ČSOB and Poštovní spořitelna (Postal Savings Bank – PSB); the latter is using the wide distribution network of Czech Post. To serve their clients, ČSOB has 242 branches while PSB has 42 Financial Centers and approx. 3,330 post offices. In addition to its own products, ČSOB is distributing the products and services of the whole ČSOB group. Both ČSOB and PSB also provide their services through various direct-banking channels.

The ČSOB group is the leading player in Czech financial services industry. Combining the power of its retail brands – ČSOB (banking, insurance, asset management, pension funds, leasing and factoring), the Postal Savings Bank (banking through postal distribution network), the Hypoteční banka and ČMSS (banks specialized in financing the housing needs), the ČSOB group holds strong market positions in all segments of Czech financial market. The ČSOB group is a long-term number 1 in financing the housing needs, capital protected funds, leasing and total assets under management. Services related to trading on financial markets are provided by Patria, a sister company of ČSOB.

KBC group profile

The KBC group, into which ČSOB belongs, is a multi-channel bancassurance group with, traditionally, a strong market share position in Belgium. The group caters mainly for retail customers, SMEs and private banking clientele but is also active in corporate banking and financial market activities. As at the end of 2008, total assets of the KBC group reached EUR 355.3bn and the number of FTEs 59,000.

The KBC Group was formed in early 2005 as a result of the merger of the KBC Bank and Insurance Holding Company (which was created in 1998 through the merger in Belgium of the ABB Insurance group, the Almanij-Kredietbank group and the CERA Bank group) and its parent company, Almanij. The KBC Group has three main direct subsidiaries: KBC Bank, KBC Insurance and Kredietbank Luxembourgeoise.

KBC has successfully expanded its geographic reach over the last ten years to include Central and Eastern Europe. The KBC group now has a strong presence in the Czech Republic, Slovakia, Poland and Hungary and considers them its second home market. Recently, the KBC group also expanded to Romania, Bulgaria, Serbia, and Russia. Via its minority share in NLB, it also has an indirect presence in Slovenia and other Balkan states.

Main Central and Eastern European KBC group companies and participations
(as at 31 December 2008)

Country	Company	Activity	Ownership percentage[1)]
Czech Republic	ČSOB	Bank	100
	ČSOB Pojišťovna	Insurance company	100
Hungary	K&H Bank	Bank	100
	K&H Insurance	Insurance company	100
Poland	Kredyt Bank	Bank	80
	Warta	Insurance company	100
Slovakia	ČSOB SK	Bank	100[2)]
	Istrobanka	Bank	100
	ČSOB Poisťovňa	Insurance company	100
Bulgaria	CIBANK	Bank	77
	DZI Insurance	Insurance company	90
Russia	Absolut Bank	Bank	95
Serbia	KBC Banka	Bank	100
Slovenia	NLB	Bank	31
	NLB Life	Insurance company	65

1) The percentages include both direct and indirect share in the capital of the company (unless stated otherwise)
2) Share in voting rights

KBC Group's Key Data
(as at 31 December 2008)

Total assets	EURbn	355.3
Net profit	EURbn	-2.5
Net profit excluding direct impact from financial crisis and other exceptional items	EURbn	2.3
Tier 1 ratio, banking activities (Basel II)*	%	11.2
Solvency ratio, insurance activities	%	188
Headcount	FTEs	59,000

** Including the effect of the capital-strengthening operation with the Flemish regional government in January 2009*

Long-term ratings	Fitch	Moody's	S & P
KBC Bank	A+	Aa3	A+
KBC Insurance	AA-	-	A+

For more information please refer to the KBC's corporate website www.kbc.com.

ČSOB as a controlled and controlling entity

Within the KBC group and the ČSOB group, ČSOB acts as both controlled entity and controlling entity as defined in the Commission Regulation (EC) No 809/2004.

ČSOB is a **controlled entity**. KBC Bank NV (identification number 90029371) is the sole shareholder of ČSOB. KBC Group NV (identification number 90031317) is the sole shareholder of KBC Bank. Both KBC Group and KBC Bank have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

KBC Group and KBC Bank control ČSOB as they dispose with 100 % of votes, based on the KBC Bank's ownership interest in ČSOB. The Bank meticulously follows the legislation applicable on the territory of the Czech Republic to prevent any abuse of this control. ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January 2008 and 31 December 2008.

Information about the KBC group operations in the Czech Republic as at 31 December 2008 is available on page 17 of this Annual Report.

For a detailed overview of companies of the KBC group please refer to the 2008 Annual Report of KBC, pages 137 – 138.

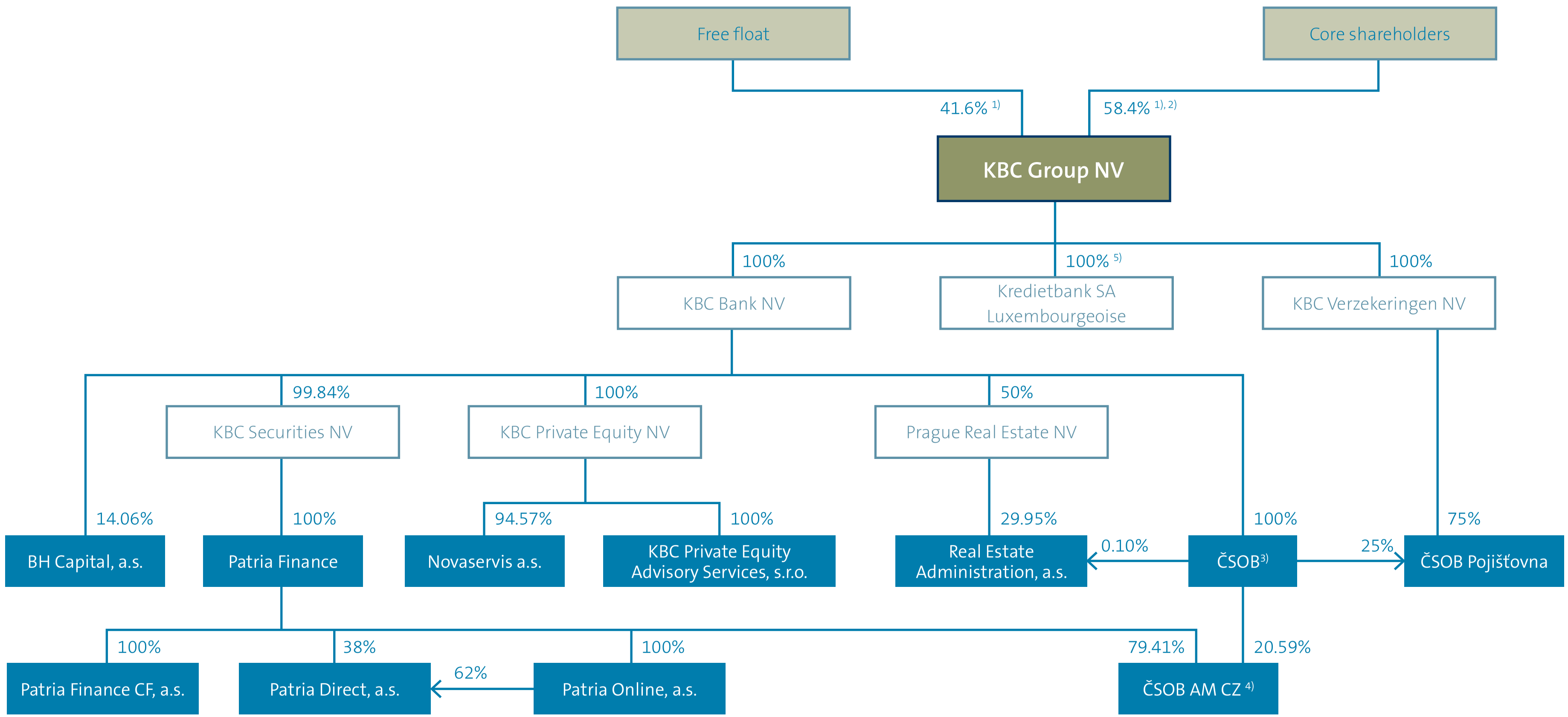
ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2008 as defined by Section 66a of the Commercial Code please refer to chapter Companies of the ČSOB group; the chart of their relations is available on pages 32 – 34 of this Annual Report.

Information about KBC group
(as at 31 December 2008)

Companies with a direct ownership interest held by KBC Group

		% in registered capital	
	Country	Direct	Indirect
Fidabel NV	BE	99.20	0.80
Gebema NV	BE	100.00	0
KBC Asset Management NV	BE	48.14	51.86
KBC Bank NV	BE	100.00	0
KBC Global Sevices NV	BE	100.00	0
KBC Verzekeringen NV	BE	100.00	0
Kredietbank SA Luxembourgeoise	LUX	92.46	7.54
Kredietcorp SA	LUX	99.99	0.01
Valuesource NV	BE	99.99	0.01

Companies of KBC group in Czech Republic as at 31 December 2008



Notes:
Percentages in the chart denote the interest in registered capital
Of the KBC group companies with residence outside the Czech Republic, the scheme contains the three main subsidiaries of KBC group and companies with a direct or indirect participation in one of the Czech companies
1) *As at 1 September 2008*
2) *Including 5.1% of shares owned by KBC group companies*
3) *Scheme of companies controlled by ČSOB as at 31 December 2008 is part of the chapter Companies of the ČSOB group*
4) *Voting rights in ČSOB AM CZ are distributed as follows: ČSOB 52.94%, Patria Finance 20.59% and KBC Asset Management NV 26.47%*
5) *Includes both direct and indirect ownership interest*

Corporate Social Responsibility

ČSOB group's corporate social responsibility has had a fixed direction and been an inseparable part of our business.

The ČSOB group's corporate social responsibility represents the sum of our corporate citizenship activities. ČSOB feels responsible not only for the assets under its management but also for the society in which it conducts its business. Our clients, consumers, environment and employees are important partners for us; therefore, social responsibility is considered a long-term investment in a sustainable future. Being involved in corporate social responsibility indicates a way of thinking and acting and ČSOB group's overall approach to business.

In 2008, the Country Team CSR Committee was established to support the clear strategic direction of ČSOB corporate social responsibility. **Many new activities involving our employees, clients and the public were performed in 2008.** A pilot stage of the "Helping Together" volunteering program for employees was started as a new initiative.

What do we bring to our customers?

Knowing that our customers play a key role for the ČSOB group, our trained advisers provide them with impartial and true information at points of sale. The quality of the branch and adviser network is ensured through a complex training and satisfaction survey system. **The ČSOB group also strictly observes business ethic principles and always approaches financing in a responsible manner.**

The public had an opportunity to join ČSOB in its support of philanthropic projects carried out by non-governmental organisations, particularly by voting in the Public's Award within the Support Grant Program that took place in seven regions of the Czech Republic, or by paying by Image Card or Maxkarta.

Our employees are crucial for us

Employees form the backbone of the ČSOB group's activities and the employee care program is one of the most significant parts of corporate social responsibility. Therefore, the group creates an environment where they can feel comfortable when carrying out their work duties and otherwise. In each selection process and existing employee evaluation every individual receives due respect regardless of gender, race, faith or belief. This is proven by the fact that the group offers good conditions to aid reconciliation of their professional and private life, including part-time work, flexible working hours etc. All this is supported by the recently implemented Mothers and Fathers' Program. Moreover, a wide range of educational and training courses is available to all employees who can choose according their specialization and needs.

We care for the environment

The ČSOB headquarters reside in a new, **ecological building in Prague-Radlice**. In 2008, this was the only building in Europe to receive a golden certificate in the internationally acknowledged Leadership in Energy and Environmental Design (LEED) and other awards. ČSOB is currently approving the so-called Equator Principles issued by the World Bank under which the banking sector determines, evaluates and manages social and environmental risks in project financing. The group also funds **renewable resource projects**. Environmental support is also a part of ČSOB's philanthropic projects.

Our community

Support of education, esp. **financial literacy**, and **integration of the socially and physically disadvantaged** became the top priorities of our philanthropy support.

More than ten years of **co-operation with the Education Fund, Committee of Good Will – The Olga Havel Foundation**, already make this project a tradition. In the course of the time, ČSOB has granted more than CZK 11 million to talented students. Our unique co-operation **with Ergotep, a co-op associating persons with disabilities**, has been enhanced, too. The co-op provides production and distribution of marketing materials for PSB and processes some banking operations in a new administration centre. At the same time, it operates the PSB's loyalty program and the www.ctyrlistek.eu electronic business system that allows PSB clients to shop for better prices.

As for financial literacy, the first stage of **a three-year project of independent and specialised advice** took place in co-ordination with NGOs providing advisory services related to personal finance, debt trap and elementary finance.

The second year of the **Regional Support Program** effectively extended the support into 7 regions; in 2009, we intend to cover the entire Czech Republic. As the regions always know their problems best the selection committees included individual regions' representatives. Moreover, we introduced the Public's Award.

In 2008, we launched a pilot stage of the **"Helping Together" volunteering program**. As we have employees who help in the non-profit sector in their free time and we would like to encourage their activities, we prepared a grant fund where the employees can apply for financial subsidies for their non-profit organisation's projects. We organised volunteering days for other employees to give them an opportunity to spend a day in and take a look into the non-profit world. We also prepared other volunteering activities for our employees, for instance charitable Christmas markets where they could buy products from sheltered workshops.

ČSOB group

The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bancassurance KBC group which is active in Belgium and the CEE region.

As at 31 December 2008, ČSOB had ownership interests in 43 legal entities; in addition to ČSOB, other 29 companies were included in the group of consolidated companies.

The ČSOB group offers its clients in the Czech Republic the following types of services:

– Banking services

– Building savings and mortgages

– Pension funds

– Leasing

– Factoring

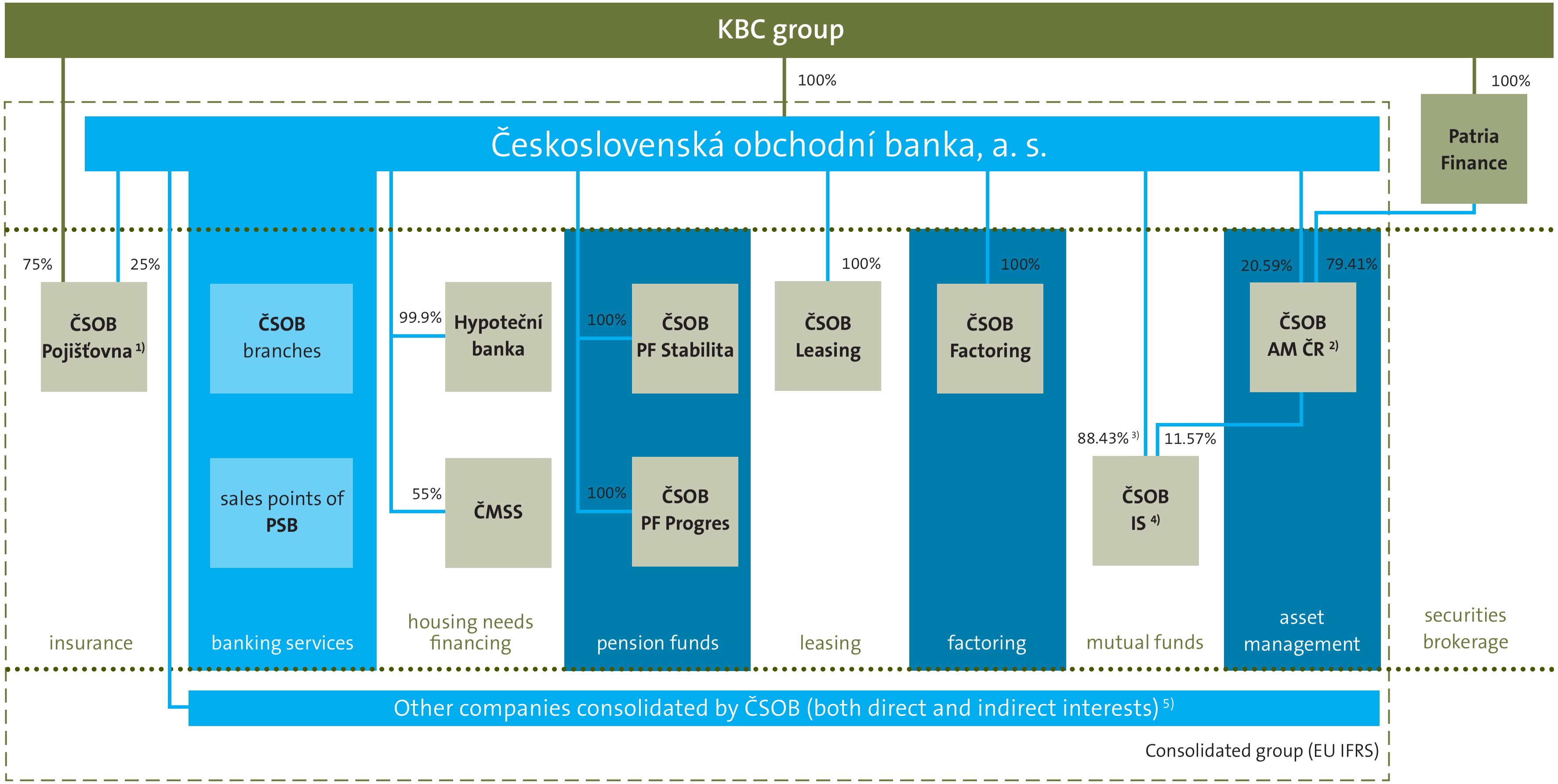
– Asset management

– Mutual funds

– Securities brokerage

– Insurance

Key companies of the ČSOB group



Percentages show interests in registered capital as at 31 December 2008.

Notes:
1) Voting rights: ČSOB 40%, KBC group 60%
2) Voting rights: ČSOB 52.94%, KBC Asset Management 26.47%, Patria Finance 20.59%
3) Direct (73.15%) and indirect (15.28% via subsidiary Auxilium) interest in registered capital of the company
4) Voting rights: ČSOB Asset Management 84.72%, ČSOB 15.28% (via subsidiary Auxilium)
5) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2008

Hypoteční banka, a.s.

Czech Republic

Date of establishment:	10. 1. 1991
Business activities:	Provision of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Share capital as at 31. 12. 2008:	CZK 5,076,328 ths
Shareholders as at 31. 12. 2008:	99.90% Československá obchodní banka, a. s.
(% in registered capital/% in voting rights)	0.10% other shareholders

Key indicators*

		2008	2007
Volume of receivables from clients	CZKm	119,813	96,375
Number of newly approved mortgage loans	pcs	21,152	23,412
Volume of newly approved mortgage loans	CZKm	39,636	40,378
Market share in the Czech Republic (by volume of newly approved mortgage loans for citizens according to MMR's methodology**)	%	33	27

** Based on internal management reporting system*
*** MMR = Ministry for Regional Development*

Comments

Specialized in housing finance, Hypoteční banka is a modern domestic bank offering a wide range of mortgage products. Since January 2007, Hypoteční banka has focused exclusively on mortgages and related services rendered to individuals. In 2008, Hypoteční banka granted 21,152 mortgages in the amount of CZK 39.6 bn. Despite the decline of the whole mortgage market, which was influenced by weakening mortgage demand and further supported by the first impacts of the world financial crisis, Hypoteční banka together with its business partners almost achieved the record sales of 2007, when new mortgages worth CZK 40.4 bn were granted. Compared to 27% in 2007, Hypoteční banka further improved its market share in 2008 and with 33% became the largest provider of mortgages for private individuals in the Czech Republic.

Hypoteční banka continued upgrading its product portfolio and services and introduced numerous innovations such as mortgages combined with capital life insurance or with securities, refunding client's payments up to 100% of the mortgage, a simplified refinancing process, the possibility to draw a mortgage without an obligation to submit invoices, express drawing or mortgage insurance. A mortgage without processing fee was offered during limited time periods in 2008 and a fee-free mortgage was launched in the autumn campaign.

In 2008, Hypoteční banka received three important awards. First of all "Best product of 2007" awarded by Osobní finance magazine and FinExpert.cz internet magazine. First place in the best mortgage contest, Zlatá Koruna Awards. Internet pages www.hypotečníbanka.cz were appreciated as the best in the financial institutions category in WebTop100 Awards.

Last year, Hypoteční banka introduced new business partners to offer HB morgages. In April 2008, these were Česká pojišťovna and ING Životní pojišťovna followed by the RE/MAX real estate company.

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Českomoravská stavební spořitelna, a.s.

Czech Republic

Českomoravská stavební spořitelna
Na těchto základech můžete stavět

Date of establishment:	26. 6. 1993
Business activities:	Building savings and loans
Identification number:	49241397
Share capital as at 31. 12. 2008:	CZK 1,500,000 ths
Shareholders as at 31. 12. 2008:	55% Československá obchodní banka, a. s.
(% in registered capital/% in voting rights)	45% Bausparkasse Schwäbisch Hall A/G

Key indicators*		2008	2007
Loans and bridging loans	CZKm	100,423	79,502
Volume of client deposits	CZKm	145,133	138,048
Number of contracts in force	pcs	2,123,793	2,149,970
Volume of target amounts of newly concluded contracts	CZKm	142,744	104,756
Market share (by volume of target amounts of newly concluded contracts)**	%	45.9	43.5

* *Based on internal management reporting system*
** *2007 and 2008 market shares are expert estimates*

Comments

Business results delivered by Českomoravská stavební spořitelna, a.s. confirmed that 2008 is the most successful year in the history of this savings bank. ČMSS set new records in all basic business activities and, compared to the rest of the market, it achieved excellent results.

In 2008, ČMSS reported considerable progress in the total target amount of newly signed building savings agreements. The total target amount equalled to CZK 142.7 bn. Based on an expert estimate, this means that the ČMSS's market share reached 45.9%, the best result ever. Despite the global economic crisis, ČMSS exceeded the planned targets.

For many years, ČMSS has been the biggest provider of housing loans in the Czech Republic. From the time it entered the Czech market until 2008, approximately one fifth of all new flats and family houses built in the Czech Republic were co-financed from ČMSS loans. With loans totalling CZK 33.4 bn ČMSS attained the best annual result in the company's history as well as in the history of the Czech building savings industry. The significance of this achievement is underscored by the fact that, compared with 2002, ČMSS succeeded in increasing its productivity by 280%.

In addition, excellent productivity of ČMSS financial advisers brought a new record in cross-selling. Being successful in further increasing their year to year business performance, they managed to conclude almost 157,000 agreements in 2008. The building savings and housing loans product portfolio combines ideally with mutual funds, additional pension insurance, risk life insurance, current account and savings account.

ČMSS's achievements rest upon its efficient and broadly accessible trade network. Being real professionals and contributing essentially to the company's high productivity, financial advisors are its supporting pillars and also the most efficient elements. As at 31 December 2008, 2,800 ČMSS financial advisors provided their services to 1.9 million clients.

Contact

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ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group

Czech Republic

Date of establishment: 26. 10. 1994
Business activities: Supplementary pension insurance with state contribution
Identification number: 61859265
Share capital as at 31. 12. 2008: CZK 297,167 ths
Shareholders as at 31. 12. 2008: 100% Československá obchodní banka, a. s.
(% in registered capital/% in voting rights)

Key indicators *

		2008	2007
Number of concluded contracts	pcs	67,777	62,855
Assets under management	CZKm	15,775	14,216
– of which contributions of participants	CZKm	12,221	11,015
Market value of the investment portfolio	CZKm	15,646	14,152
Appreciation of participants' funds	%	0.0 **	2.4
Market share in the Czech Republic (by the number of participants)	%	9.5	9.7

* *Based on internal management reporting system*
** *Proposed appreciation, which is to be approved by the shareholder*

Comments

In 2008, ČSOB PF Stabilita acquired a total of 67,777 clients which, in comparison with the previous year, represents an increase by 7.8%. With its 408,503 clients (as at 31 December 2008) it ranks among the biggest pension funds in the Czech market. The pension fund was not affected by any decline in the number of clients in connection with the current critical situation in the market; on the contrary – our clients were informed of how safe their deposits in ČSOB PF Stabilita were and this fact was reflected in their loyalty.

In 2008, a number of important corporate clients decided to benefit from the ČSOB motivation programme and cooperate with the ČSOB PF Stabilita. Not only does this activity enhance clients' comfort when using a large scale of products offered by the ČSOB group, but it also attracted 2,828 new clients.

In 2008 as in 2007, cooperation continued within the ČSOB group and about 62.1% of new contracts were concluded through the ČSOB group's distribution channels (ČMSS, ČSOB and ČSOB Pojišťovna). Their share in 2007 was 62.5%.

The ČSOB PF Stabilita maintains its conservative investment strategy based mainly on investments to fixed-income securities.

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ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group

Czech Republic

Date of establishment:	14. 2. 1995
Business activities:	Supplementary pension insurance with state contribution
Identification number:	60917776
Share capital as at 31. 12. 2008:	CZK 320,000 ths
Shareholders as at 31. 12. 2008: *(% in registered capital/% in voting rights)*	100% Československá obchodní banka, a. s.

Key indicators *

		2008	2007
Number of concluded contracts	pcs	62,572	62,738
Assets under management	CZKm	6,950	5,466
– of which contributions of participants	CZKm	5,588	4,432
Market value of the investment portfolio	CZKm	6,799	5,393
Appreciation of participants' funds	%	0.0 **	2.4
Market share in the Czech Republic (by the number of participants)	%	6.2	5.7

* *Based on internal management reporting system*
** *Proposed appreciation, which is to be approved by the shareholder*

Comments

ČSOB PF Progres showed an increase in the volume of assets under management by 27.2% in 2008. The number of clients grew in the same period by 42,338 to reach 267,012 clients as at 31 December 2008. These stable results were delivered mainly thanks to co-operation with ČMSS which offers the widely popular Liška plus product.

In 2008, a number of important corporate clients decided to benefit from the ČSOB motivation programme and cooperate with ČSOB PF Progres. Not only does this activity enhance clients' comfort when using a large scale of products offered by the ČSOB group, but it also attracted 1,953 new clients.

ČSOB PF Progres was one of only four pension funds (ranking number three) to report growth in market share during 2008 measured by the number of clients. The pension fund was not affected by any decline in the number of clients in connection with the current critical situation in the market; on the contrary – our clients were informed of how safe their deposits in ČSOB PF Progres were and this fact was reflected in their loyalty.

As in previous years when ČSOB PF Progres won a number of prestigious awards (the first place in Zlatá koruna 2006 and 2007 award, the second place in the Zlatý Měšec 2006 poll); in 2008, ČSOB PF Progres ranked third in the Zlatá koruna 2008 award for the best pension fund.

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ČSOB Leasing, a.s.

Czech Republic

Date of establishment:	31. 10. 1995
Business activities:	Financial services (financial and operating leasing, consumer loans and hire purchase)
Identification number:	63998980
Share capital as at 31. 12. 2008:	CZK 3,000,000 ths
Shareholders as at 31. 12. 2008: *(% in registered capital/% in voting rights)*	100% Československá obchodní banka, a. s.

Key indicators		2008	2007
Volume of new leasing turnover in the Czech Republic	CZKm	22,070	25,450
Number of contracts signed in the Czech Republic	pcs	36,079	39,280
Market share in the Czech Republic measured by the volume of new deals*	%	14.43	15.51

** Total market consists of moveable assets market and a relevant market of hire purchase and consumer loans.*

Comments

ČSOB Leasing CZ is the largest leasing company with a nation-wide branch network. Since 2001, ČSOB Leasing CZ has been the leasing market leader with the highest market share. In 2008, the company enhanced its leading position in the main segments of the leasing market.

ČSOB Leasing CZ provides financing for all types of new and used cars (passenger cars, utility cars and lorries), motorcycles and machines, equipment, capital equipment and information technologies.

ČSOB Leasing CZ provides its individual and corporate clients with a complete range of financial products: financial leasing, loans, and operating leasing (including Full service leasing, Fleet management and LeaseBack). In 2008, ČSOB Leasing CZ concluded 56% more operating leasing deals than in the previous year and achieved the number three position in the market.

All ČSOB Leasing CZ's products are offered with related services, in particular complete insurance.

ČSOB Leasing CZ is the only universal leasing company in the Czech leasing market holding the internationally recognized ISO 9001:2000 certificate.

Contact

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Internet:	www.csobleasing.cz

ČSOB Factoring, a.s.

Czech Republic

ČSOB Factoring

Date of establishment: 16. 7. 1992
Business activities: Factoring
Identification number: 45794278
Share capital as at 31. 12. 2008: CZK 70,800 ths
Shareholders as at 31. 12. 2008: 100% Československá obchodní banka, a. s.
(% in registered capital/% in voting rights)

Key indicators

		2008	2007
Turnover of receivables	CZKbn	28.6	27.1
Market share in the Czech Republic by turnover of factoring receivables	%	21.4	21.3

Comments

In 2008, receivables totaling CZK 28.6 bn were transferred to ČSOB Factoring CZ. Compared to the previous year, this means an increase of 5.5% and ČSOB Factoring CZ ranks number two in market share. Combined with a profit close to CZK 100 m, the year to year enhancement of market share is proof that the ČSOB group was successful in using synergy extensively and confirms the high quality of credit risk management.

At the end of 2008, ČSOB Factoring CZ provided almost CZK 3.8 bn in financing. Within the ČSOB group, ČSOB Factoring CZ serves entrepreneurs who look for a suitable alternative to standard banking products or use additional services of receivables and risk management.

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Internet: www.csobfactoring.cz

ČSOB Asset Management, a.s., a member of the ČSOB group

Czech Republic

Date of establishment:	31. 12. 1995
Business activities:	Management of clients' assets
Identification number:	63999463
Share capital as at 31. 12. 2008:	CZK 34,000 ths
Shareholders as at 31. 12. 2008	79.41% Patria Finance, a.s.
(% in registered capital)	20.59% Československá obchodní banka, a. s.
(% in voting rights)	52.94% Československá obchodní banka, a. s.
	26.47% KBC Asset Management NV
	20.59% Patria Finance, a.s.

Key indicators

		2008	2007
Assets under management*	CZKbn	106.6	105.5

** Volume of assets according to AKAT methodology (institutions, private individuals and foreign funds)*

Comments

ČSOB AM CZ provides its clients with investment services of asset management and is one of the leading companies in this market. Clients of the company include insurance companies, pension funds, municipalities, trading, production and energy companies, trade unions, foundations and other non-profit organisations and also private individuals. The company also manages the assets of several foreign funds from the KBC group.

In 2008, the volume of assets under management grew by CZK 1 bn. The growth of assets was recorded in the group client segment, while assets in other segments decreased mainly due to the current market circumstances and the worsening economic climate.

In 2008, the company paid out dividends to shareholders in the amount of CZK 60 m.

Contact

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ČSOB Investiční společnost, a.s., a member of the ČSOB group

Czech Republic

Date of establishment: 3. 7. 1998 (transformed from O.B. INVEST, investiční společnost, spol. s r.o.)

Business activities: Collective investment

Identification number: 25677888

Share capital as at 31. 12. 2008: CZK 216,000 ths

Shareholders as at 31. 12. 2008:

(% in registered capital)
73.15% Československá obchodní banka, a. s.
15.28% Auxilium, a.s.
11.57% ČSOB Asset Management, a.s., a member of the ČSOB group

(% in voting rights)
84.72% ČSOB Asset Management, a.s., a member of the ČSOB group
15.28% Auxilium, a.s.

Key indicators

		2008	2007
Volume of assets under management*	CZKbn	8.3	12.4
Volume of assets in foreign funds**	CZKbn	75.8	79.6

** Incl. local (Czech) mutual funds offered by ČSOB IS*
*** Incl. foreign funds distributed by the ČSOB group in the Czech Republic*

Comments

ČSOB IS is a leading company that manages mutual funds and participates also in the product development for the whole ČSOB group. Distribution of KBC funds in the Czech Republic is another important business activity strengthening the synergy throughout the KBC group.

In the first half of 2008, the company became the largest distributor of funds in the Czech market and in the second half of 2008 it further strengthened its position and reached a market share of 33.9% at the end of the year, despite adverse market circumstances. Both assets in local funds managed by the company and assets in foreign funds decreased due to current crisis in financial markets. For 2009, the company plans to extend its product offer, mainly capital protected funds, and to continue improving its position in the Czech funds market.

In 2008, the company paid out dividends to shareholders in the amount of CZK 160 m.

A list of funds managed by ČSOB IS as at 31 December 2008: ČSOB bond mix, ČSOB akciový mix, ČSOB bohatství, ČSOB středoevropský, ČSOB nadační, ČSOB dluhopisových příležitostí, ČSOB realitní mix, ČSOB bytových družstev, ČSOB akciový fond – Střední a Východní Evropa, ČSOB Property fund.

Contact

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Internet: www.csobinvest.cz

Patria Finance, a.s.

Czech Republic

Date of establishment:	23. 5. 1994
Business activities:	Securities trading and consultancy services in the field of corporate finance
Identification number:	60197226
Share capital as at 31. 12. 2008:	CZK 100,000 ths
Shareholders as at 31. 12. 2008: *(% in registered capital/% in voting rights)*	100% KBC Securities NV

Comments

The scope of business performed by Patria Finance, a.s. and its subsidiaries (Patria Online, a.s., Patria Direct, a.s., Patria Finance CF, a.s. and Patria Finance Slovakia, a.s.) comprises investment banking, including securities trading, and consultancy in management and financing of companies. Broker services for clients are offered via an Internet portal. The Patria Group conducts its own financial research and provides information from the financial market through the Internet portal at www.patria.cz.

In 2008, security trading focused exclusively on stock markets. Patria Finance maintained its leading position in the volume of trading carried out on the Prague Stock Exchange and further increased the volume of trading in foreign securities.

Income from advisory services for mergers and acquisitions further increased in 2008. Patria participated in several IPOs in domestic and foreign capital markets.

In 2008, the consolidated net profit of the Patria Group exceeded CZK 1.1 bn. The number of clients for whom securities trading is mediated via Internet exceeded 10,700.

Contact

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Internet:	www.patria.cz

ČSOB Pojišťovna, a. s.,
a member of the ČSOB holding

Czech Republic

Date of establishment:	17. 4. 1992
Business activities:	Life and non-life insurance for citizens and entrepreneurs
Identification number:	45534306
Share capital as at 31. 12. 2008:	CZK 1,536,400 ths
Shareholders as at 31. 12. 2008:	75% KBC Verzekeringen NV
(% in registered capital)	25% Československá obchodní banka, a. s.
(% in voting rights)	60% KBC Verzekeringen NV
	40% Československá obchodní banka, a. s.

Key indicators

		2008	2007
Number of insurance contracts concluded	pcs	589,387	615,528
Volume of written premium	CZKm	9,485	9,056
Number of claims settled	pcs	147,775	139,320
Market share in the non-life insurance market	%	5.1	4.8
Market share in the life insurance market	%	9.6	10.1

Comments

ČSOB Pojišťovna is a universal insurance company offering a wide range of life and non-life insurance products to private individuals, small and medium enterprises and corporate clients. Currently, the company administers over one million insurance contracts. Measured by written premiums the company ranks No. 4 in the local insurance market.

Despite negative trends prevailing in financial markets, ČSOB Pojišťovna maintained the rating of financial strength (FSR) of A- outlook stable and thus confirmed its long-term strong position in the insurance market. Standard & Poor's Ratings Services (S&P), prominent rating agency, positively evaluated the excellent level of capitalization and liquidity. The solvency ratio amounts to 193%.

The growth achieved in 2008 can be attributed mainly to non-life insurance, esp. motor insurance (motor third-party liability insurance and casco insurance). Written premium of life insurance remained on the same level as in 2007.

The results of non-life insurance were adversely affected by the Emma windstorm and the windstorm that hit the Czech Republic in March and July 2008, respectively.

At the end of 2008, the company reported lower profit than in 2007 mainly due to the situation in financial markets.

Contact

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Companies of the ČSOB group

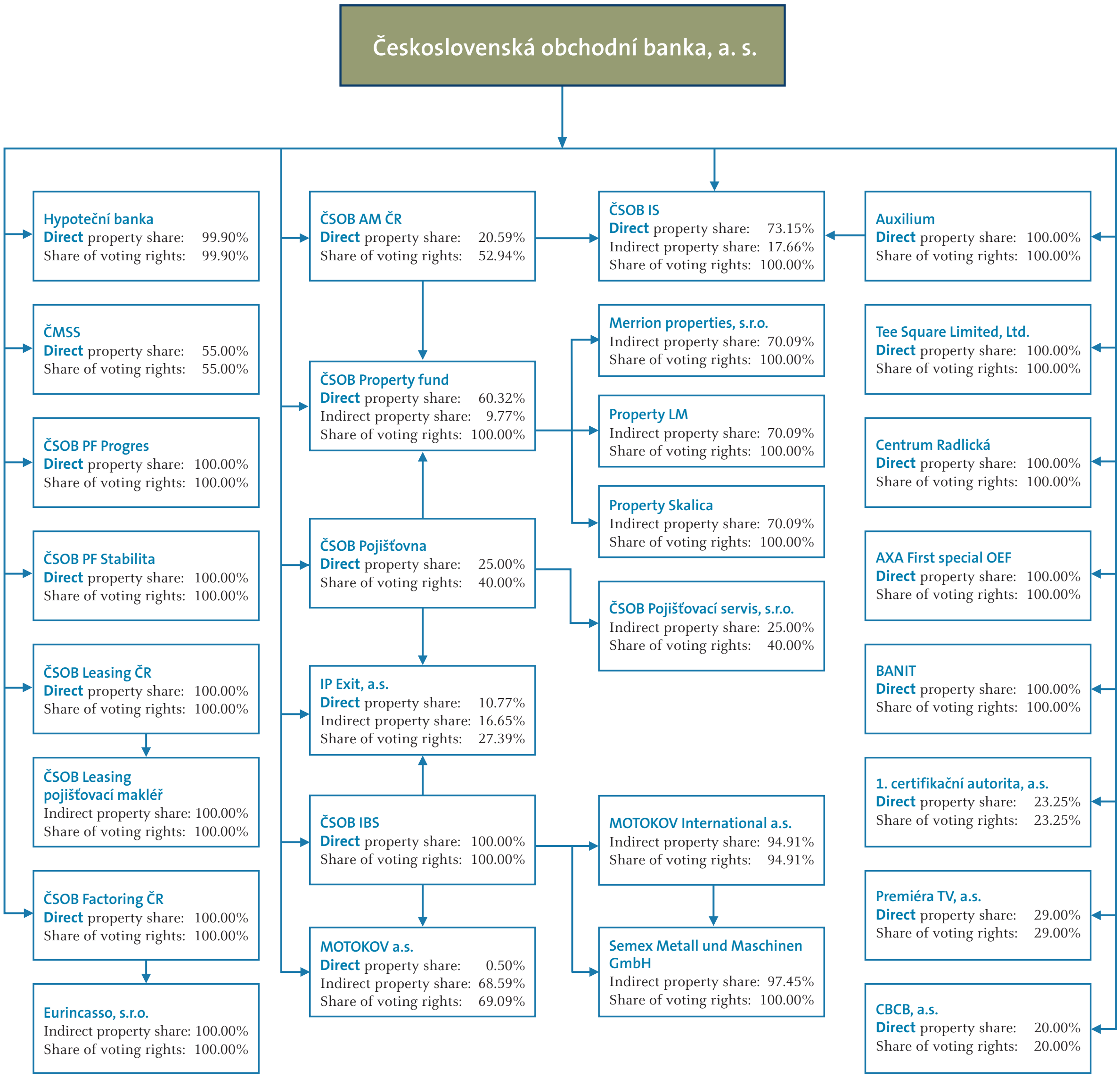
(as at 31 December 2008)

Legal entity				Total direct or indirect share of ČSOB in:		Cons. EU IFRS[1)]
ID No.	Business name of legal entity / Business activities	Registered office	Registered capital CZK	Registered capital %	Voting rights %	Y/N
Controlled companies						
25636855	Auxilium, a.s. Advisory services	Praha 5, Radlická 333/150	1,000,000,000	100.00	100.00	Y
63987686	Bankovní informační technologie, s.r.o. Automated data processing and software development; creation of a network of payment card reading terminals	Praha 5, Radlická 333/150	20,000,000	100.00	100.00	Y
26760401	Centrum Radlická a.s. Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	500,000,000	100.00	100.00	Y
63999463	ČSOB Asset Management, a.s., a member of the ČSOB group Securities trader	Praha 5, Radlická 333/150	34,000,000	20.59	52.94	Y
45794278	ČSOB Factoring, a.s. Factoring	Praha 10, Benešovská 2538/40	70,800,000	100.00	100.00	Y
25677888	ČSOB Investiční společnost, a.s., a member of the ČSOB group Management of investment and mutual funds	Praha 5, Radlická 333/150	216,000,000	90.81	100.00	Y
27081907	ČSOB Investment Banking Services, a.s., a member of the ČSOB group Activity of entrepreneurial, financial, economic and organisation advisors	Praha 5, Radlická 333/150	2,000,000,000	100.00	100.00	Y
63998980	ČSOB Leasing, a.s. Leasing	Praha 4, Na Pankráci 310/60	3,000,000,000	100.00	100.00	Y
27151221	ČSOB Leasing pojišťovací makléř, s.r.o. Insurance broker	Praha 4, Na Pankráci 60/310	2,000,000	100.00	100.00	Y
60917776	ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group Pension insurance	Praha 5, Radlická 333/150	320,000,000	100.00	100.00	Y
61859265	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group Pension insurance	Praha 5, Radlická 333/150	297,167,000	100.00	100.00	Y
27924068	ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group Collective investment	Praha 5, Radlická 333/150	1,424,000,000	70.09	100.00	Y
61251950	Eurincasso, s.r.o. Activity of economic and organisation advisors; recovery of receivables	Praha 10, Benešovská 2538/40	1,000,000	100.00	100.00	Y
13584324	Hypoteční banka a.s. Mortgage banking	Praha 5, Radlická 333/150	5,076,328,000	99.90	99.90	Y
25617184	Merrion Properties, s.r.o. Real estate activity ; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	6,570,000	70.09	100.00	Y
00000949	MOTOKOV a.s., in liquidation Wholesale of machines and technical equipment	Praha 8, Thámova 181/20	62,000,000	69.09	69.09	Y
00548219	MOTOKOV International a.s. Other financial intermediary activity	Praha 8, Thámova 181/20	2,150,000	94.91	94.91	Y
36859516	Property LM, s.r.o. Real estate activity; rent of flats and non-residential spaces	Bratislava, Mostová 2, Slovak Republic	134,650	70.09	100.00	Y
36859541	Property Skalica, s.r.o. Real estate activity; rent of flats and non-residential spaces	Bratislava, Mostová 2, Slovak Republic	50,197,520	70.09	100.00	Y

ID No.	Business name of legal entity / Business activities	Registered office	Registered capital CZK	Total direct or indirect share of ČSOB in: Registered capital %	Voting rights %	Cons. EU IFRS[1] Y/N
Controlled companies						
99999999[2]	Semex Metall und Maschinen GmbH No activity (in liquidation)	Dr. Georg Schäfer Strasse 17, 93437 Furth im Wald, SRN	0	97.45	100.00	Y
99999999[2]	Tee Square Limited, Ltd. Advisory services for investment funds in the Caribbean area	British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986	7,933,872	100.00	100.00	Y
Joint venture						
49241397	Českomoravská stavební spořitelna, a.s. Building savings bank	Praha 10, Vinohradská 3218/169	1,500,000,000	55.00	55.00	Y
Others						
36854140	Československá obchodná banka, a.s. Banking	Bratislava 2, Michalská 18, Slovak Republic	4,469,559,982	60.20	0.00	N
26199696	CBCB - Czech Banking Credit Bureau, a.s. Software development, IT advisory, data processing, network administration databank services	Praha 1, Na Příkopě 1096/21	1,200,000	20.00	20.00	Y
45534306	ČSOB Pojišťovna, a.s, a member of the ČSOB holding Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	1,536,400,000	25.00	40.00	Y
27479714	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding Insurance brokerage	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	400,000	25.00	40.00	Y
60736682	E.T.I., a.s. in liquidation Operation of electricity stations	Ratíškovice 502	45,000,000	10.00	10.00	N
45316619	IP Exit, a.s. No activity	Praha 1, Senovážné náměstí 32	13,382,866,400	27.43	27.39	Y
45276129	KORUNA PALACE MANAGEMENT AKCIOVÁ SPOLEČNOST Real estate agency, purchase and sale of goods	Praha 1, Václavské nám. 1	37,500,000	10.00	10.00	N
63078104	Premiéra TV, a.s. No activity	Praha 8, Pod Hájkem 1	29,000,000	29.00	29.00	Y
26439395	První certifikační autorita, a.s. Certification services and administration	Praha 9, Libeň, Podvinný mlýn 2178/6	20,000,000	23.25	23.25	Y
64579018	První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s.[3] Collective investment	Praha 2, Lazarská 13/8	1,000,000,000	100.00	100.00	Y
99999999[2]	VAT MOLOKO No activity	2000 Purchase Street, Purchase, NY 10577-2509, USA	95,480	18.92	18.92	N
	Other companies where ČSOB has a share in registered capital/voting rights under 10%.					N

Notes:
1) A list of entities belonging to the ČSOB consolidated group according to EU IFRS as at 31 December 2008
2) ID No. 99999999 – a foreign entity
3) Units of the fund were sold as at 31 March 2009

Consolidation scope of the ČSOB
(as at 31 December 2008, EU IFRS)



MMVIII

Managing and Supervisory Bodies

ČSOB's Board of Directors

(as at 31 December 2008)

ČSOB's Board of Directors functions as the Bank's statutory and supreme executive body and has **six members**.

First name and surname	Position	Membership since	The beginning of the member's current term of office
Pavel Kavánek	chairman [1] and chief executive officer	17. 10. 1990	19. 5. 2004
Petr Knapp	member and senior executive officer	20. 5. 1996	19. 5. 2004
Jan Lamser	member and senior executive officer	26. 5. 1997	19. 5. 2004
Philippe Moreels	member and senior executive officer	1. 3. 2002 [2]	21. 4. 2007
Hendrik Scheerlinck	member and senior executive officer	27. 9. 2006 [2]	21. 4. 2007
Petr Hutla	member and senior executive officer	27. 2. 2008	27. 2. 2008

1) Current chairman term since 26 May 2004
2) Co-opted

Since 27 February 2008, the ČSOB's Board of Directors has had six members – Petr Hutla was elected a member of the Board of Directors by the sole shareholder on the aforementioned date.

ČSOB's Top Management

The ČSOB's Top Management reports directly to the Board of Directors. ČSOB's Top Management consists of the Chairman of the Board of Directors, who is also the Chief Executive Officer, other members of the Board of Directors, who also act as Senior Executive Officers, and other Senior Executive Officers – in 2008: ***Petr Hutla*** (since 27 February 2008 he has also been a member of the Board of Directors) and ***Karel Svoboda*** (since 1 August 2008).

Introducing Members of the Board of Directors and Members of the ČSOB's Top Management

Pavel Kavánek
(Born on 8 December 1948)
Chairman of the Board of Directors and Chief Executive Officer

Education: University of Economics, Prague, and The Pew Economic Freedom Fellowship at Georgetown University. He has been working for ČSOB since 1972. He has been a member of the Board of Directors of ČSOB since 1990 and its Chairman and CEO since 1993.

Membership in bodies of other companies:
Member of the Executive Board of the Czech Banking Association, Chairman of the Supervisory Board of the Dagmar and Václav Havel Foundation VIZE 97.

Petr Knapp
(Born on 7 May 1956)
Member of the Board of Directors and Senior Executive Officer, Corporate Banking

Education: University of Economics, Prague. He originally joined ČSOB in 1979. He worked in Teplotechna Praha as Deputy Managing Director from 1984 and later as Director of Foreign Operations. He returned to ČSOB in 1991 and was appointed Director of ČSOB Corporate Finance Department and later Director of the Credits Section. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1996.

Membership in bodies of other companies:
Chairman of the Supervisory Board of ČSOB Factoring (CZ), member of the Board of Directors of Hospodářská komora Hlavního města Prahy (Prague Economic Chamber).

Jan Lamser
(Born on 8 December 1966)
Member of the Board of Directors and Senior Executive Officer, Mass Market (until 31 December 2008 PSB and Direct Banking Business)

Education: studied mathematical statistics at Charles University; also graduated from University of Economics, Prague, and École des Hautes Études Commerciales, Paris. He has been working for ČSOB since 1995 and has been a member of the Board of Directors since 1997. In 1998, he was appointed Director of Strategic Development and since 1999 he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.

Membership in bodies of other companies:
Deputy Chairman of the Supervisory Board of ČMSS (CZ).

Philippe Moreels
(Born on 25 February 1959)
Member of the Board of Directors and Senior Executive Officer, Distribution

Education: studied computer and social sciences in Belgium and graduated in business management studies at Solvay Business School. He worked as a pension fund analyst and internal auditor with the Unilever Group. Afterwards, he worked for seven years as the Back Office Manager in the Standard Chartered Bank/Westdeutsche Landesbank group, followed by Slovakia's Tatra Banka as the Operations Manager since 1993 and as a member of the Board of Directors since 1998. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1 March 2002.

Membership in bodies of other companies:
Chairman of the Supervisory Board of Hypoteční banka (CZ).

Hendrik Scheerlinck
(Born on 6 January 1956)
Member of the Board of Directors and Senior Executive Officer, Finance and Risk Management

Education: law and economics at the Catholic University in Leuven, Belgium (graduated in 1979 and 1980, respectively). He practiced law at a law office in Leuven. He has been working for the Kredietbank/KBC group since 1984: he started at the international credit department in Brussels and held various positions in the United States (Senior Credit Adviser in the New York branch; Regional Manager in Atlanta), Taiwan (manager of the Kredietbank representative office in Taipei), Germany (General Manager of KBC Bank operations; Member of the Management Board of Merca Lease) and became General Manager of KBC North America in 1999. He joined ČSOB in the second half of 2006 and has been a member of the Board of Directors and Senior Executive Officer since 2006.

Petr Hutla
(Born on 24 August 1959)
Member of the Board of Directors and Senior Executive Officer, Human Resources and Transformation

Education: Graduated from the Czech Technical University, Faculty of Electrical Engineering. Petr Hutla worked for Tesla Pardubice between 1983 and 1993, as Economic Associate Director of Tesla Pardubice - RSD from 1991. He has been working for ČSOB since 1993: first as branch manager in Pardubice and main branch manager in Hradec Králové, then as branch manager in Prague 1 in 1997 – 2000. He then served as Senior Director, Corporate Accounts (2001 – 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (2005 – 2006), Human Resources and Facilities (since 2006). Since 27 February 2008, Petr Hutla has been a member of the Board of Directors.

Membership in bodies of other companies:
Member of the Board of Trustees of Czech Technical University in Prague and member of the Board of Directors of the Nadace Karla Pavlíka (foundation).

Karel Svoboda
(Born on 12 April 1970)
Senior Executive Officer, Operations and Facilities

Education: Graduated from the University of Economics, Prague (1992); a post-graduate study program in statistics at the Texas A&M University, College Station, USA (1994). He worked as an assistant professor at the University of Economics, Prague in 1995 – 1997. Between 1998 and 2000, he worked as the Actuarial Manager in Commercial Union, life insurance company. Between June 2000 and October 2001, he worked as an actuary in ČSOB; between November 2001 and July 2008, he was a member of the Board of Directors in ČSOB Pojišťovna (membership terminated effective on 31 July 2008) and the Director of the Life Insurance Division. Since 1 August 2008, Karel Svoboda has been a member of ČSOB's Top Management as the Senior Executive Officer, Operations and Facilities.

ČSOB's Supervisory Board
(as at 31 December 2008)

ČSOB's Supervisory Board has **nine members** and oversees the performance of the Board of Directors.

First name and surname	Position	Membership since	The beginning of the member's current term of office
Jan Švejnar	chairman [1)]	9. 10. 2003 [2)]	19. 5. 2004
Jan Oscar Cyriel Vanhevel	member	22. 4. 2006	22. 4. 2006
John Arthur Hollows	member	22. 4. 2006	22. 4. 2006
Patrick Roland Vanden Avenne	member	22. 4. 2006	22. 4. 2006
Riet Docx	member	1. 12. 2004 [2)]	20. 4. 2005
Hendrik George Adolphe Gerard Soete	member	24. 2. 2007 [2)]	21. 4. 2007
František Hupka	member [3)]	23. 6. 2005	23. 6. 2005
Libuše Gregorová	member [3)]	23. 6. 2005	23. 6. 2005
Martina Kopecká	member [3)]	23. 6. 2005	23. 6. 2005

1) Chairman since 9 June 2004
2) Co-opted
3) Elected by employees

Introducing Members of the Supervisory Board

Jan Švejnar
(Born on 2 October 1952)
Chairman of the Supervisory Board

Education: Industrial and Work Relations – Cornell University; Ph.D. in Economics – Princeton University. An independent economist living abroad since 1970. Since 1992, he has evenly divided his work capacity between activities in Prague and the USA. He has primarily devoted his academic career to economies in transition and, generally, to economic development. He is a Professor at the University of Michigan Business School.

Membership in bodies of other companies:
Chairman of the Board of the Center for Economic Research and Graduate Education (CERGE) of the Charles University, member of the Academic Council of Faculty of Social Sciences of the Charles University, member of the Board of the BOHEMIAE Foundation in liquidation.

Jan Vanhevel
(Born on 10 September 1948)
Member of the Supervisory Board

Education: The Catholic University in Leuven, with a degree in law, and the Flemish University of Economics VLECHO, with a degree in financial management. From 1971 until now, he has worked in various managerial positions in the sector of financial services. He has acquired wide experience in legal services departments, in the credits area and in the area of corporate banking management and process management. In April 1996, he became a member of the Executive Committee of Kredietbank and, after its merger with other entities giving birth to KBC, he became (in June 1998) Managing Director and member of the Executive Committee of the

KBC Group and Member of the Executive Committee KBC Bank. In 2006, he was appointed CEO Central and Eastern Europe supervising and responsible for banking and insurance activities for KBC Group. In 2007 he was appointed CEO Central and Eastern Europe and Russia for KBC Group in eight countries in Central and Eastern Europe. He is also a member of the Executive Committee KBC Bank.

Membership in bodies of other companies:
Chairman of the Board of Directors in: KBC Banka (Serbia) and Absolut Bank (Russia); Deputy Chairman of the Supervisory Board in Cibank (Bulgaria); member of the Board of Directors in: K&H Bank (Hungary), KBC Insurance (Belgium) and KBC Bank (Belgium); President/Chairman of the Supervisory Board in: Warta TuiR (Poland), Warta TunZ (Poland), K&H Insurance (Hungary), ČSOB (SK), ČSOB Pojišťovna (CZ), ČSOB Poisťovňa (SK), DZI Life (Bulgaria), DZI General Insurance (Bulgaria) and DZI Health Insurance (Bulgaria); member of the Supervisory Board in: KredytBank (Poland), NLB (Slovenia); member of the Board of Directors in FEBELFIN (Belgian Banking Federation).

John Hollows
(Born on 12 April 1956)
Member of the Supervisory Board

Education: Sydney Sussex College at the University in Cambridge, with a degree in economics and law. His professional career is connected with banking and with work in Industrial and Commercial Chambers. He gained experience in the area of financial services at Barclays Bank in London and Taipei and at KBC in Hong Kong, Shanghai, Singapore and Budapest. He held senior managerial positions in credits departments and in areas such as export finance, corporate and investment banking and treasury. He also focused on cost management. From August 2003 to April 2006, he was general manager of K&H Bank (KBC Group) in Budapest. He came to the Supervisory Board of ČSOB as manager of the Central and Eastern Europe Business Unit of KBC.

Membership in bodies of other companies:
Member of the Board of Directors in: K&H (Hungary) and KBC Banka (Serbia); member of the Supervisory Board in: ČSOB IS (CZ), ČSOB PF Stabilita (CZ), ČSOB PF Progres (CZ), ČSOB AM (SK), ČSOB (SK), KredytBank (Poland) and NLB (Slovenia).

Patrick Vanden Avenne
(Born on 15 February 1954)
Member of the Supervisory Board

Education: The Catholic University in Leuven (Belgium), with a degree in economics and law, and Stanford University (USA), with a degree in business administration. He owns and manages a number of companies in the food processing industries and in logistics. As a significant shareholder of KBC, he has participated in the corporate governance of KBC Group since 1993. He has also been in managerial positions in Almanij (a parent company of the KBC Group), Gevaert NV and, later, in KBC Bank and KBC Insurance. After the merger of Almanij and KBC in 2005, he was appointed to the position of Director of KBC Bank and became a member of the Audit Committee at KBC Bank.

Membership in bodies of other companies:
Member of the Supervisory Boards at the Catholic Universities in Leuven and Kortrijk, member of the managing committees of the Flemish Employers Union (VOKA) and the Belgian Federation of Food Industry (Bemefa).

Riet Docx
(Born on 15 September 1950)
Member of the Supervisory Board

Education: Economic studies at Antwerp University. Between 1976 and 1994, she worked in institutions operating in the banking and insurance sector. She held managerial positions in Benelux Bank and in the insurance companies Omniver NV and Omniver Leven NV. Since 1994, Mrs. Riet Docx has been working for KBC. In January 2005, she was appointed Executive Manager responsible for coordination of banking activities in Central European countries at the KBC Directorate for Central Europe.

Membership in bodies of other companies:
Member of the Board of Directors in: KBC Banka (Serbia); member of the Supervisory Board in: K&H (Hungary), NLB (Slovenia) and Istrobanka (SK).

Hendrik Soete
(Born on 9 November 1950)
Member of the Supervisory Board

Education: The Catholic University in Leuven (Belgium) with M.Sc. and Ph.D. degrees in Agricultural Sciences. He originally worked in production management at Procter & Gamble and at Lacsoons Dairy in Belgium. Between 1983 and 1994, he held several management positions, as well as that of managing director, with Borden Inc., in the U.K. and in Germany. After his return to Belgium, he was at the head of two food companies before joining the AVEVE Group in 1999. At present, he is Executive Chairman of the AVEVE Group. He became a member of the Supervisory Board of ČSOB in 2007.

Membership in bodies of other companies:
Member of the Board of Directors of several companies, namely of the KBC group, of affiliates of the AVEVE Group (Belgium), of Boerenbond and its Financial Holding (Belgium).

František Hupka
(Born on 13 April 1971)
Member of the Supervisory Board elected by employees

In 1991, he joined ČSOB as an IT support specialist. At the present time, he is Chairman of the Working Committee of Trade Unions.

Membership in bodies of other companies:
Member of the Board of Directors of the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry (OZP).

Libuše Gregorová
(Born on 25 July 1959)
Member of the Supervisory Board elected by employees

Education: She graduated from the University of Economics, Prague. She joined ČSOB in 1989 and worked as IT manager from 1996 to 1998. Between 1998 and 2005, she worked as an analyst and IT application developer. Between 2006 and 2008, she managed the Credits and Deposits Products – Analysis department. Since 1 January 2009, she has served as the Senior Manager of DEV Product factories.

Membership in bodies of other companies:
Member of the Board of Directors of Bytové družstvo Vojáčkova 612 (housing cooperative).

Martina Kopecká
(Born on 19 September 1969)
Member of the Supervisory Board elected by employees

Education: She graduated from the University of Economics, Prague. She has been working at the ČSOB Pardubice branch since 1994, and in the position of Corporate Banker for Retail/SME clients since 2002.

The work address

of all members of the Board of Directors and the members of the ČSOB's Top Management as well as all the members of the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
Praha 5
Postal Code 150 57, Czech Republic

Conflict of Interests

under Commission Regulation (EC) No 809/2004

ČSOB hereby declares that it is not aware of any potential conflict of interests between any of the duties of any member of the Board of Directors, the ČSOB's Top Management and the Supervisory Board **to ČSOB and their private interests and / or other duties**.

Note: ČSOB, pursuant to the applicable Czech legal principles, does not regard entering into banking transactions by the members of the Board of Directors, the members of the ČSOB's Top Management and the members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties of these persons to ČSOB and their private interests and/or other duties

Emoluments and benefits of persons discharging managerial responsibilities within an issuer

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 118, paragraph 3, provisions c), d) and e).

Persons discharging managerial responsibilities within an issuer* in ČSOB are:
(i) The Chairman of the Board of Directors, who is also the Chief Executive Officer, other Members of the Board of Directors, who also act as Senior Executive Officers, and other Senior Executive Officers (Other Members of the Top Management) constitute the ČSOB's Top Management (see Managing and Supervisory Bodies), and (ii) Members of the Supervisory Board.

** Persons discharging managerial responsibilities within an issuer (in Czech "osoby s řídící pravomocí") as defined in the act above*

Remuneration and Income in Kind

(Section 118, paragraph 3, provision c)

In 2008, persons discharging managerial responsibilities within an issuer received the following remuneration and income in kind from both ČSOB and persons controlled by ČSOB:

		Monetary Income		Income in Kind	
		Received from		Received from	
		ČSOB	Persons controlled by ČSOB	ČSOB	Persons controlled by ČSOB
Members of the Board of Directors	CZKths	72,147	-	6,087	-
Members of the Supervisory Board	CZKths	5,194	-	0	-
Other Members of the Top Management	CZKths	1,452	-	55	-

The income of the Chairman and Members of the Board of Directors in 2008 included: CZK 36,229 ths under the Contract on the Performance of the Line Management Function, and a bonus of CZK 35,918 ths under the Contract on the Performance of the Function of the Chairman / Member of the Board of Directors.

The income of the Members of the Supervisory Board in 2008 included: CZK 1,629 ths under the Contract on the Performance of the Function of the Chairman / Member of the Supervisory Board, and the income under employment contracts of CZK 3,565 ths.

Shares issued by ČSOB

(Section 118, paragraph 3, provision d)

As at 31 December 2008, the Members of the Board of Directors and their next of kin, the members of the Board of Directors and their next of kin, other Members of the Top Management and their next of kin did not own any shares issued by ČSOB and do not have any purchase option on ČSOB shares.

Principles of Remuneration

(Section 118, Paragraph 3, provision e)

Members of the Board of Directors

Remuneration of the Members of the ČSOB's Board of Directors consists of a fixed component, pursuant to the Contract on the Performance of the Line Management Function, and a variable (bonus) component applicable under the Contract on the Performance of the Function of the Member of the Board of Directors. The variable component is approximately half of the total income. The Remuneration Rules were set by the Compensation Committee of the Supervisory Board, whose Members in 2008 were Jan Švejnar, Jan Vanhevel and John Hollows. The relative change of earnings per share (EPS), i.e. the change in net consolidated profit per share between 1 January and 31 December of the reported year, is the main KPI to determine the variable component.

The amount of the variable component is calculated by the Compensation Committee using the audited accounts. Final approval is given by the General Meeting.

Members of the Supervisory Board

The Chairman of the Supervisory Board is contracted for a fixed income per year that is set and confirmed by the Compensation Committee and approved by the General Meeting. Members elected by employees are compensated for the function that they discharge in the Bank in accordance with the ČSOB Remuneration Rules and do not receive any extra remuneration for their Supervisory Board membership. Other members (KBC employees) receive neither income from ČSOB for their Supervisory Board membership, nor any extra remuneration from KBC.

Other Members of the Top Management

Other Members of the Top Management receive their remuneration based on the ČSOB Remuneration Rules. The variable component is calculated in accordance with the main KPIs achieved. Remuneration of a KBC expatriate is based on the KBC Expatriation Remuneration Principles and also includes the KPIs criteria.

Corporate Governance Policy

Corporate governance and administration of Československá obchodní banka, a. s. are based on the OECD principles and, while executing them, experience collected by the KBC Group, ČSOB's shareholder, is extensively exploited. ČSOB professes principles formulated in the Code of Governance and seeks to observe them consistently in its day-to-day activities.

The members of the **Board of Directors** are elected by the company's General Meeting. They went through mandatory assessment by the Czech National Bank, where their professional qualifications were thoroughly examined. In compliance with the Banking Act, the Bank's Board of Directors has a full-scale executory composition. To combine the position of Chairman of the Board of Directors with that of the Chief Executive Officer corresponds with this requirement. Shareholders and clients of the Bank receive regular reports including all relevant data on the members of the Board of Directors and their professional and personal qualifications as required by the by applicable laws.

ČSOB's Board of Directors performs its tasks within the framework of competencies defined for the statutory body by the Articles of Association and relevant management documents of the company. The Board of Directors fulfils its tasks with due professional care and bears full responsibility for them as required by the Commercial Code. The Board of Directors was extended in 2008 and is now composed of six members; Mr. Petr Hutla became the sixth member on February 27.

The Board of Directors meets regularly, usually once a week, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational a nature submitted for discussion individually by the Board members. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of this top body are attended by the director of the Bank's corporate office, who acts as secretary of the Board and is responsible for preparing the meetings and taking their minutes.

Pursuant to the Bank's Articles of Association, the **Supervisory Board** of Československá obchodní banka, a. s. has nine members. Six of them are elected by the General Meeting and three of them are elected by the employees of the Bank.

In compliance with its plan of work, the Supervisory Board held four meetings in 2008, where it discussed issues falling under its responsibility according to the Bank's Articles of Association. Background materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by the members of the Board of Directors, who personally presented materials to be discussed. During its meetings, the Supervisory Board raised requirements for additional materials, and these requirements were always satisfied at the next session.

Both **working bodies of the Supervisory Board**, the Audit Committee and the Compensation Committee, held regular meetings and informed the Supervisory Board about their activities. The Supervisory Board approved recommendations of the two Committees regarding some matters discussed.

In compliance with its competencies, the Supervisory Board selected an external auditor for the Bank. The auditor attends all meetings of the Audit Committee, thus providing for an independent, comprehensive and qualified opinion of whether the Bank's financial statements express the situation and performance of the Bank correctly in all material respects. Pursuant to the Rules of Conduct of the Supervisory Board, administrative and organizational support is provided by the Bank's corporate office, whose director is responsible for taking the minutes of the meetings.

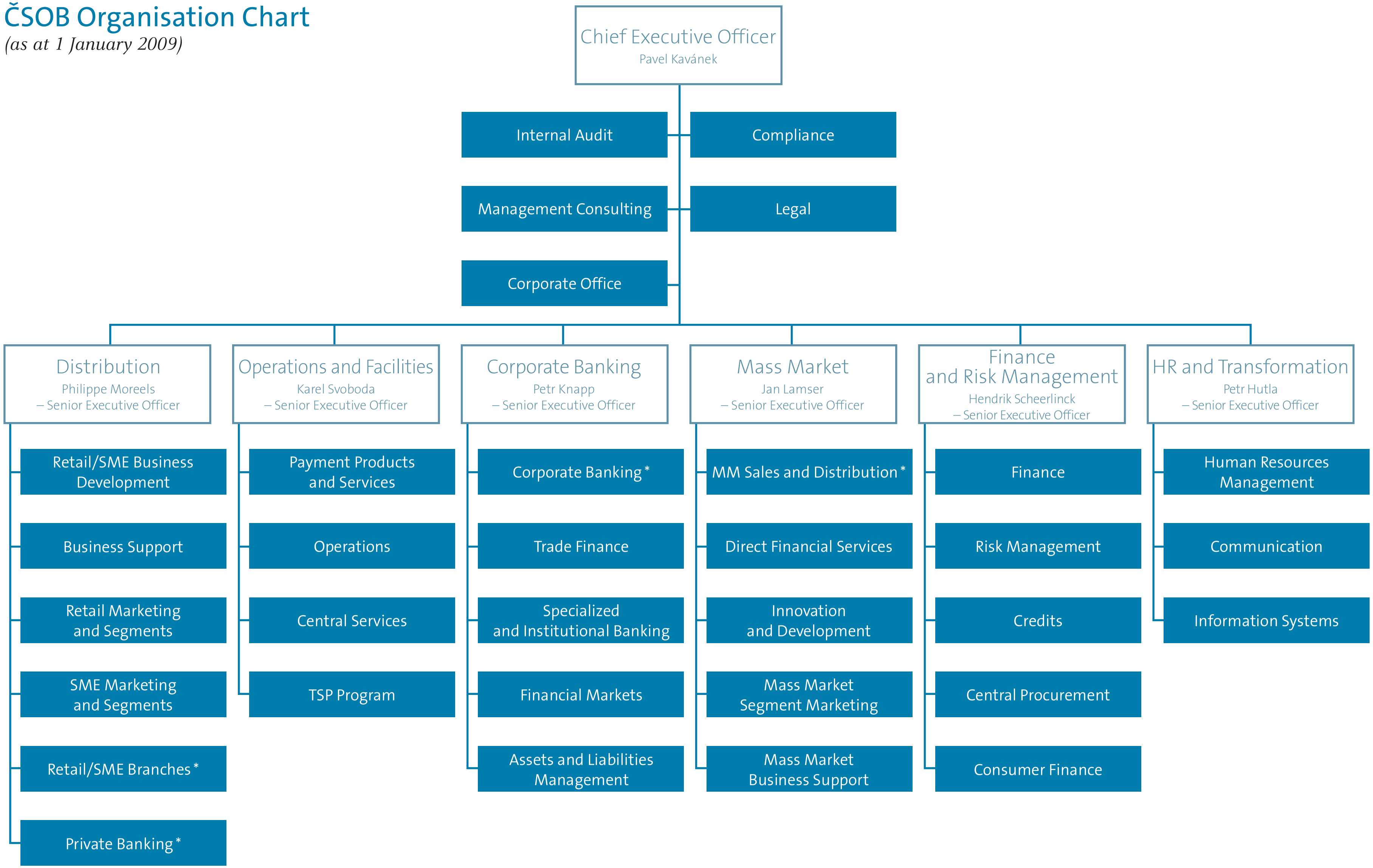
The **Audit Committee** is an advisory body of the Supervisory Board. Its authority and responsibilities are determined by the Audit Committee Charter, which was approved by the ČSOB Supervisory Board. The Audit Committee mainly supervises, monitors and reports on quality of internal control, financial reporting, risk management, compliance with laws and regulations, internal audit, compliance unit and external auditor functioning.

The Audit Committee is composed of three members, who are also members of the CSOB Supervisory Board: Mr. John Hollows – the Chairman of the Audit Committee, Mr. Jan Švejnar and Ms. Riet Docx. They were appointed by the Supervisory Board based on their expertise that is required to perform control tasks in a professional manner. The CEO of ČSOB, the External Auditor, the General Manager of KBC Internal Audit and the Head of ČSOB Internal Audit participate as permanent guests in all meetings. Furthermore some line managers or other employees who can provide the Audit Committee with relevant information can be invited to attend the meeting. Their participation is limited to the relevant agenda topics. In compliance with its plan of work, the Audit Committee held four meetings in 2008, where it discussed issues falling under its competence

The Audit Committee has responsibility for assistance to the Supervisory Board in monitoring and reporting on the overall risk process within the ČSOB group. The Audit Committee supervises the integrity, efficiency and effectiveness of the internal control and the risk management processes and tools in place.

ČSOB Organisation Chart

(as at 1 January 2009)



** These units manage respective branch network*

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FINANCIAL PART

ERNST & YOUNG

Independent Auditor's Report to the Shareholders of Československá obchodní banka, a. s.

We have audited the accompanying consolidated financial statements of Československá obchodní banka, a. s. and its subsidiaries ("the ČSOB group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on the ČSOB group, see Note 1 to the consolidated financial statements.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the ČSOB group as at 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 European Union.

Ernst & Young

Ernst & Young Audit, s.r.o.
License No. 401
Represented by

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, License No. 2009

11 March 2009
Prague, Czech Republic

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2008	Reclassified 2007
Interest income	5	37,862	37,537
Interest expense	6	(16,477)	(16,339)
Net interest income		21,385	21,198
Fee and commission income		8,687	9,433
Fee and commission expense		(2,043)	(2,124)
Net fee and commission income	7	6,644	7,309
Dividend income		117	40
Net (losses) / gains from financial instruments at fair value through profit or loss	8	(11,050)	2,253
Net realised gains on available-for-sale financial assets		49	11
Other net income	9	2,030	826
Operating income		19,175	31,637
Staff expenses	10	(6,686)	(7,597)
General administrative expenses	11	(6,972)	(7,663)
Depreciation and amortisation	21, 22, 23	(1,457)	(1,486)
Provisions	28	101	234
Operating expenses		(15,014)	(16,512)
Impairment losses	12	(3,903)	(1,439)
Share of profit of associates	19	116	181
Profit before tax		374	13,867
Income tax benefit / (expense)	13	720	(2,993)
Profit for the year		1,094	10,874
Attributable to:			
Equity holders of the Bank		1,034	10,837
Minority interest		60	37

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	31. 12. 2008	Reclassified 31. 12. 2007
ASSETS			
Cash and balances with central banks	15	16,602	33,881
Financial assets held for trading	16	131,342	225,684
Financial assets designated at fair value through profit or loss	16	23,514	24,520
Available-for-sale financial assets	17	90,454	77,272
Held-to-maturity investments	17	115,236	116,965
Loans and receivables	18	411,644	412,608
Derivatives used for hedging	20	7,215	5,943
Current tax assets		1,128	697
Deferred tax assets	13	1,248	722
Investment in associate	19	858	703
Investment property	21	1,002	875
Property and equipment	22	10,095	11,936
Goodwill and other intangible assets	23	4,852	4,710
Non-current assets held-for-sale		127	27
Other assets	24	9,168	8,881
Total assets		824,485	925,424
LIABILITIES AND EQUITY			
Financial liabilities held for trading	25	35,064	15,985
Financial liabilities designated at fair value through profit or loss	25	62,796	146,190
Financial liabilities at amortised cost	26	649,371	683,251
Derivatives used for hedging	20	2,493	1,239
Current tax liabilities		133	298
Deferred tax liabilities	13	553	367
Other liabilities	27	16,238	19,674
Provisions	28	993	1,219
Total liabilities		767,641	868,223
Share capital	29	5,855	5,855
Share premium		7,509	7,509
Statutory reserve		18,687	18,687
Retained earnings		17,789	25,959
Reorganization reserve	29	1,423	-
Available-for-sale reserve	29	4,145	(363)
Cash flow hedge reserve	29	743	(649)
Foreign currency translation reserve	29	(196)	(133)
Shareholders' equity		55,955	56,865
Minority interest		889	336
Total equity		56,844	57,201
Total liabilities and equity		824,485	925,424

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

These consolidated financial statements were approved for issue by the Board of Directors on 11 March 2009 and signed on its behalf by:

Pavel Kavánek

Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck

Member of the Board of Directors
and Senior Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

	Attributable to equity holders of the Bank						
(CZKm)	Share capital (Note: 29)	Share premium	Statutory reserve [1]	Retained earnings	Other reserves (Note: 29)	Minority interest	Total Equity
At 1 January 2007	5,105	2,259	18,687	24,685	1,403	394	52,533
Net losses on available-for-sale securities	-	-	-	-	(959)	-	(959)
Net losses on cash flow hedges	-	-	-	-	(1,595)	-	(1,595)
Foreign currency translation	-	-	-	-	(39)	-	(39)
Net change on hedge of net investment	-	-	-	-	53	-	53
Share of changes recognised directly in associate's equity	-	-	-	-	(8)	-	(8)
Total expense for the year recognised directly in equity	-	-	-	-	(2,548)	-	(2,548)
Profit for the year	-	-	-	10,837	-	37	10,874
Total income and expense for the year	-	-	-	10,837	(2,548)	37	8,326
Capital increase	750	5,250	-	-	-	-	6,000
Change in consolidation scope	-	-	-	(21)	-	(27)	(48)
Dividends paid (Note: 14)	-	-	-	(9,542)	-	-	(9,542)
Dividends of subsidiaries	-	-	-	-	-	(68)	(68)
At 31 December 2007	5,855	7,509	18,687	25,959	(1,145)	336	57,201
At 1 January 2008	5,855	7,509	18,687	25,959	(1,145)	336	57,201
Net gains on available-for-sale securities	-	-	-	-	1,716	-	1,716
Net gains on cash flow hedges	-	-	-	-	1,393	-	1,393
Foreign currency translation	-	-	-	-	(88)	-	(88)
Net change on hedge of net investment	-	-	-	-	25	-	25
Share of changes recognised directly in associate's equity	-	-	-	-	39	-	39
Total income for the year recognised directly in equity	-	-	-	-	3,085	-	3,085
Profit for the year	-	-	-	1,034	-	60	1,094
Total income for the year	-	-	-	1,034	3,085	60	4,179
Transformation of business in Slovakia	-	-	-	-	4,175	-	4,175
Change in consolidation scope	-	-	-	(23)	-	-	(23)
Dividends paid (Note: 14)	-	-	-	(9,181)	-	-	(9,181)
Capital increase by minority shareholders of subsidiaries	-	-	-	-	-	541	541
Dividends of subsidiaries	-	-	-	-	-	(48)	(48)
At 31 December 2008	5,855	7,509	18,687	17,789	6,115	889	56,844

(1) The statutory reserve represents accumulated transfers from retained earnings in compliance with the Czech Commercial Code. This reserve is not distributable.

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2008	Reclassified 2007
OPERATING ACTIVITIES			
Profit before tax		374	13,867
Adjustments for:			
Change in operating assets	31	(120,919)	(100,761)
Change in operating liabilities	31	32,432	143,289
Non-cash items included in profit before tax	31	5,635	3,589
Transformation business in Slovakia		(1,977)	-
Net gain from investing activities		(3)	(56)
Income tax paid		(1,028)	(1,307)
Net cash flows (used in) / from operating activities		(85,486)	58,621
INVESTING ACTIVITIES			
Purchase of investment securities		(17,450)	(23,227)
Maturity / disposal of securities		14,553	17,100
Purchase of property, equipment and intangible assets		(2,181)	(3,784)
Purchase of investment property	21	(148)	(875)
Disposal of property, equipment, intangible assets and assets held-for-sale		236	812
Dividends from associates		-	128
Disposal of subsidiary, associate and joint venture companies	3	522	1,709
Net cash flows (used in) investing activities		(4,468)	(8,137)
FINANCING ACTIVITIES			
Issue of bonds		891	6,197
Repayment of bonds		(1,826)	(3,036)
Issue of subordinated liability		-	6,975
Repayment of subordinated liability		(200)	-
Capital increase		-	6,000
Increase / (decrease) in minority interests		553	(31)
Dividends paid		(9,181)	(9,542)
Net cash flows (used in) / from financing activities		(9,763)	6,563
Net (decrease) / increase in cash and cash equivalents		(99,717)	57,047
Cash and cash equivalents at the beginning of the year	31	127,868	70,846
Net (decrease) / increase in cash and cash equivalents		(99,717)	57,047
Net foreign exchange differences		-	(25)
Cash and cash equivalents at the end of the year	31	28,151	127,868
Additional information			
Interest paid		(15,902)	(16,734)
Interest received		38,027	36,470
Dividends received		117	40

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

According to International Financial Reporting Standards as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150 Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies.

Furthermore, the ČSOB group (Group) (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investment, pension insurance, leasing, factoring and distribution of life and non-life insurance products.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The consolidated financial statements are presented in millions of Czech Crowns (CZKm), which is the presentation currency of the Group

Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Basis of consolidation

The consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the parent shareholder's equity.

Joint ventures included in the Group consolidation are proportionally consolidated, which requires that a venturer's share of assets, liabilities, income and expenses in the joint venture to be combined with those of the venturer on a line-by-line basis. Joint control exists when two or more venturers are bound by a contractual arrangement whereby joint control is established.

2.2 Significant accounting judgements and estimates

While applying the Group's accounting policies, the management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish the fair values. The judgements include considerations of credit and liquidity and model inputs such as correlation and volatility for longer dated financial instruments.

Impairment losses on financial instruments

The Group reviews its problem financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgement by the management is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Doing this, the Group takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.3 Summary of significant accounting policies

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

(1) Foreign currency translation

Items included in the financial statements of each of the Group's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the balance sheet date. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss in the statement of income with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which are taken directly to equity until the disposal of the net investment, at which time they are recognised in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Exchange differences from non-monetary available-for-sale financial assets are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

The results and financial position of all the Group entities and Slovak branch, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities at the year-end exchange rates;
- income and expenses at the average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity in the Foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred. A financial liability is derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the balance sheet on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

(3) Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Derivatives held for trading

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading (including interest income and expense) are included in Net gains/losses from financial instruments at fair value through profit or loss.

The Group occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Group cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value in the balance sheet with changes in fair value reflected in the statement of income.

(ii) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract, or when the right to the payment has been established. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(v) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reversed and included in Net realised gains/losses on available-for-sale financial assets. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(vi) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(vii) 'Day 1' profit

Where the transaction price in a non-active market differs from the fair value of other observable current market transactions in the same instrument or the fair value based on a valuation technique the Group immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain on the balance sheet. The corresponding cash received is recognised in the balance sheet in Financial liabilities designated at fair value through profit or loss or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the balance sheet. The corresponding cash paid is recognised in the balance sheet in Financial assets held for trading or Loans and receivables. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(5) Determination of fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using quoted market prices if there is a published price quotation in an active public market. For financial instruments that are not traded on an active public market their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(6) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

– significant financial difficulty of the issuer or obligor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for that financial asset because of financial difficulties; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

  • adverse changes in the payment status of borrowers in the group; or

  • national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written-off against the related allowance for impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off are recorded in the statement of income in Impairment losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

(ii) Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of debt instrument classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(7) Hedge accounting

The Group uses instruments, designated as hedging on the date a contract is entered into, as cash flow hedges or fair value hedges to manage the Group's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in fair value of asset or liability, which could affect the profit or loss. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. A derivative is considered to be highly effective if the Group achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

(i) Cash flow hedges

The effective portion of the change in the fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into earnings in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognized immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss.

(iii) Hedge of a net investment in foreign operations

The hedge of a net investment in foreign operations is accounted for on a similar basis to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the Foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income. Gains and losses accumulated in equity are included in the statement of income when the foreign operation is disposed of.

(8) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(9) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group company as a lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period 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.

(ii) Group company as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as finance lease receivables in the balance sheet in Loans and receivables. A receivable is recognized over the leasing period at an amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the statement of income.

Leases, where the Group does not transfer substantially all the risk and benefits of ownership of the asset, are classified as operating leases. The Group leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned. Rental income and depreciation relating to operating lease assets is recognised net in Other net income.

(10) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans that are probable of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on the completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

(iv) Net gains from financial instruments at fair value through profit or loss

Net gains from financial instruments at fair value through profit or loss include all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(11) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding mandatory minimum reserves), loans and advances to credit institutions and deposits from credit institutions.

(12) Investment property

The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life. The accounting policy outlined for property and equipment also applies to investment property.

(13) Investments in associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method. The Group's share of associates' post-acquisition profits or losses is recognised in the statement of income, and its share of post-acquisition movements in equity is recognised in Retained earnings or in the Available-for-sale reserve.

(14) Property and equipment

Property and equipment includes Group occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included as a net amount in Other net income.

Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, such an asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(15) Business combinations and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets of the acquired business or subsidiary company, the difference is recognised directly in the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

(16) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets.

Intangible assets are carried at cost less accumulated depreciation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Amortisation of the software and other intangible assets is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated under the diminishing balance method during the economic useful life. The economic useful life is the period over which the Group receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included as a net amount in Other net income.

(17) Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. The fee is recognised in the statement of income in Fee and commission income. Any increase and decrease in the liability relating to financial guarantees is included in Impairment losses.

(18) Employee retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Certain Group companies contribute to a defined contribution retirement benefit scheme for participating employees, which is in addition to the employer social security contributions required by the Czech Republic. Contributions are charged to the statement of income as they are made.

(19) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(20) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period. Deferred tax assets and liabilities are recognised due to differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities for each separate consolidated entity.

(21) Fiduciary activities

The Group commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(22) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Future changes in accounting policies

Certain new standards, amendments and interpretations have been published which are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted. The Group is expecting to adopt them in accordance with the effective date of the standards:

IFRS 8 Operating Segments (effective for periods beginning on or after 1 January 2009)

The standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the operating segments would be the same as the business segments currently identified under IAS 14, Segment Reporting.

IAS 1 Revised Presentation of Financial Statements (effective for periods beginning on or after 1 January 2009)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

Other new standards, amendments or interpretations, which the Group has not early adopted:

- IFRS 2 Share-based Payment (effective for periods beginning on or after 1 January 2009).
- IFRS 3 Business Combinations (effective for periods beginning on or after 1 July 2009).
  - IAS 23 Borrowing Costs (effective for periods beginning on or after 1 January 2009).
  - IAS 27 Consolidated and Separate Financial Statements (effective for periods beginning on or after 1 July 2009).
  - IAS 32 Financial Instruments: Disclosure and Presentation (effective for periods beginning on or after 1 January 2009).
  - IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective for periods beginning on or after 1 July 2009).
  - IFRIC 13 Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008).
  - IFRIC 15 Agreements for the Constructions of Real Estate (effective for periods beginning on or after 1 January 2009).
  - IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for periods beginning on or after 1 October 2008).

Unless otherwise described above, the new standards, amendments and interpretations are not expected to significantly affect the Group's financial statements.

2.5 Comparative balances

Reclassifications

Since the Group is a part of the consolidation scope of the KBC Bank NV (KBC Bank), which prepares financial statements according to EU IFRS, the Group has decided to use the same structure for its financial statements and presentation of items within this structure consistent with KBC Bank. Therefore certain items are presented in the financial statements at 31 December 2008 differently from the presentation applied in the financial statements at 31 December 2007. To conform with the changes in presentation in the current year, certain balances have been reclassified.

The following reconciliation shows the changes in the structure of the statement of income for the year 2007 (CZKm):

(CZKm)	2007 As reported	Reclassification of depreciation related to operating leased assets	2007 Reclassified
Other net income	1,279	(453)	826
Depreciation and amortisation	(1,939)	453	(1,486)

The following reconciliation shows the changes in the structure of the balance sheet as at 31 December 2007 (CZKm):

(CZKm)	2007 As reported	Reclassification of accrued interest income/expenses	2007 Reclassified
Cash and balances with central banks	33,830	51	33,881
Financial assets held for trading	224,488	1,196	225,684
Financial assets designated at fair value through profit or loss	24,153	367	24,520
Available-for-sale financial assets	75,956	1,316	77,272
Held-to-maturity investments	114,089	2,876	116,965
Loans and receivables	411,129	1,479	412,608
Derivatives used for hedging	5,587	356	5,943
Accrued interest income	7,641	(7,641)	-
Financial liabilities designated at fair value through profit or loss	145,789	401	146,190
Financial liabilities at amortised cost	681,882	1,369	683,251
Derivatives used for hedging	1,385	(146)	1,239
Accrued interest expenses	1,624	(1,624)	-

A reconciliation of cash and cash equivalents as at 31 December is as follows:

(CZKm)	2007	2006
Cash and cash equivalents – as reported	18,892	28,031
Inclusion of money market interbank advances repayable within 3 months	108,976	42,815
Cash and cash equivalents – reclassified	127,868	70,846

Transformation of business in Slovakia

In 2007, KBC Bank, as the sole shareholder of the Bank, decided to establish a new legal entity in the Slovak Republic, for KBC Group NV (KBC Group) strategic reasons and with the aim of management in both countries (Czech and Slovak Republics) to report directly to the KBC Group. The foundation agreement of Československá obchodná banka, a.s. (ČSOB SK) was signed on 14 August 2007, with an effective date of 1 January 2008.

The structure of shareholders of ČSOB SK is as follows:

	Share on capital (%)	Fair value of share of capital (SKKm)
ČSOB	56.74	11,408
KBC Bank	39.80	8,000
ČSOB Leasing CZ	2.02	407
ČSOB Factoring CZ	1.44	289
Total	100.00	20,104

The share of ČSOB is represented by the non-cash contribution of assets and liabilities recorded in the books of ČSOB Slovakia branch as at 31 December 2007 and the additional deposit of shares of all the ČSOB subsidiaries incorporated in the Slovak Republic.

The KBC Bank share is represented by a cash deposit.

The ČSOB Leasing CZ and ČSOB Factoring CZ shares are represented by their shares in ČSOB Leasing SK and ČSOB Factoring SK.

Based on the Agreement on the exercise of voting rights signed on 14 August 2007, the execution of the voting rights of all other shareholders was transferred to KBC Bank. Therefore, form 1 January 2008, ČSOB SK has been controlled by KBC Bank. The share of the Group in this entity is classified as an available-for-sale financial asset.

The transaction was held between entities under common control and was treated as a reorganisation of the currently existing group. Starting on 1 January 2008, the ČSOB Group's entities in the Slovak Republic were excluded from the ČSOB Group consolidation scope. These shares as well as the deposited assets and liabilities were replaced by the share in ČSOB SK.

The net book value of assets contributed by the Group to ČSOB SK represented CZK 5,409 m. The fair value of contributed assets was CZK 9,584 m. The difference between the net book value and the fair value of contributed assets was recognised in Reorganization reserve (CZK 1,423 m) and Available-for-sale reserve (CZK 2,752 m) (Note: 29). The reorganization reserve represents the dilution of Group's interest in the assets of the ČSOB Slovakia branch and subsidiaries in exchange for an interest in ČSOB SK into which KBC Bank was contributing cash.

The main effects on the ČSOB group consolidated financial statements are shown below.

The following table shows the Consolidated statement of income of the ČSOB group for the year ended 31 December 2007, excluding the results of the operations in the Slovak Republic:

(CZKm)	2007
Interest income	31,309
Interest expense	(12,476)
Net interest income	18,833
Fee and commission income	8,332
Fee and commission expense	(1,840)
Net fee and commission income	6,492
Dividend income	40
Net gains from financial instruments at fair value through profit or loss	1,483
Net realised gains on available-for-sale financial assets	2
Other net income	579
Operating income	27,429
Staff expenses	(6,446)
General administrative expenses	(6,553)
Depreciation and amortisation	(1,248)
Provisions	235
Operating expenses	(14,012)
Impairment losses	(960)
Share of profit of associates	181
Profit before tax	12,638
Income tax expense	(2,699)
Profit for the year	9,939
Attributable to:	
Equity holders of the Bank	9,902
Minority interest	37

The following table shows the Consolidated balance sheet of the ČSOB group as at 31 December 2007, excluding balances in the Slovak Republic:

(CZKm)	2007
ASSETS	
Cash and balances with central banks	29,582
Financial assets held for trading	148,821
Financial assets designated at fair value through profit or loss	24,520
Available-for-sale financial assets	78,731
Loans and receivables	356,690
Held-to-maturity investments	113,140
Derivatives used for hedging	5,943
Current tax assets	686
Deferred tax assets	638
Investments in associates	703
Investment property	875
Property and equipment	10,135
Goodwill and other intangible assets	4,642
Non-current assets held-for-sale	27
Other assets	7,765
Total assets	782,898
LIABILITIES AND EQUITY	
Financial liabilities held for trading	12,602
Financial liabilities designated at fair value through profit or loss	76,140
Financial liabilities at amortised cost	617,239
Derivatives used for hedging	1,239
Current tax liabilities	98
Deferred tax liabilities	365
Other liabilities	18,709
Provisions	1,061
Total liabilities	727,453
Share capital	5,855
Share premium	7,509
Statutory reserve	18,687
Retained earnings	24,184
Available-for-sale reserve	(344)
Cash flow hedge reserve	(649)
Foreign currency translation reserve	(133)
Parent shareholders' equity	55,109
Minority interest	336
Total equity	55,445
Total liabilities and equity	782,898

Profit for the year of the operations in the Slovak Republic of CZK 935 m and post acquisition retained earnings of Slovak entities of CZK 658 m were allocated to the CSOB SK and were not included in the Retained earnings balance above.

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATION

The scope of consolidation includes 30 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2008	% 2007
Subsidiaries				
Auxilium, a.s.	Auxilium	Czech Republic	100.00	100.00
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
Business Center, s.r.o.	Business Center	Slovak Republic	-	100.00
Centrum Radlická, a.s.	Centrum Radlická	Czech Republic	100.00	100.00
ČSOB Asset Management, a.s., a member of the ČSOB group	ČSOB AM CZ	Czech Republic	20.59	20.59
ČSOB Asset Management, správ. spol., a.s.	ČSOB AM SK	Slovak Republic	-	100.00
ČSOB distribution, a.s.	ČSOB distribution	Slovak Republic	-	100.00
ČSOB d.s.s., a.s.	ČSOB d.s.s.	Slovak Republic	-	100.00
ČSOB Factoring, a.s.	ČSOB Factoring CZ	Czech Republic	100.00	100.00
ČSOB Factoring a.s.	ČSOB Factoring SK	Slovak Republic	-	100.00
ČSOB Investiční společnost, a.s., a member of the ČSOB group	ČSOB IS	Czech Republic	90.81	90.81
ČSOB Investment Banking Services, a.s., a member of the ČSOB group	ČSOB IBS	Czech Republic	100.00	100.00
ČSOB korporátní, ČSOB Investiční společnost, a.s., a member of the ČSOB group, open-ended equity fund	ČSOB korporátní	Czech Republic	-	100.00
ČSOB Leasing, a.s.	ČSOB Leasing CZ	Czech Republic	100.00	100.00
ČSOB Leasing, a.s. SK	ČSOB Leasing SK	Slovak Republic	-	100.00
ČSOB Leasing poisťovací maklér, s.r.o.	ČSOB Leasing poisťovací maklér	Slovak Republic	-	100.00
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř	Czech Republic	100.00	100.00
ČSOB Penzijní fond Progres, a.s., a member of the ČSOB group	ČSOB PF Progres	Czech Republic	100.00	100.00
ČSOB Penzijní fond Stabilita, a.s., a member of the ČSOB group	ČSOB PF Stabilita	Czech Republic	100.00	100.00
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	Czech Republic	70.09	20.59
ČSOB stavebná sporiteľňa, a.s.	ČSOB SP	Slovak Republic	-	100.00
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	99.90	99.87
Merrion properties, s.r.o.	Merrion properties	Czech Republic	70.09	20.59
Property LM, s.r.o.	Property LM	Slovak Republic	70.09	-
Property Skalica, s.r.o.	Property Skalica	Slovak Republic	70.09	-
První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s.	AXA First special OEF	Czech Republic	100.00	-
Joint venture				
Českomoravská stavební spořitelna, a.s.	ČMSS	Czech Republic	55.00	55.00
Associate				
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	25.00	25.00

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 53% of the voting rights in the ČSOB AM CZ, therefore the company is considered to be a subsidiary.

In October 2008, 15% of voting rights in ČSOB Pojišťovna previously held by KBC Verzekeringen NV were transferred to the Group. The Group is therefore entitled to excercise 40% of the voting rights in ČSOB Pojišťovna.

On 1 January 2008, the Group deposited the shares of all the subsidiaries incorporated in the Slovak Republic into a new legal entity (Note: 2.5).

Based on the purchase of all participation certificates issued by AXA First special OEF, on 15 July 2008, ČSOB became a sole proprietor of this entity and included this company in the consolidation scope.

In 2008 were increased shares of companies ČSOB Property fund and Merrion Properties. No goodwill arose from this increasing. Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 100% of the voting rights in ČSOB Property fund and Merrion Properties.

Based on founding new companies Property LM and Property Skalica in 2008, Group included these companies in the consolidation scope for the first time. No goodwill arose on consolidation. Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 100% of the voting rights in Property LM and Property Skalica.

Based on the Shareholders Agreement, the Group controls ČMSS jointly with the other owner of remaining 45%. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

In 2007, Group included ČSOB korporátní and ČSOB Property fund in the consolidation scope for the first time. No goodwill arose on consolidation.

In 2007, IPB Leasing, a.s. merged with ČSOB IBS.

In 2007, Zemský PF merged with ČSOB PF Progres.

The goodwill has been allocated to subsidiaries acquired and is attributable to the high profitability of the acquired business and the significant synergies expected to arise.

In 2008 and 2007, no new business combinations were occured.

In June 2008, the Group sold all participation certificates of ČSOB korporátní.

The activities of ČSOB výnosový were terminated in 2007. The Group as a sole participant of the mutual fund called for a buy-out of all its collective investment units. This buy-out, including a settlement of all liabilities to the sole participant, was realised in January 2007. As a consequence of the buy-out, the Board of Directors of ČSOB IS decided to terminate the activities of the mutual fund. The Czech National Bank (CNB) decision on the withdrawal of the permission came into effect on 21 March 2007. Based on the facts described above, the entity was excluded from the scope of the consolidation.

Details of the assets and liabilities disposed of and the disposal consideration are as follows:

(CZKm)	Carrying value 2008	Carrying value 2007
Available-for-sale financial assets	-	24
Financial assets designated at fair value through profit or loss	423	-
Loans and receivables	-	1,771
Property and equipment	-	3
Other assets	100	1
	523	1,799
Current tax liabilities	1	-
Other liabilities	-	47
Provisions	-	16
	1	63
Net assets	522	1,736
Minority interests	-	(27)
Proceeds from sale	522	1,709

The table does not include assets and liabilities contributed by the Group to ČSOB SK (Note: 2.5).

4. SEGMENT INFORMATION

The Group's primary segment reporting is by customer segment.

Segment reporting information by customer segments for 2008

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Net interest income	14,987	2,078	1,386	2,934	21,385
Net fee and commission income	5,589	1,034	(168)	189	6,644
Dividend income	21	-	1	95	117
Net gains / (losses) from financial instruments at fair value through profit or loss	1,209	1,110	(11,035)	(2,334)	(11,050)
Net realised gains / (losses) on available-for-sale financial assets	(2)	-	45	6	49
Other operating income	767	131	(11)	1,143	2,030
Operating income	22,571	4,353	(9,782)	2,033	19,175
of which:					
External operating income	16,115	5,155	(2,656)	561	19,175
Internal operating income	6,456	(802)	(7,126)	1,472	-
Depreciation and amortisation	(347)	(26)	(3)	(1,081)	(1,457)
Other operating expenses	(8,815)	(700)	(265)	(3,777)	(13,557)
Operating expenses	(9,162)	(726)	(268)	(4,858)	(15,014)
Impairment losses - additions	(3,614)	(488)	(506)	(504)	(5,112)
Impairment losses - reversals	702	262	-	245	1,209
Share of profit of associates	-	-	-	116	116
Impairment losses	(2,912)	(226)	(506)	(259)	(3,903)
Profit before tax	10,497	3,401	(10,556)	(2,968)	374
Income tax benefit / (expense)	(2,308)	(703)	3,031	700	720
Segment profit / (loss)	8,189	2,698	(7,525)	(2,268)	1,094
Attributable to:					
Equity holders of the Bank	8,189	2,698	(7,525)	(2,328)	1,034
Minority interest	-	-	-	60	60
Assets and liabilities					
Segment assets	248,066	108,928	408,632	58,001	823,627
Investment in associates	-	-	-	858	858
Total assets	248,066	108,928	408,632	58,859	824,485
Total liabilities	517,523	96,854	175,203	34,905	824,485

Segment reporting information by customer segments for 2007

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Net interest income	14,395	2,516	2,024	2,263	21,198
Net fee and commission income	6,066	1,248	(139)	134	7,309
Dividend income	18	1	39	(18)	40
Net gains / (losses) from financial instruments at fair value through profit or loss	1,630	1,074	358	(809)	2,253
Net realised gains / (losses) on available-for-sale financial assets	(1)	-	(133)	145	11
Other operating income	9	27	(15)	805	826
Operating income	22,117	4,866	2,134	2,520	31,637
of which:					
External operating income	15,646	5,221	9,642	1,128	31,637
Internal operating income	6,471	(355)	(7,508)	1,392	-
Depreciation and amortisation	(25)	(8)	(1)	(1,452)	(1,486)
Other operating expenses	(9,522)	(951)	(490)	(4,063)	(15,026)
Operating expenses	(9,547)	(959)	(491)	(5,515)	(16,512)
Impairment losses	(1,502)	109	-	(46)	(1,439)
Share of profit of associates	-	-	-	181	181
Profit before tax	11,068	4,016	1,643	(2,860)	13,867
Income tax benefit / (expense)	(2,477)	(982)	(195)	661	(2,993)
Segment profit / (loss)	8,591	3,034	1,448	(2,199)	10,874
Attributable to:					
Equity holders of the Bank	8,591	3,034	1,448	(2,236)	10,837
Minority interest	-	-	-	37	37
Assets and liabilities					
Segment assets	266,509	115,528	462,571	80,113	924,721
Investment in associates	-	-	-	703	703
Total assets	266,509	115,528	462,571	80,816	925,424
Total liabilities	459,668	105,457	228,317	74,781	868,223

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis. As a number of items are reported on a net basis, the balance of the intersegment transactions for these items is limited.

Definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover of less than CZK 300 m.

Corporate: Companies with a turnover of greater than CZK 300 m and non-banking institutions in the financial sector.

Financial markets and ALM: Asset Liability Management segment, Dealing segment.

Other: Non-banking subsidiaries, Headquarters, unallocated expenses and eliminating and reconciling items.

The Group also operates Poštovní spořitelna (Postal Savings Bank), which has approximately 2.3 m customer accounts with deposits amounting to approximately CZK 129 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

The Group operated in the Czech Republic and the Slovak Republic until 31 December 2007. On 1 January 2008, the Group contributed the assets and liabilities recorded in the books of the ČSOB Slovakia branch as at 31 December 2007 and shares of all the ČSOB subsidiaries incorporated in the Slovak Republic into the new legal entity established in the Slovak Republic (Note: 2.5).

The Group's secondary segment reporting by geographical segment for 2007 was as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	778,552	94,572	27,429	3,523
Slovak Republic	146,872	19,764	4,208	261
Total	925,424	114,336	31,637	3,784

Balances in the segment reporting are net of inter-segment transactions.

5. INTEREST INCOME

(CZKm)	2008	2007
Cash balances with central banks	1,542	1,070
Loans and receivables		
Credit institutions	663	958
Other than credit institutions	20,749	19,397
Available-for-sale financial assets	3,234	2,705
Held-to-maturity investments	5,025	4,912
Financial assets held for trading	5,367	7,459
Financial assets designated at fair value through profit or loss	1,282	1,036
	37,862	37,537

Included within interest income is accrued interest income of CZK 525 m (2007: CZK 494 m) related to impaired financial assets.

6. INTEREST EXPENSE

(CZKm)	2008	2007
Financial liabilities at amortised cost		
Central banks	22	-
Credit institutions	863	1,040
Other than credit institutions	8,789	7,988
Debt instruments in issue	1,925	1,535
Subordinated liabilities	552	371
Discount amortisation on other provisions (Note: 28)	13	6
Financial liabilities designated at fair value through profit or loss	4,313	5,399
	16,477	16,339

7. NET FEE AND COMMISSION INCOME

(CZKm)	2008	2007
Fee and commission income		
Payment services	4,947	5,339
Credit commitments	845	778
Collective investments	709	730
Asset management	279	462
Custody	154	150
Insurance	114	120
Securities	74	209
Other	1,565	1,645
	8,687	9,433
Fee and commission expense		
Payment services	613	649
Contribution to Deposit Insurance Fund	394	416
Commissions to agents	348	334
Other	688	725
	2,043	2,124
Net fee and commission income	6,644	7,309

8. NET (LOSSES) / GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net (losses) / gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net (losses) / gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

(CZKm)	2008	2007
Net (losses) / gains from financial instruments at fair value through profit or loss - as reported	(11,050)	2,253
Net interest income (Notes: 5, 6)	2,336	3,096
	(8,714)	5,349
Financial instruments held for trading		
Interest rate contracts	1,389	7,931
Foreign exchange	406	203
Equity contracts	(61)	31
Commodity contracts	50	(14)
	1,784	8,151
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	(8,523)	(340)
Financial liabilities designated at fair value through profit or loss	(4,340)	(5,422)
	(12,863)	(5,762)
Exchange differences revaluations	2,365	2,960
Financial instruments at fair value through profit or loss	(8,714)	5,349

9. OTHER NET INCOME

(CZKm)	2008	2007
Services provided to CSOB SK	377	-
Net operating leasing and rental income	273	142
Net gain on disposal of property and equipment	17	66
Net gain on disposal of Financial liabilities	4	-
Net gain on disposal of loans and receivables	2	51
Net (loss)/gain on disposal of associates, joint ventures and subsidiaries	(1)	58
Contributions to pension fund clients	(18)	(428)
Other	1,376	937
	2,030	826

10. STAFF EXPENSES

(CZKm)	2008	2007
Wages and salaries	4,709	5,274
Salaries and other short-term benefits of senior management	78	99
Social security charges	1,442	1,667
Pension and similar expense	135	139
Other	322	418
	6,686	7,597

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

Only the Chairman of the Supervisory Board is remunerated for his membership of the Supervisory Board.

Retirement benefits

The Group provides its Czech Republic employees (including senior management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries to the ČSOB PF Stabilita, or ČSOB PF Progres, wholly-owned subsidiaries of ČSOB, with a contribution of the Bank of 2% or 3% of their salaries, respectively.

11. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2008	2007
Marketing	1,129	1,237
Retail service fees	1,090	953
Information technology	1,014	903
Communication	833	905
Rental expenses	550	771
Other building expenses	490	560
Professional fees	338	405
Administration	204	452
Travel and transportation	88	175
Car expenses	73	112
Insurance	45	60
Operating taxes	29	19
Other	1,089	1,111
	6,972	7,663

12. IMPAIRMENT LOSSES

(CZKm)	2008	2007
Impairment of loans and receivables (Note: 18)	(2,250)	(1,579)
Provisions for loan commitments and guarantees (Note: 28)	-	140
Impairment of available for sale assets	(984)	-
Impairment of held-to-maturity investments	(370)	-
Impairment of non-current assets held-for-sale	(9)	-
Impairment of other assets	(290)	-
	(3,903)	(1,439)

13. TAXATION

The components of income tax (benefit)/expense for the years ended 31 December 2008 and 2007 are as follows:

(CZKm)	2008	2007
Current tax expense	604	2,296
Previous year over accrual	(168)	(17)
Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences	(1,157)	604
Deferred tax expense resulting from reduction in tax rate	1	110
	(720)	2,993

A reconciliation between the tax (benefit)/expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2008 and 2007 is as follows:

(CZKm)	2008	2007
Profit before taxation	374	13,867
Applicable tax rates	21%	24%
Taxation at applicable tax rates	78	3,328
Previous year over accrual	(168)	(17)
Tax effect of non-taxable income	(1,664)	(1,052)
Tax effect of non-deductible expenses	1,030	580
Effect of foreign taxes	-	(16)
Effect on opening deferred taxes due to reduction in tax rate	1	110
Other	3	60
	(720)	2,993

During 2007, changes in the Income tax law were approved. The applicable tax rate for 2008 was 21% (2007: 24%) and for future periods it will be 20% for 2009 and 19% for 2010 onwards.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19% enacted for 2010 as the management expects that the majority of temporary differences will be reversed in 2010 or later.

The movement on the deferred income tax account is as follows:

(CZKm)	2008	2007
At 1 January	355	321
Transformation of business in Slovakia	(161)	-
Statement of income charge	1,156	(714)
Available-for-sale securities		
Fair value remeasurement (Note: 29)	(341)	319
Transfer to net profit	23	(22)
Cash-flow hedges		
Fair value remeasurement (Note: 29)	(364)	388
Transfer to net profit	27	73
Net investment hedges		
Fair value remeasurement (Note: 29)	(7)	7
Exchange differences	7	(17)
At 31 December	695	355

Deferred tax asset and liability are attributable to the following items:

(CZKm)	2008	2007
Deferred tax asset		
Unused tax losses applicable in the next periods	838	4
Revaluation of financial assets and liabilities at fair value	207	(90)
Provisions	173	169
Interest rate bonus	130	127
Impairment losses on financial investments	116	-
Legal claim	92	97
Allowances for credit losses	61	78
Initial fee income	57	17
Accelerated tax depreciation	(23)	(13)
Amortisation of goodwill	(139)	(102)
Cash flow hedges	(166)	166
Available-for-sale securities	(170)	140
Other temporary differences	72	129
	1,248	722
Deferred tax liability		
Accelerated tax depreciation	788	294
Finance lease valuation	331	299
Available-for-sale securities	83	(1)
Initial fee expense	58	-
Revaluation of financial assets and liabilities at fair value	50	-
Provisions	(4)	(7)
Allowances for credit losses	(168)	(77)
Unused tax losses applicable in the next periods	(607)	(87)
Other temporary differences	22	(54)
	553	367

The deferred tax benefit/charge in the statement of income comprises the following temporary differences:

(CZKm)	2008	2007
Unused tax losses applicable in the next periods	1,361	91
Revaluation of financial assets and liabilities at fair value through profit or loss	227	(88)
Impairment losses on financial investments	115	-
Allowances for credit losses	136	(24)
Provisions	7	(49)
Interest rate bonus	3	(5)
Available-for-sale securities	3	(16)
Legal claim	-	(147)
Amortisation of goodwill	(41)	(44)
Finance lease valuation	(41)	(92)
Initial fee income	(54)	(38)
Accelerated tax depreciation	(501)	(195)
Other temporary differences	(60)	3
Deferred tax expense resulting from reduction in tax rate	1	(110)
	1,156	(714)

The Group's management believes it is probable that the Group will fully realise its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities. The Group can carry forward tax loss for up to 5 years from its recognition.

14. DIVIDENDS PAID

Final dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. Based on the decision from 3 June 2008, a dividend of CZK 1,568 per share was approved for 2007, representing a total dividend of CZK 9,181 m.

Based on the decision from 14 November 2007, a dividend of CZK 1,869 per share was approved for 2006, representing a total dividend of CZK 9,542 m.

15. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2008	2007
Cash	8,348	9,382
Mandatory minimum reserves	5,467	4,828
Other balances with central banks	2,787	19,620
	16,602	33,830
Accrued interest income	-	51
	16,602	33,881

Mandatory minimum reserves are not available for use in the Group's day-to-day operations.

The CNB pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on the mandatory minimum reserve balances at 1.5% in 2007.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2008	2007
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 34)	15,389	47,138
Money market placements	46,952	105,517
Debt instruments	22,741	53,375
Debt securities pledged as collateral	12,529	3,923
Derivative contracts (Note: 20)	32,781	14,535
	130,392	224,488
Accrued interest income	950	1,196
	131,342	225,684
Financial assets designated at fair value through profit or loss		
Equity instruments	-	117
Debt instruments	20,313	22,672
Debt securities pledged as collateral	2,615	1,364
	22,928	24,153
Accrued interest income	586	367
	23,514	24,520
Financial assets at fair value through profit or loss	154,856	250,204

17. FINANCIAL INVESTMENTS

(CZKm)	2008	2007
Available-for-sale financial assets		
Debt securities	76,682	73,012
Equity securities	13,532	2,983
Provisions for impairment	(1,010)	(39)
	89,204	75,956
Accrued interest income	1,250	1,316
	90,454	77,272
Held-to-maturity investments		
Debt securities	112,781	114,089
Provisions for impairment	(402)	-
	112,379	114,089
Accrued interest income	2,857	2,876
	115,236	116,965
Financial investments	205,690	194,237

Included within Financial investments are debt securities of CZK 28,857 m (2007: CZK 56,236 m) pledged as collateral in repo transactions.

The gross amount of financial investments individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2008, amounts to CZK 1,977 m (31 December 2007: CZK 39 m). The Group does not hold any collateral relating to financial investments individually determined to be impaired.

18. LOANS AND RECEIVABLES

(CZKm)	2008	2007
Analysed by category of borrower		
Central government	6,023	11,298
Non credit institutions	4,712	4,754
Credit institutions	16,807	19,382
Corporate	191,353	204,790
Retail	198,312	178,204
Gross loans	417,207	418,428
Allowance for impairment losses	(6,830)	(7,299)
	410,377	411,129
Accrued interest income	1,267	1,479
	411,644	412,608

Of which finance lease receivables may be analysed as follows:

(CZKm)	2008	2007
Gross investment in finance leases, receivable	27,881	45,968
At not more than one year	12,899	20,643
At more than one but not more than five years	14,770	24,751
At more than five years	212	574
Unearned future finance income on finance leases	(1,902)	(4,403)
Net investment in finance leases	25,979	41,565
At not more than one year	12,019	18,355
At more than one but not more than five years	13,763	22,701
At more than five years	197	509
Accumulated allowance for uncollectible minimum lease payments receivable	440	424

Finance lease receivables are fully collateralised by the leased items. Leasing companies maintain legal ownership of the respective collateral.

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2007 and 2008 by segments and by individual and collective impairment:

(CZKm)	Credit institutions	Non-credit institutions	Corporate	Retail	Total
At 1 January 2007	24	1	4,856	2,124	7,005
Net increase / (decrease) in allowances for credit losses (Note: 12)	97	8	473	1 001	1,579
Write-offs	(24)	-	(795)	(373)	(1,193)
Foreign currency translation	(2)	-	(79)	(11)	(92)
At 31 December 2007	95	9	4,454	2,741	7,299
Transformation of business in Slovakia	(46)	-	(778)	(930)	(1,754)
Net increase / (decrease) in allowances for credit losses (Note: 12)	(28)	(7)	1,199	1,086	2,250
Write-offs	-	-	(469)	(504)	(973)
Foreign currency translation	1	-	20	(13)	8
At 31 December 2008	22	2	4,426	2,380	6,830

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2007	5,991	1,014	7,005
Net increase in allowances for credit losses (Note: 12)	1,919	(340)	1,579
Write-offs	(1,193)	-	(1,193)
Transfers	(5)	5	-
Foreign currency translation	(87)	(5)	(92)
At 31 December 2007	6,625	674	7,299
Transformation of business in Slovakia	(1,570)	(184)	(1,754)
Net increase in allowances for credit losses (Note: 12)	2,195	55	2,250
Write-offs	(973)	-	(973)
Transfers	3	(3)	-
Foreign currency translation	(1)	9	8
At 31 December 2008	6,279	551	6,830

The gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2008 amounts to CZK 10,257 m (31 December 2007: CZK 9,925 m).

The fair value of collateral held by the Group relating to loans individually determined to be impaired at 31 December 2008 amounts to CZK 4,186 m (31 December 2007: CZK 3,730 m). The collateral consists of cash, securities, guarantees received, properties and equipments.

During 2008, the Group took possession of assets with an estimated value of CZK 268 m (2007: CZK 105 m), which the Group is in the process of selling.

19. INVESTMENT IN ASSOCIATE AND JOINT VENTURE

The Group has a 25% ownership interest (2007: 25%) in ČSOB Pojišťovna (Note: 3). The following table illustrates the summarised financial information of the investment in this associate:

(CZKm)	2008	2007
Share of the associate's balance sheet		
Assets	7,898	7,225
Liabilities	7,040	6,522
Net assets	858	703
Carrying amount of the investment	858	703
Share of the associate's revenue and profit		
Revenue	1,866	1,516
Profit for the year	116	181

The Group has a 55% ownership interest (2007: 55%) in ČMSS (Note: 3). For 2008 and 2007, the Group's interest in this joint venture is as follows:

(CZKm)	2008	2007
Condensed assets and liabilities		
Cash and balances with central banks	1,183	856
Available-for-sale financial assets	13,837	15,649
Loans and receivables	61,697	47,937
Held-to-maturity investments	8,169	15,440
Tax assets	16	124
Property and equipment	444	459
Goodwill and other intangible assets	81	70
Other assets	142	111
Total assets	85,569	80,646
Financial liabilities at amortised cost	80,906	77,070
Tax liabilities	37	44
Other liabilities	413	324
Provisions	6	6
Total liabilities	81,362	77,444
Condensed statement of income		
Net interest income	1,537	1,195
Net fee and commission income	376	399
Other operating income	16	(7)
Operating income	1,929	1,587
Operating expenses	(707)	(658)
Impairment losses	(106)	(58)
Profit before tax	1,116	871
Income tax expense	(185)	(160)
Profit for the year	931	711

20. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Group for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance by counterparties to the derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

There are no significant concentrations of trading and hedging derivative credit exposures other than with the international banking sector, which are the usual counterparties to transactions undertaken for trading and managing the Group's own risks.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book and which do not meet the criteria of hedge accounting. The Group uses single currency interest rate swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2008 and 2007 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

(CZKm)	2008 Notional amount	2008 Fair value Positive	2008 Fair value Negative	2007 Notional amount	2007 Fair value Positive	2007 Fair value Negative
Interest rate related contracts						
Swaps	908,855	17,352	22,038	857,681	7,382	7,527
Forwards	63,729	57	127	143,834	89	71
Options	29,231	160	151	21,668	82	41
	1,001,815	17,569	22,316	1,023,183	7,553	7,639
Foreign exchange contracts						
Swaps/Forwards	227,861	6,090	4,866	212,989	1,917	3,358
Cross currency interest rate swaps	60,115	3,234	1,941	110,591	3,498	1,472
Options	141,544	4,455	4,455	129,211	1,0711,071	1,071
	429,520	13,779	11,262	452,791	6,486	5,901
Equity contracts						
Forwards	100	6	20	100	80	20
Commodity contracts						
Swaps	7,643	1,427	1,418	3,368	416	436
Total derivatives held for trading (Notes: 16, 25)	1,439,078	32,781	35,016	1,479,442	14,535	13,996

Cash flow hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to eliminate the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of cash flow hedges.

The Group uses single currency interest rate swaps to convert floating-rate loans to fixed rates. Currency interest rate swaps were used to exchange a series of foreign currency cash flows originating from a foreign currency asset for a series of cash flows appropriately structured in the required currency and maturity to match the respective liabilities.

There was no significant cash flow hedge ineffectiveness as at 31 December 2008 and 2007.

The contract or notional amounts and positive and negative fair values of the Group's outstanding cash flow hedging derivatives as at 31 December 2008 and 2007 are set out as follows:

(CZKm)	2008 Notional amount	2008 Fair value Positive	2008 Fair value Negative	2007 Notional amount	2007 Fair value Positive	2007 Fair value Negative
Cash flow hedges						
Single currency interest rate swaps	52,181	1,581	1,011	48,053	188	596
Cross currency interest rate swaps	44,833	5,634	658	43,259	5,747	521
Swaps/Forwards	-	-	-	181	8	-
	97,014	7,215	1,669	91,493	5,943	1,117

Net gains on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2008	2007
Interest income	136	306
Taxation	(27)	(73)
Net gains (Note: 29)	109	233

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to the hedge floating interest income from reverse repo operations with the Czech National Bank earning 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Group and the fixed interest rate the Group receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest income earning securities are included in Available-for-sale financial assets and Held-to-maturity investments of the Group's balance sheet.

Since the cash-flows from the hedging interest rate swaps are variable and difficult to predict, the Group uses the remaining contractual maturity analysis of the hedging derivatives notionals instead of expected future cash-flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notionals remaining maturity is more relevant.

The following table shows an analysis of notional amounts of hedging derivatives by remaining contractual maturity at 31 December:

(CZKm)	2008	2007
Less than 3 months	2,184	3,389
More than 3 months but not more than 6 months	2,138	2,352
More than 6 months but not more than 1 year	1,191	1,200
More than 1 year but not more than 2 years	23,958	4,757
More than 2 years but not more than 5 years	32,417	43,406
More than 5 years	35,126	36,389
	97,014	91,493

Fair value hedging derivatives

The Group uses cross currency interest rate swaps and term deposits denominated in the Slovak crown to hedge the volatility of the fair value of a hedged item. In 2008, the hedged item was a currency risk related to Group's share in the new legal entity ČSOB SK, established by KBC Bank in Slovakia on 1 January 2008. The investment is classified as Available-for-sale asset which is measured at fair value directly in equity. Because the changes in the fair value which correspond to changes in foreign exchange rates are marked as a hedged item, they are reported in net losses from financial instruments at fair value through profit or loss in the statement of income.

The contract or notional amounts and positive and negative fair values of the Group's outstanding fair value hedging derivatives as at 31 December 2008 and 2007 are set out as follows:

	2008			2007		
		Fair value			Fair value	
(CZKm)	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Fair value hedges						
Cross currency interest rate swaps	5,303	-	824	-	-	-

The total realised foreign exchange gains in the amount of CZK 1,322 m on the hedged item attributable to the hedged currency risk is included in Net losses from financial instruments at fair value through profit or loss.

Net investment hedging derivatives

The Group hedged part of the currency translation risk of net investments in foreign operations through cross currency interest rate swaps and currency deposits. Deposits amounting to CZK 0 m (31 December 2007: CZK 659 m) were designated as hedges and gave rise to currency gains for the year of CZK 0 m (31 December 2007: gains CZK 21 m), which have been deferred in equity.

The contract or notional amounts and positive and negative fair values of the Group's outstanding net investment hedging derivatives as at 31 December 2008 and 2007 are set out as follows:

	2008			2007		
		Fair value			Fair value	
(CZKm)	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Net investment hedges						
Cross currency interest rate swaps	-	-	-	3,105	-	122

21. INVESTMENT PROPERTY

(CZKm)	2008	2007
Net book value at 1 January	875	-
Additions	148	875
Depreciation	(38)	-
Foreign exchange adjustments	17	-
Net book value at 31 December	1,002	875
of which		
Cost	1,040	875
Depreciation and impairment	(38)	-
Fair value at 31 December	886	875
Other disclosures		
Rental income	62	-
Direct operating expenses from investments generating rental income	18	-
Direct operating expenses from investments not generating rental income	2	-

The Group purchased an investment property on 21 December 2007. The fair value of the investment property is equal to the cost of the investment property and there were no amounts related to the investment property recognised in the statement of income for the year ended 31 December 2007.

On 31 December 2008 investment property was valued by an independent expert, based primarily on the capitalisation of the estimated rental value and unit prices of similar real property, with account being taken of all the market parameters available on the date of the assessment.

22. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2007	9,792	3,003	987	5,445	19,227
Depreciation and impairment at 1 January 2007	(1,826)	(2,615)	(811)	(2,951)	(8,203)
Net book value at 1 January 2007	7,966	388	176	2,494	11,024
Additions	558	299	118	2,058	3,033
Disposals	(12)	(8)	(3)	(585)	(608)
Disposals through business combination	(1)	-	(2)	-	(3)
Depreciation	(357)	(230)	(44)	(417)	(1,048)
Depreciation related to operating leased assets	-	-	-	(453)	(453)
Foreign exchange adjustments	(13)	-	-	4	(9)
Net book value at 31 December 2007	8,141	449	245	3,101	11,936
of which					
Cost	10,295	2,864	865	6,321	20,345
Depreciation and impairment	(2,154)	(2,415)	(620)	(3,220)	(8,409)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2008	10,295	2,864	865	6,321	20,345
Depreciation and impairment at 1 January 2008	(2,154)	(2,415)	(620)	(3,220)	(8,409)
Net book value at 1 January 2008	8,141	449	245	3,101	11,936
Additions	331	441	48	631	1,451
Disposals	(14)	(9)	(2)	(135)	(160)
Depreciation	(319)	(273)	(35)	(329)	(956)
Depreciation related to operating leased assets	-	-	-	(266)	(266)
Transfer to Held-for-sale assets	(109)	-	-	-	(109)
Transformation of business in Slovakia	(1,403)	(46)	(44)	(308)	(1,801)
Net book value at 31 December 2008	6,627	562	212	2,694	10,095
of which					
Cost	8,617	2,749	752	5,976	18,094
Depreciation and impairment	(1,990)	(2,187)	(540)	(3,282)	(7,999)

The net book value of the Construction in progress, included in Property and equipment, amounted to CZK 406 m at 31 December 2008 (31 December 2007: CZK 463 m).

23. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2007	3,643	3,300	842	7,785
Amortisation and impairment at 1 January 2007	(63)	(2,834)	(385)	(3,282)
Net book value at 1 January 2007	3,580	466	457	4,503
Additions	-	557	194	751
Disposals	-	(90)	(12)	(102)
Amortization and impairment	-	(376)	(62)	(438)
Foreign exchange adjustments	(4)	-	-	(4)
Net book value at 31 December 2007	3,576	557	577	4,710
of which				
Cost	3,639	3,735	989	8,363
Amortization and impairment	(63)	(3,178)	(412)	(3,653)

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2008	3,639	3,735	989	8,363
Depreciation and impairment at 1 January 2008	(63)	(3,178)	(412)	(3,653)
Net book value at 1 January 2008	3,576	557	577	4,710
Additions	-	596	134	730
Disposals	-	(57)	(2)	(59)
Amortization and impairment	-	(373)	(89)	(462)
Transformation of business in Slovakia	-	(47)	(20)	(67)
Net book value at 31 December 2008	3,576	676	600	4,852
of which				
Cost	3,639	4,046	1,086	8,771
Amortization and impairment	(63)	(3,370)	(486)	(3,919)

Goodwill has been allocated to acquired subsidiaries (CZK 887 m) and the Retail / SME segment (CZK 2,689 m), each representing a cash-generating unit (Note: 4). The recoverable amount has been determined based on a value in use calculation. That calculation uses cash-flow projections based on the financial budgets approved by the management covering a period 2009 - 2011. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. Cash flows in the Retail / SME segment are represented by net profit generated by the cash-generating unit above the required capital, calculated as 8.00% of its risk weighted assets, and a terminal value of the business. The first ten-year period future cash flows were discounted using a risk free rate of 3.95% (2007: 4.50%) adjusted by a market risk premium of 7.05% (2007: 6.50%). For the calculation of the terminal value a sustainable discount rate of 9.50% and a long term growth of 3.00% were used for both the 2008 and the 2007 calculation. The management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

24. OTHER ASSETS

(CZKm)	2008	2007
Other debtors, net of provisions (Note: 36.2)	5,812	6,622
Prepaid charges	1,070	1,052
Receivables from securities clearing entities (Note: 36.2)	1,068	78
Accrued income (Note: 36.2)	850	667
VAT and other tax receivables	96	232
Other receivables from clients (Note: 36.2)	62	68
Other	210	162
	9,168	8,881

Included within Other debtors, net of provisions is a receivable from the Czech National Bank (CNB) related to ex-IPB off-balance sheet commitments repaid by the Group in the amount of CZK 1,374 m at 31 December 2008. At 31 December 2007 a receivable from the Czech Ministry of Finance (MF CZ) in the amount of CZK 1,687m related to the ex-IPB assets originated by the repayment of ex-IPB off-balance sheet commitments and transferred to the Czech Consolidation Agency was included within this item. The Group believes that the amount related to repayments of ex-IPB off-balance sheet commitments is fully covered by guarantee agreements issued by the institutions of the Czech state.

On 13 November 2008 the CNB instructed the Group to derecognize the receivable from the MF CZ from its balance sheet. The Group was obliged to comply with the CNB's instruction, although the Group's management believes that the receivable from the MF CZ exists and is fully recoverable and that the CNB ruling is not correct. This assessment is supported by the opinions of external lawyers. At 31 December 2008, in accordance with the CNB instruction, the Group is no longer recognizing the receivable on the basis of the MF CZ guarantee, which is subject to arbitration before the ICC International Court of Arbitration, in the balance sheet. The Group continues to recognize the receivable on the basis of a guarantee issued by the CNB. The difference in the amounts of the receivables (including accrued interest income) from the MF CZ and the CNB has been recognized in the consolidated statement of income. The receivable on the basis of the MF CZ guarantee is recorded in off the balance sheet.

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2008	2007
Financial liabilities held for trading		
Short positions	48	1,989
Derivative contracts (Note: 20)	35,016	13,996
	35,064	15,985
Financial liabilities designated at fair value through profit or loss		
Term deposits	32,797	117,293
Repo transactions	28,712	21,937
Promissory notes	491	5,299
Bonds issued	480	1,260
	62,480	145,789
Accrued interest expense	316	401
	62,796	146,190
Financial liabilities at fair value through profit or loss	97,860	162,175

The amount that the Group would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is CZK 17 m more than the carrying amount at 31 December 2008 (31 December 2007: CZK 2 m).

26. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2008	2007
Deposits received from central banks		
Repo transactions	17,000	-
Deposits received from credit institutions		
Current accounts	7,884	16,783
Term deposits with agreed maturity	24,772	31,375
Term deposits at notice	76	40
Repo transactions	-	12,723
	49,732	60,921
Deposits received from other than credit institutions		
Current accounts	270,030	291,102
Term deposits with agreed maturity	95,126	127,904
Term deposits at notice	52,133	36,594
Special deposits	102,932	100,582
Other deposits	4,979	5,779
	525,200	561,961
Debt securities in issue		
Bonds issued	23,931	24,866
Certificates of deposit	19,976	21,973
	43,907	46,839
Subordinated liabilities		
Subordinated debt	11,965	12,161
Accrued interest expenses	1,567	1,369
Financial liabilities at amortised cost	649,371	683,251

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amount of CZK 5,000 m and CZK 7,000 m to KBC Bank. Both subordinated debts are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank. The subordinated debt has been received to increase the capital adequacy ratio in order to support further business expansion.

In June 2000, Hypoteční banka issued subordinated debt in the nominal amount of CZK 200 m to ČSOB Pojišťovna, which was repaid in June 2008. Its coupon rate was 9.5%. The repayment of the debt was subordinated to all other classes of liabilities in the event of the liquidation of Hypoteční banka.

27. OTHER LIABILITIES

(CZKm)	2008	2007
Other clearing accounts	6,271	9,934
Other creditors	5,121	4,617
Accrued charges	1,756	1,934
Payables to employees including social security charges	1,472	1,561
Payables to securities clearing entities	658	684
Income received in advance	290	104
Other debts to clients	263	90
VAT and other tax payables	145	288
Other	262	462
	16,238	19,674

28. PROVISIONS

(CZKm)	Pending legal issues and other	Restructuring	Contractual engagements	Loans commitments and guarantees	Total
At 1 January 2008	423	131	141	524	1,219
Additions	78	131	-	159	368
Amounts utilised	(12)	(31)	(23)	-	(66)
Unused amounts reversed	(144)	(100)	-	(159)	(403)
Discount amortisation (Note: 6)	-	-	13	-	13
Foreign currency translation	1	-	-	20	21
Transformation of business in Slovakia	(114)	-	-	(45)	(159)
At 31 December 2008	232	131	131	499	993

Only additions, reversals and utilisations of the provisions for legal issues and other losses, restructuring and contractual engagements are included in Provisions in the statement of income.

Restructuring

During 2008 the Group finalised an old restructuring program, resulting in the release of a provision of CZK 100m has been released. In the framework of this restructuring program the total number of personnel reduced has reached 734 of which (146 occurred in 2008).

In December 2008, the Group decided to begin a new restructuring program with the aim to reduce the total number of personnel by 496 by the end of 2009. Based on this decision the Group created a new provision in the amount of CZK 131m to cover the related costs.

Contractual engagements

The Bank assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) in which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise.

29. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2008, the total authorised share capital was CZK 5,855 m (31 December 2007: CZK 5,855 m) and comprised of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

In December 2007, KBC Bank increased the regulatory capital of ČSOB by CZK 6,000 m in order to maintain the capital structure of the Group to reflect changes in economic conditions and the risk characteristics of its activities. This increase was effected through share capital by CZK 750 m and share premium by CZK 5,250 m.

No Treasury shares were held by the Group at 31 December 2008 and 2007.

On 31 December 2008, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2007: 100%). On the same date, KBC Bank was controlled by the KBC Group and therefore KBC Group was the company indirectly exercising ultimate control over the Bank.

The movement of Other reserves in 2007 and 2008 are as follows:

(CZKm)	Reorgani-zation reserve	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2007	-	604	946	(147)	1,403
Net unrealised losses on available-for-sale financial investments	-	(1,377)	-	-	(1,377)
Net realised losses on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	-	99	-	-	99
Tax effect of net losses on available-for-sale financial investments (Note: 13)	-	319	-	-	319
Net unrealised losses on cash flow hedges	-	-	(1,750)	-	(1,750)
Net gain on cash flow hedges reclassified to the statement of income (Note: 20)	-	-	(233)	-	(233)
Tax effect of net losses on cash flow hedges (Note: 13)	-	-	388	-	388
Foreign currency translation	-	-	-	(39)	(39)
Net change on hedge of net investment	-	-	-	46	46
Tax effect of net change on hedge of net investment (Note: 13)	-	-	-	7	7
Share of changes recognised directly in associate's equity	-	(8)	-	-	(8)
At 31 December 2007	-	(363)	(649)	(133)	(1,145)
Net unrealised gains on available-for-sale financial investments	-	2,018	-	-	2,018
Net realised losses on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	-	40	-	-	40
Tax effect of net gains on available-for-sale financial investments (Note: 13)	-	(341)	-	-	(341)
Net unrealised gains on cash flow hedges	-	-	1,865	-	1,865
Net gain on cash flow hedges reclassified to the statement of income (Note: 20)-	-	(109)	-	(109)	
Tax effect of net gain on cash flow hedges (Note: 13)	-	-	(364)	-	(364)
Transformation of business in Slovakia	1,423	2,752	-	-	4,175
Foreign currency translation	-	-	-	(88)	(88)
Net change on hedge of net investment	-	-	-	32	32
Tax effect of net change on hedge of net investment (Note: 13)	-	-	-	(7)	(7)
Share of changes recognised directly in associate's equity	-	39	-	-	39
At 31 December 2008	1,423	4,145	743	(196)	6,115

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2008		2007	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	16,602	16,602	33,881	33,881
Financial assets held for trading	131,342	131,342	225,684	225,684
Financial assets designated at fair value through profit or loss	23,514	23,514	24,520	24,520
Available-for-sale financial assets	90,454	90,454	77,272	77,272
Loans and receivables	411,644	425,414	412,608	419,481
Held-to-maturity investments	115,236	115,941	116,965	115,312
Derivatives used for hedging	7,215	7,215	5,943	5,943
Financial liabilities				
Financial liabilities held for trading	35,064	35,064	15,985	15,985
Financial liabilities designated at fair value through profit or loss	62,796	62,796	146,190	146,190
Financial liabilities at amortised cost	649,371	650,480	683,251	682,351
Derivatives used for hedging	2,493	2,493	1,239	1,239

The following methods and assumptions were applied in estimating the fair values of the Group's financial assets and liabilities:

Held-to-maturity investments

Fair values for held to maturity securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

Loans and receivables to credit institutions and balances with central banks

The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the balance sheet date.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using current interbank market rates.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue

Bonds issued are publicly traded and their fair values are based on quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Financial assets and liabilities at fair value

Financial assets and liabilities at fair value (available-for-sale, held for trading, designated at fair value through profit or loss) are valued as follows:

- If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices which means that no model is involved in the process of revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.
- If there is no active market, fair value is obtained using a valuation technique (e.g. discounted cash flow analysis and option pricing techniques) based on the prices from currently observable current market transactions with similiar instruments, or based on available observable market data obtained from independent sources. Financial instruments valued on this basis include forward interest rate and foreign exchange contracts, money market loans and deposits.
- When valuation parameters are not observable, fair value is based on the best information available in the circumstances, which may include the Group's own or KBC Group's data. Such parameters reflect the Group's own or KBC Group's assumptions about what information is relevant for the pricing of a financial asset or liability. Financial instruments for which the parameters are not observable include collateralised debt obligations (CDOs) and unlisted shares.

  CDOs issued by KBC Financial Products (KBC FP) are actually priced according to a model administrated by KBC Group, which is based on the quotations of Credit Default Swaps and Moody's ratings of individual CDO tranches. The prices are derived from CDS indices: CDX, iTraxx and ABX, weighted proportionally according to the asset breakdown of the CDO collateral pool. Market Value Adjustments (MVA) are set up for the close-out and liquidity of these instruments. In view of the uncertainty associated with such valuation, the Group has conservatively decided to book an additional MVA putting the fair value of all tranches at zero.

  The total amount of the unrealised loss attributable to the negative change in fair value estimated using a valuation technique, for which valuation parameters are not observable, that was recognised in the Group's profit for 2008 was CZK 10,378 m (2007: CZK 1,146 m).

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those based on valuation techniques:

	2008			
(CZKm)	Quoted market price	Valuation techniques (market observable inputs)	Valuation techniques (non market observable inputs)	Total
Financial assets				
Financial assets held for trading	16,604	114,738	-	131,342
Financial assets designated at fair value through profit or loss	16,473	6,871	170	23,514
Available-for-sale financial assets	50,228	28,710	11,516	90,454
Derivatives used for hedging	-	7,215	-	7,215
Financial liabilities				
Financial liabilities held for trading	54	35,010	-	35,064
Financial liabilities designated at fair value through profit or loss	-	62,796	-	62,796
Derivatives used for hedging	-	2,493	-	2,493

	2007			
(CZKm)	Quoted market price	Valuation techniques (market observable inputs)	Valuation techniques (non market observable inputs)	Total
Financial assets				
Financial assets held for trading	18,313	207,371	-	225,684
Financial assets designated at fair value through profit or loss	9,430	4,580	10,510	24,520
Available-for-sale financial assets	52,219	24,384	669	77,272
Derivatives used for hedging	-	5,943	-	5,943
Financial liabilities				
Financial liabilities held for trading	1,989	13,996	-	15,985
Financial liabilities designated at fair value through profit or loss	-	146,190	-	146,190
Derivatives used for hedging	-	1,239	-	1,239

31. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the balance sheets

(CZKm)	2008	2007
Cash and balances with central banks	11,135	29,002
Loans and advances to credit institutions	41,975	115,690
Deposits from credit institutions	(24,959)	(16,824)
Cash and cash equivalents	28,151	127,868

Change in operating assets

(CZKm)	2008	2007
Net change in financial assets held for trading	(56,553)	(9,396)
Net change in financial assets designated at fair value through profit or loss	583	(273)
Net change in available-for-sale financial assets	(5,293)	(11,082)
Net change in loans and receivables	(58,535)	(79,052)
Net change in derivatives used for hedging	489	(2,429)
Net change in other assets	(1,610)	1,471
	(120,919)	(100,761)

Change in operating liabilities

(CZKm)	2008	2007
Net change in financial liabilities held for trading	22,462	2,029
Net change in financial liabilities designated at fair value through profit or loss	(13,344)	61,489
Net change in financial liabilities at amortised cost	24,530	79,873
Net change in derivatives used for hedging	1,254	754
Net change in other liabilities	(2,470)	(856)
	32,432	143,289

Non-cash items included in profit before tax

(CZKm)	2008	2007
Allowances and provisions for credit losses	2,250	1,439
Impairment on financial investment	1,354	-
Depreciation and amortisation	1,456	1,939
Amortisation of discounts and premiums	422	641
Impairment on other assets	290	-
Depreciation related to operating leases assets	266	-
Net property impairment charge	9	-
Provisions	(101)	(234)
Share of profit of associate	(116)	(181)
Other	(195)	(15)
	5,635	3,589

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Group by remaining expected maturity as at 31 December 2008:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	92,324	24,627	14,307	85	131,343
Financial assets designated at fair value through profit or loss	1,084	2,731	19,698	-	23,513
Available-for-sale financial assets	13,752	25,810	38,234	12,658	90,454
Loans and receivables	141,455	111,648	155,086	3,456	411,645
Held-to-maturity investments	11,730	40,949	62,556	-	115,235
Derivatives used for hedging	2,787	3,760	668	-	7,215
Total carrying value	263,132	209,526	290,548	16,199	779,405
LIABILITIES					
Financial liabilities held for trading	20,489	10,651	3,924	-	35,064
Financial liabilities designated at fair value through profit or loss	62,335	402	50	8	62,795
Financial liabilities at amortised cost	247,370	138,355	253,750	9,896	649,371
Derivatives used for hedging	1,532	848	113	-	2,493
Total carrying value	331,726	150,256	257,837	9,904	749,723

The following table sets out the financial assets and liabilities of the Group by remaining expected maturity as at 31 December 2007:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	199,676	11,786	14,218	4	225,684
Financial assets designated at fair value through profit or loss	1,101	2,973	20,329	117	24,520
Available-for-sale financial assets	9,860	28,511	35,957	2,944	77,272
Loans and receivables	145,708	122,361	139,556	4,983	412,608
Held-to-maturity investments	18,009	43,315	55,641	-	116,965
Derivatives used for hedging	2,283	3,108	552	-	5,943
Total carrying value	376,637	212,054	266,253	8,048	862,992
LIABILITIES					
Financial liabilities held for trading	9,500	4,847	1,638	-	15,985
Financial liabilities designated at fair value through profit or loss	141,486	4,630	50	24	146,190
Financial liabilities at amortised cost	281,823	124,396	276,998	34	683,251
Derivatives used for hedging	783	402	54	-	1,239
Total carrying value	433,592	134,275	278,740	58	846,665

33. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Group recovered a written-off loan amounting to CZK 485 m in 2007. Due to uncertainty regarding the outcome of the appeal by the counterparty against the ruling, the Group will not recognise this amount in the statement of income until the final court ruling regarding the Group's claim is known.

The contingent liabilities and commitments at 31 December are as follows:

(CZKm)	2008	2007
Loan commitments	107,927	114,336
Financial guarantees	28,012	29,783
Other commitments	2,530	2,423
	138,469	146,542
Provisions for loan commitments and guarantees (Notes: 28)	499	524

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements.

Litigation

Other than the litigation, for which provisions have already been made (Note: 28), the Group is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Group does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Group.

The Group is subject to a number of claims brought by Nomura, their affiliates and other parties in the context of the IPB acquisition amounting to tens of billions of Czech Crowns, but the Group is not able to reliably estimate the total effective claim, since the claims are interdependent. The Group believes that such claims are unfounded. In addition, potential losses arising from such claims are covered by guarantee agreements issued by the institutions of the Czech state and thus they have no risk of material impact on the financial position of the Group.

In June 2007, the Bank initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable from the MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency (Note: 24). The Bank believes that its position in this case is strong and is confident that the International Court of Arbitration will rule in its favour. This assessment of the outcome of this case is supported by the opinions of external lawyers.

Further, the Group has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments (Group is the lessee)

Future minimum lease payments under operating leases related to land and buildings are as follows:

(CZKm)	2008	2007
Not later than 1 year	30	38
Later than 1 year and not later than 5 years	284	290
Later than 5 years	182	93
	496	421

These operating leases can be technically cancelled under Czech law; however, the Group is commercially bound to continue with these leases for the periods set out above.

Operating lease receivables (Group is the lessor)

Future minimum lease payments under operating leases related to movables are as follows:

(CZKm)	2008	2007
Not later than 1 year	512	628
Later than 1 year and not later than 5 years	960	1,253
Later than 5 years	265	23
	1,737	1,904

These operating leases can be technically cancelled under Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

34. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Group has made to counterparties in reverse repurchase agreements and loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, according to the lines of the balance sheet in which they are included:

(CZKm)	2008	2007
Assets		
Cash and balances with central banks	-	18,905
Financial assets held for trading	15,401	47,163
Loans and receivables	4,128	4,265
	19,529	70,333

Under reverse repurchase agreements, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

Under loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral (collaterals of factoring loans), the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the same collateral. The Group has no obligations to deliver back collateral to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral as at 31 December 2008 was CZK 28,340 m, of which CZK 1,606 m has been either sold or repledged (31 December 2007: CZK 113,650 m and CZK 14,737 m, respectively).

The following table shows an analysis of the loans the Group has received from counterparties in repurchase agreements according to the lines of the balance sheet in which they are included:

(CZKm)	2008	2007
Liabilities		
Financial liabilities designated at fair value through profit or loss	28,929	21,943
Financial liabilities at amortised cost	31,601	13,047
	60,530	34,990

35. RELATED PARTY DISCLOSURES

The number of banking transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
KBC Bank	16,555	-	-	73	4,103	-
Entities under common control	1,255	197	1,050	2,520	-	13
Associates	26	-	-	-	-	119
Joint ventures	-	-	-	431	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management personnel	-	-	62	-	-
KBC Bank	10,271	4,636	31,431	1,512	-
Entities under common control	54	1,934	377	-	158
Associates	18	42	2,517	-	21
Joint ventures	-	578	5,164	-	2

The outstanding balances of assets from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
KBC Bank	12,180	-	-	96	3,936	3
Entities under common control	569	9,287	436	408	-	135
Associates	22	-	-	-	-	5
Joint ventures	-	-	-	431	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	-	95	-	-
KBC Bank	3,960	77,054	31,490	581	-
Entities under common control	66	2,470	3,451	-	20
Associates	48	51	1,693	-	14
Joint ventures	-	-	3,511	-	1

The outstanding balances of interest income and expense from related party transactions at 31 December are as follows:

	2008		2007	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
KBC Bank	213	(1,731)	142	(2,505)
Entities under common control	779	(69)	23	(614)
Associates	-	(88)	-	(55)
Joint ventures	23	(180)	18	(69)

The outstanding balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

	2008		2007	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank	936	74	432	73
Entities under common control	425	27	-	20

36. RISK MANAGEMENT

36.1 Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability. Each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. They are monitored through the KBC Group's Internal Capital Adequacy Assessment Process (ICAAP).

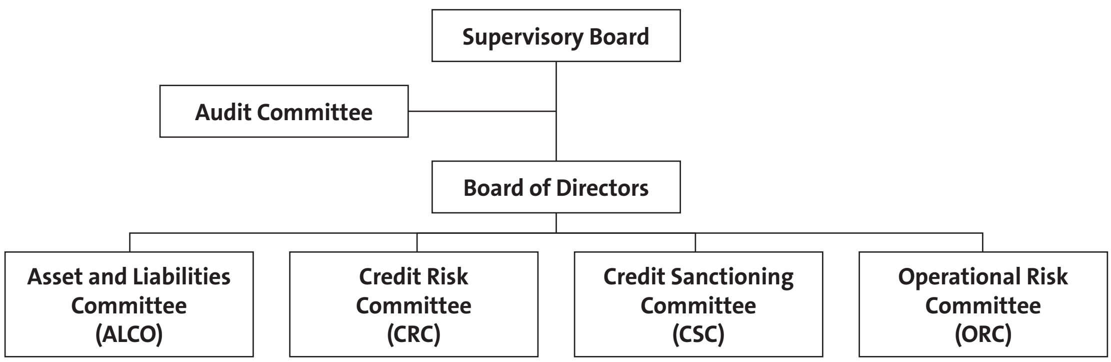
Risk management structure

The Board of Directors (BoD) is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The structure of Value and Risk Management in ČSOB is based on a uniform principle of Value and Risk Management applied within the KBC Group. It is based on the risk governance model that defines the responsibilities and tasks of various bodies and persons within the organization to guarantee the sound management of value creation and all the associated risks.

This model includes:

- Involvement of the Group's top bodies in the process of value and risk management;
- The activities of specialized committees and independent departments involved in risk management at the level of ČSOB with group-wide control; and the
- Primary risk management within departments and organizational units of individual companies.



Board of Directors

The BoD is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has responsibility for monitoring the overall risk process within the Group.

Audit Committee

The Audit Committee is responsible for providing assistance to the Supervisory Board in monitoring and reporting the overall risk process within the Group. The Audit Committee supervises the integrity, efficiency and effectiveness of the internal control and the risk management processes and tools in place.

Risk committees

Asset and liability committee (ALCO)

The ALCO has overall responsibility for the development of the market and liquidity risk strategy and implementing principles, frameworks, policies and limits for the Group's investment portfolio. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk committee (CRC)

The CRC has overall responsibility for the development of the credit risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk sanctioning committee (CSC)

The CSC is a committee entrusted with the Group-wide responsibility and authority to take decisions on (individual) credit applications falling within the delegated decision powers of the CSC. As such it acts in principle as the highest decision committee for the ČSOB Group.

Operational risk committee (ORC)

The ORC has overall responsibility for the development of the operation risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Other bodies

Senior Executive Officers (SEO) responsible for Financial Markets and Risk Management

These two SEOs have overall responsibility for the development of the market risk strategy and implementing principles, frameworks, policies and limits for the trading portfolio of the Group. They are responsible for fundamental risk issues and manage and monitor relevant risk decisions.

Value and Risk Management (VRM)

The Value and Risk Management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process (except for credit risk). VRM is also responsible for monitoring compliance with risk principles, policies and limits, across the Group. VRM is responsible for the independent control of risks (except for credit risk), including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Credits unit

The Credits unit is responsible for implementing and maintaining credit risk related procedures to ensure an independent control process. The Credits unit is also responsible for monitoring compliance with credit risk principles, policies and limits, across the Group.

The Credits unit is responsible for the independent control of credit risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Asset and liability management unit (ALM)

The Group's ALM unit is responsible for managing assets and liabilities of the Group's investment portfolio. It is also primarily responsible for the funding and liquidity risks of the Group.

Financial Markets unit (FM)

The Group's FM unit is responsible for managing assets and liabilities of the Group's trading portfolio.

Internal audit

Risk management processes throughout the Group are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with the management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the BoD, the ALCO, and the CRC. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Group.

A daily report is given to the senior management and all other relevant members of the Group on the use of market limits and analysis of VaR in the trading book. A weekly report is given to the senior management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Middle Office (based on economic considerations rather than the IFRS hedge accounting criteria). The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk on a continuous basis.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

36.2 Credit risk

Credit risk is a potential shortfall relative to the value expected as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to an inter-professional transaction, or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as 'country risk'.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, The Group monitors exposures in relation to these limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating (Probability of Default, PD rating). Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

Corporate and large SME credits

The Group has developed and implemented internal rating models / tools within the credit process for Corporates, SMEs, municipalities, housing cooperatives and other clients. The models were built in compliance with Basel II regulations, that allow the use of their output (Probability of Default) for capital adequacy calculations. The non-retail models produce rating grades on a unified KBC "PD master scale". Rating grades 1-9 are used for non-default/normal clients while rating grades 10-12 are used for clients in default. Each rating grade is associated with a predefined range of probability of default (e.g. a client carrying PD rating 3 has a probability of default between 0.20% - 0.40%). Clients with a PD rating 8 and 9 are considered as "weak normal" and the management of such files is monitored by the Bad Debts unit.

Validation of the model is performed by an independent person from the Value and Risk Management unit and finally approved by the KBC Group Model Committee. The whole "model lifecycle" is defined in the KBC Model Management Framework unified for the KBC Group.

The Group expects to further improve the capability predictive power of the models in line with the increasing amount of available data.

The Group applies models developed by the KBC Group to assess the quality of sovereign and banking counterparts. These models are validated by the KBC Group as well.

Acceptance Process

The acceptance process for Corporate and large SME clients is organized in three steps. First, the relationship manager of the introducing entity prepares a written credit proposal. In the second step, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares a recommendation. Credit files that carry only a limited expected loss can be approved by the Head of a Corporate Branch. Finally, a decision is made at the appropriate decision-making level (committee). The "four eyes" principle is always respected. The decision always includes an approved counterparty rating.

The newly created rating models that assign to each client a specific probability of default enable the determination of the level of potential risk and acceptance process to be adapted accordingly. Thus, the Group can modify the acceptance authority, follow a simpler framework in cases with lower risk, adjust price policy, set more precisely on monitoring rule, implement advanced risk control based on the portfolio system, etc. The new rating models were integrated into specialized rating tools, that can be used also for pricing purposes.

Retail and small SME credits

The Group has implemented the Internal Rating Based (IRB) approach to calculate its capital requirement. This includes the development of scorecards for retail portfolios within the Group, estimates of key parameters such as PD, Exposure at Default (EAD) and Loss Given Default (LGD) within defined homogenous sets of exposures (so-called pools) and a process of regular recalculation, validation and monitoring. Basel II scorecards are used in the application process so that they influence the incoming population. All models have to follow standards maintained within the KBC Group via the Model management framework and have to be approved by the local Credit Risk Committee and the Group Model committee.

Acceptance process

The retail acceptance process is based on a number of internally developed scorecards and uses access to external data sources (Credit Bureaus) that bring additional information about a client's risk profile. Each application process runs on an in-house developed scorecard. These decision support tools allow complex control over the newly accepted risks. Scorecards are typically based on both socio-demographic and behavioural data. The acceptance process also covers pre-approved limits for existing clients.

Portfolio risk management

Several loss-predicting models are used to manage the risk of the major retail credit portfolios. Regular back-testing of those models shows high precision of the predicted development. The use of these modelling techniques and the implemented scorecards together with management techniques significantly reduces the credit risk taken within retail portfolios, although the acceptance rate has been kept almost the same.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risk

The Group grants its customers guarantees that may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of a letter of credit. They expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Note	2008	2007
Cash and balances with central banks	15	8,253	24,499
Financial assets held for trading	16	131,342	225,684
Financial assets designated at fair value through profit or loss	16	23,514	24,520
Available-for-sale financial assets	17	90,454	77,272
Loans and receivables	18	411,644	412,608
Held-to-maturity investments	17	115,236	116,965
Derivatives used for hedging	20	7,215	5,943
Other assets	24	7,792	7,435
Total		795,450	894,926
Contingent liabilities	33	30,542	32,206
Commitments	33	107,927	114,336
Total		138,469	146,542
Total credit risk exposure		933,919	1,041,468

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2008 was CZK 14,075 m (2007: CZK 13,400 m) before taking account of collateral or other credit enhancements and CZK 14,075 m (2007: CZK 13,400 m) net of such protection.

The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

(CZKm)	2008	2007
Czech Republic	786,357	681,032
Slovak Republic	22,667	171,944
Other Europe	115,684	173,688
Other	9,211	14,804
Total	933,919	1,041,468

An industry sector analysis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

(CZKm)	2008	2007
Central government	225,726	271,015
Non-credit institutions	10,116	9,487
Credit institutions	175,735	227,014
Insurance companies	254	1,063
Financial services	8,099	2,578
Other non-financial companies	292,364	329,131
Retail customers	221,625	201,180
Total	933,919	1,041,468

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The amount of collateral reported for an individual receivable does not exceed carrying amount of the receivable.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group also makes use of master netting agreements with counterparties.

Quality of credit portfolio

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines (in gross amounts), based on the Group's credit rating system at 31 December 2008 and 2007:

(CZKm)	2008			
	Unimpaired assets PD rating 1-7	Impaired assets Collectively PD rating 8-9	Impaired assets Individually PD rating 10-12	Total
Financial assets designated at fair value through profit or loss	23,514	-	-	23,514
Available-for-sale financial assets	77,789	-	143	77,932
Loans and receivables				
Central government	6,023	-	-	6,023
Non-credit institutions	4,711	-	2	4,713
Credit institutions	16,304	114	502	16,806
Corporate	179,757	5,933	5,549	191,353
Retail	191,237	2,871	4,204	198,312
Accrued interest income	1,264	2	-	1,266
	399,296	8,920	10,257	418,473
Held-to-maturity investments	115,205	-	433	115,638
Total	615,804	8,920	10,833	635,557

(CZKm)	2007			
Financial assets designated at fair value through profit or loss	24,403	-	-	24,403
Available-for-sale financial assets	74,328	-	-	74,328
Loans and receivables				
Central government	11,298	-	-	11,298
Non-credit institutions	4,732	-	22	4,754
Credit institutions	18,889	485	8	19,382
Corporate	195,660	3,648	5,482	204,790
Retail	171,562	2,229	4,413	178,204
Accrued interest income	1,466	13	-	1,479
	403,607	6,375	9,925	419,907
Held-to-maturity investments	116,965	-	-	116,965
Total	619,303	6,375	9,925	635,603

The table below shows an ageing analysis of gross past due but not individually impaired financial assets of the Group:

(CZKm)	2008		2007	
	Less than 30 days	More than 30 days but less than 90 days	Less than 30 days	More than 30 days but less than 90 days
Non credit institutions	36	-	8	1
Corporates	6,829	1,847	7,124	1,746
Retail	8,329	2,517	7,172	2,120
Total	15,194	4,364	14,304	3,867

Individually impaired financial assets and the related impairment are as follows:

(CZKm)	2008		2007	
	Gross amount	Impairment	Gross amount	Impairment
Available-for-sale financial assets				
Equity securities	1,401	(874)	39	(39)
Debt securities	143	(136)	-	-
Held to maturity				
Debt securities	433	(402)	-	-
Loans and receivables				
Non credit institutions	2	-	22	(9)
Credit institutions	502	(19)	8	(5)
Corporates	5,549	(4,186)	5,482	(4,175)
Retail	4,204	(2,074)	4,413	(2,436)
	10,257	(6,279)	9,925	(6,625)
Total	12,234	7,691	9,964	(6,664)

The carrying amount of the financial assets that would otherwise be past due or impaired whose terms have been renegotiated was CZK 1,827 m at 31 December 2008 (31 December 2007: CZK 1,921 m) (Note: 2.3(6)(iii)).

Impairment assessment

The main considerations for loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio subject to separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairments in an individual assessment yet. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The local management is responsible for deciding the length of this period that can extend for as long as 4 months. The impairment allowance is then reviewed by the credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Financial crisis

As a consequence of global financial crisis, ČSOB reassessed the quality of its financial assets and recognized related losses in the Group's statement of income for 2008. The revaluation losses from the CDO portfolio were CZK 10,349 m and were included in Net losses from financial instruments at fair value through profit or loss. Exposures to Icelandic banks were adjusted by a total amount of CZK 591 m, of which impairment on available-for-sale debt securities was in the amount of CZK 136 m and revaluation losses relating to held-for-trading money market interbank advances included in Net losses from financial instruments at fair value through profit or loss were in the amount CZK 455 m. Held-to-maturity debt securities issued by Lehman Brothers were impaired by CZK 370 m.

The Group has not changed its approach to risk management significantly due to the financial crisis. The Group uses the same measures for risk management as before the crisis. Nevertheless, the Group's liquidity development is closely monitored. Accordingly, the risk appetite of the Group was decreased. Credit risk interbank limits are more frequently (weekly) evaluated with utilization of Credit Default Swaps.

The Group will be affected by the economic slowdown in 2009, as Gross Domestic Product is predicted to slightly decrease. The Group actively manages the credit portfolio to limit its deterioration. Moreover, the majority of vulnerable assets has been already revaluated to more conservative values.

36.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral that could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains a statutory deposit with the CNB equal to 2% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The Group focused on improving its liquidity risk management in 2008. A liquidity gap analysis is currently the key tool for managing the Group's liquidity. The Group introduced new limits of one week and one month for a short liquidity position. The general rule is that the Group can hold a short liquidity gap position only up to the amount of liquid securities. Liquidity gap positions are reported weekly. The Stock Liquidity Ratio (SLR) indicator was abandoned as at 1 January 2009.

The SLR during the year was as follows:

(%)	2008	2007
31 December	352	220
Average during the period	190	255
Highest	352	521
Lowest	156	191

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Group's financial liabilities based on the contractual discounted repayment obligations.

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2008:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
FINANCIAL LIABILITIES					
Financial liabilities held for trading	20,489	10,651	3,924	-	35,064
Financial liabilities designated at fair value through profit or loss	62,335	402	50	8	62,795
Financial liabilities at amortised cost	574,940	35,318	36,239	2,874	649,371
Derivatives used for hedging	1,532	848	113	-	2,493
Total carrying value	659,296	47,219	40,326	2,882	749,723

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2007:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
FINANCIAL LIABILITIES					
Financial liabilities held for trading	9,500	4,847	1,638	-	15,985
Financial liabilities designated at fair value through profit or loss	141,486	4,630	50	24	146,190
Financial liabilities at amortised cost	585,726	41,489	41,343	14,693	683,251
Derivatives used for hedging	783	402	54	-	1,239
Total carrying value	737,495	51,368	43,085	14,717	846,665

36.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basic Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Market risk – Trading (including financial assets and financial liabilities designated at fair value through profit or loss)

The BoD has set limits on the level of risk that may be accepted. The Group applies a VaR methodology to assess the market risk positions held and to estimate potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Group has neither no net position in FX options, nor any position in equity. A small nominal technical limit is set for interest rate options; the position in this product, however, is not material.

Standard VAR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Group. The Group analyses scenarios, dependent and independent of the Group's position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Group also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Group uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Group applies VaR assumptions to estimate potential loss at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Group uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The Group received regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks in June 2007.

The tables below show capital requirements analysed using VaR model in 2008 and 2007:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2008	338	6	(43)	301
Average during the period	232	9	(11)	230
Highest	553	67	(95)	525
Lowest	145	1	(1)	145

Daily losses were greater than the 1 day VaR two times in 2008.

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2007	176	24	(27)	173
Average during the period	159	10	(10)	159
Highest	228	36	(36)	228
Lowest	68	1	-	69

Daily losses were never greater than the 1 day VaR in 2007.

Market risk – Non -trading (ALM risk)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The BoD has established limits on the BPV sensitivity. The BoD has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's statement of income and equity.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2008 and 31 December 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The table below shows the sensitivity of the statement of income and equity as at 31 December 2008:

			Sensitivity of equity				
(CZKm)	Increase in basis points	Sensitivity of net interest income	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+10	19	(1)	(4)	(59)	(333)	(397)
EUR	+10	(4)	(1)	(1)	(1)	(28)	(31)
USD	+10	-	-	-	-	(13)	(13)

			Sensitivity of equity				
(CZKm)	Decrease in basis points	Sensitivity of net interest income	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	-10	(19)	1	4	59	333	397
EUR	-10	4	1	1	1	28	31
USD	-10	-	-	-	-	13	13

The table below shows the sensitivity of the statement of income and equity as at 31 December 2007:

			Sensitivity of equity				
(CZKm)	Increase in basis points	Sensitivity of net interest income	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(7)	1	2	(39)	(341)	(377)
EUR	+ 10	(1)	(1)	-	25	70	94
SKK	+ 10	(4)	-	-	-	2	2
USD	+ 10	-	-	-	4	(1)	3

			Sensitivity of equity				
(CZKm)	Decrease in basis points	Sensitivity of net interest income	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	7	(1)	(2)	39	343	379
EUR	- 10	1	1	-	(25)	(70)	(94)
SKK	- 10	4	-	-	-	(2)	(2)
USD	- 10	-	-	-	(4)	1	(3)

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Group adopted a strategy under which the banking book has no open positions in foreign currencies. Therefore the Group has not set any limits for open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Group set technical limits for these positions. There was an open currency position in the banking book at the end of 2008 due to a significant decrease in the value of CDO's in EUR. The revaluation of the CDO financial instruments led to the overhedging of the whole position. This currency position was partially closed in the subsequent days as the hedging was accommodated to the new value of the CDO position.

The table below shows a foreign currency risk sensitivity of the statement of income as at 31 December:

	2008			2007		
(CZKm)	Position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	11,910	442	(442)	-	-	-

Sensitivity of the statement of income on foreign currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment (non-trading) equity price risk exposure arises from the Group's investment portfolio.

– If, the balance sheet date, a share is quoted at less than 70% of its acquisition value or;

– If, a during a period of one year before the balance sheet date, the share price of a share was permanently lower than its acquisition value;

The share is irrevocably impaired to the closing quotation at balance sheet date.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2008) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

(CZKm)	Change in equity price %	Effect on equity
Px index	(53)	(605)
Unicredit Real Estate (Top 25)	(87)	(222)

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2007) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

(CZKm)	Change in equity price %	Effect on equity
Px index	14	3
EU Reality	(23)	(22)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Group's products is negligible, however it is regularly monitored.

36.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and systems errors or from external events. Operational risks include legal, compliance and tax risks. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

37. CAPITAL

The Group actively manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision (Basel II) and adopted by the CNB in the Regulation No. 123/2007 Coll., on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 July 2007).

During the past year, the Group complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Group manages its capital structure considering the changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may ask the sole shareholder to increase capital and optimise its structure.

(CZKm)	2008	2007
Tier 1 capital	42,131	37,751
Tier 2 capital	11,967	12,007
Deductible items of Tier 1 and Tier 2	(12,364)	(1,127)
Total capital	41,734	48,631
Risk weighted assets	404,733	453,551
Capital adequacy ratio	10.31%	10.72%

In order to keep a long-term target for the capital adequacy ratio and to cover its new business activities the Group received a subordinated loan provided by KBC Bank in 2006 and 2007. This subordinated debt is a part of Tier 2 capital.

In December 2007, the Group's Tier 1 capital was increased by CZK 6,000 m (Note: 29).

ERNST & YOUNG

Independent Auditor's Report to the Shareholders of Československá obchodní banka, a. s.

We have audited the accompanying financial statements of Československá obchodní banka, a. s. ("the Bank"), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on the Bank, see Note 1 to the financial statements.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 financial statements give a true and fair view of the financial position of the Bank as at 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 European Union.

Ernst & Young

Ernst & Young Audit, s.r.o.
License No. 401
Represented by

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, License No. 2009

11 March 2009
Prague, Czech Republic

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2008	2007
Interest income	4	29,056	28,280
Interest expense	5	(13,685)	(12,770)
Net interest income		15,371	15,510
Fee and commission income	6	7,154	7,659
Fee and commission expense	6	(1,668)	(1,760)
Net fee and commission income		5,486	5,899
Dividend income		1,092	4,208
Net (losses) / gains from financial instruments at fair value through profit or loss	7	(9,292)	1,854
Net realised gains / (losses) on available-for-sale financial assets		114	(133)
Other net income	8	1,291	617
Operating income		14,062	27,955
Staff expenses	9	(5,334)	(6,076)
General administrative expenses	10	(6,126)	(6,621)
Depreciation and amortisation	20, 21	(1,023)	(1,031)
Provisions	26	57	229
Operating expenses		(12,426)	(13,499)
Impairment losses	11	(2,066)	(1,119)
(Loss) / Profit before tax		(430)	13,337
Income tax benefit / (expense)	12	1,113	(1,994)
Profit for the year		683	11,343

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

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	31. 12. 2008	Reclassified 31. 12. 2007
ASSETS			
Cash and balances with central banks	14	15,400	31,958
Financial assets held for trading	15	139,500	233,599
Financial assets designated at fair value through profit or loss	15	29,530	29,600
Available-for-sale financial assets	16	128,620	93,950
Held-to-maturity investments	16	100,420	92,664
Loans and receivables	17	230,383	248,933
Investments in subsidiaries, associates and joint ventures	18	37,383	33,329
Derivatives used for hedging	19	7,181	5,935
Current tax assets		1,100	563
Deferred tax assets	12	479	704
Property and equipment	20	4,739	6,095
Goodwill and other intangible assets	21	3,650	3,494
Non-current assets held-for-sale		127	27
Other assets	22	7,864	7,326
Total assets		706,376	788,177
LIABILITIES AND EQUITY			
Financial liabilities held for trading	23	35,105	16,395
Financial liabilities designated at fair value through profit or loss	23	63,512	146,690
Financial liabilities at amortised cost	24	543,964	560,104
Derivatives used for hedging	19	2,469	1,171
Current tax liabilities		-	158
Other liabilities	25	14,116	17,747
Provisions	26	963	1,099
Total liabilities		660,129	743,364
Share capital	27	5,855	5,855
Share premium		6,673	6,673
Statutory reserve		18,687	18,687
Retained earnings		6,825	15,323
Reorganization reserve	27	2,055	-
Available-for-sale reserve	27	5,620	(827)
Cash flow hedge reserve	27	728	(700)
Foreign currency translation reserve	27	(196)	(198)
Total equity		46,247	44,813
Total liabilities and equity		706,376	788,177

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

These separate financial statements were approved for issue by the Board of Directors on 11 March 2009 and signed on its behalf by:

Pavel Kavánek

Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck

Member of the Board of Directors
and Senior Executive Officer

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Share capital (Note: 27)	Share premium	Statutory reserve [1)]	Retained earnings	Other reserves (Note: 27)	Total Equity
At 1 January 2007	5,105	1,423	18,687	13,522	1,366	40,103
Net losses on available-for-sale securities	-	-	-	-	(1,460)	(1,460)
Net losses on cash flow hedges	-	-	-	-	(1,631)	(1,631)
Foreign currency translation	-	-	-	-	-	-
Total expense for the year recognised directly in equity	-	-	-	-	(3,091)	(3,091)
Profit for the year	-	-	-	11,343	-	11,343
Total income and expense for the year	-	-	-	11,343	(3,091)	8,252
Capital increase	750	5,250	-	-	-	6,000
Dividends paid (Note: 13)	-	-	-	(9,542)	-	(9,542)
At 31 December 2007	5,855	6,673	18,687	15,323	(1,725)	44,813
At 1 January 2008	5,855	6,673	18,687	15,323	(1,725)	44,813
Net gains on available-for-sale securities	-	-	-	-	3,694	3,694
Net gains on cash flow hedges	-	-	-	-	1,428	1,428
Foreign currency translation	-	-	-	-	2	2
Total income for the year recognised directly in equity	-	-	-	-	5,124	5,124
Profit for the year	-	-	-	683	-	683
Total income for the year	-	-	-	683	5,124	5,807
Transformation of business in Slovakia	-	-	-	-	4,808	4,808
Dividends paid (Note: 13)	-	-	-	(9,181)	-	(9,181)
At 31 December 2008	5,855	6,673	18,687	6,825	8,207	46,247

(1) The statutory reserve represents accumulated transfers from retained earnings in compliance with the Czech Commercial Code. This reserve is not distributable.

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

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2008	Reclassified 2007
OPERATING ACTIVITIES			
Profit before tax		(430)	13,337
Adjustments for:			
Change in operating assets	29	(105,895)	(100,445)
Change in operating liabilities	29	37,177	157,769
Non-cash items included in profit before tax	29	1,213	2,373
Transformation business in Slovakia		(895)	-
Net loss / (gain) from investing activities		16	(14)
Income tax paid		(547)	(802)
Net cash flows (used in) / from operating activities		(69,361)	72,218
INVESTING ACTIVITIES			
Purchase of investment securities		(16,928)	(14,903)
Acquisition of subsidiary, associate and joint venture companies		(6,459)	(5,575)
Maturity / disposal of securities		5,318	5,521
Purchase of property, equipment and intangible assets		(1,490)	(1,466)
Disposal of property, equipment, intangible assets and assets held-for-sale		15	72
Net cash flows (used in) investing activities		(19,544)	(16,351)
FINANCING ACTIVITIES			
Issue of bonds		11	712
Issue of subordinated liability		-	6,975
Capital increase		-	6,000
Dividends paid		(9,181)	(9,542)
Net cash flows (used in) / from financing activities		(9,170)	4,145
Net (decrease) / increase in cash and cash equivalents		(98,075)	60,012
Cash and cash equivalents at the beginning of the year	29	126,255	66,268
Net (decrease) / increase in cash and cash equivalents		(98,075)	60,012
Net foreign exchange differences		-	(25)
Cash and cash equivalents at the end of the year	29	28,180	126,255
Additional information			
Interest paid		(14,662)	(12,968)
Interest received		27,874	26,507
Dividends received		1,092	4,208

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS)

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150 Prague 5, Czech Republic; Corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The separate financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss, and all derivative contracts that have been measured at fair value. The separate financial statements are presented in millions of Czech Crowns (CZKm) which is the Bank's presentation currency. The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of ČSOB Group in accordance with the EU IFRS.

Statement of compliance

The ČSOB's separate financial statements have been prepared in accordance with EU IFRS.

2.2 Significant accounting judgements and estimates

While applying the Bank's accounting policies, the management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The mostly used significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish the fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer dated financial instruments.

Impairment losses on financial instruments

The Bank reviews its problem financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgement by the management is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Doing this, the Bank takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of the Bank are initially measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the balance sheet date. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Exchange differences from non-monetary available-for-sale financial assets are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

As the Bank operated in the Czech Republic and the Slovak Republic until the 31 December 2007, it had two functional currencies - Czech Crowns and Slovak Crowns.

The results and financial position of the Slovak branch, which had a functional currency different from the presentation currency, were translated into the presentation currency as follows:

– assets and liabilities at the year-end exchange rates;

– income and expenses at the average exchange rates for the year (unless this average was not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses were translated at the dates of the transactions);

– all resulting exchange differences were recognised as a separate component of equity in the Foreign currency translation reserve.

(2) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which is controlled by another entity (parent entity). Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries, associates and jointly controlled entities are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and jointly controlled entities are recorded in Dividend income.

(3) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred. A financial liability is derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Bank recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the balance sheet on the day it is physically transferred to or from the Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

(4) Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Derivatives held for trading

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading (including interest income and expense) are included in Net gains/losses from financial instruments at fair value through profit or loss.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Bank cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value in the balance sheet with changes in fair value reflected in the statement of income.

(ii) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract, or when the right to the payment has been established. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

– the assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

– the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank‘s management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank has no intention of trading the financial asset.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from impairment of such investments are recognised in the statement of income in Impairment losses.

(v) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reversed and included in Net realised gains/losses on available-for-sale financial assets. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(vi) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(vii) 'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(5) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain on the balance sheet. The corresponding cash received is recognised in the balance sheet in Financial liabilities designated at fair value through profit or loss, or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the balance sheet. The corresponding cash paid is recognised in the balance sheet in Financial assets held for trading or Loans and receivables. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(6) Determination of fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using quoted market prices if there is a published price quotation in an active public market. For financial instruments that are not traded on an active public market their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Bank including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(7) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

– significant financial difficulty of the issuer or obligor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Bank would not otherwise consider;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for that financial asset because of financial difficulties; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written-off against the related allowance for impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off are recorded in the statement of income in Impairment losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

(ii) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of debt instrument classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

(iii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(8) Hedge accounting

The Bank uses instruments, designated as hedging on the date a contract is entered into, as cash flow hedges or fair value hedges to manage the Bank's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in fair value of asset or liability, which could affect the profit or loss. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

– formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

– the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;

– the hedge is highly effective on an ongoing basis. A derivative is considered to be highly effective if the Bank achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

(i) Cash flow hedges

The effective portion of the change in the fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into earnings in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognized immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss.

(9) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(10) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period 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.

(11) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on the completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

(iv) Net gains from financial instruments at fair value through profit or loss

Net gains from financial instruments at fair value through profit or loss include all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding mandatory minimum reserves), loans and advances to credit institutions and deposits from credit institutions.

(13) Property and equipment

Property and equipment includes Bank occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included as a net amount in Other net income.

Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, such an asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(14) Goodwill

Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets of the acquired business or subsidiary company, the difference is recognised directly in the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

(15) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets.

Intangible assets are carried at cost less accumulated depreciation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Amortisation of the software and other intangible assets is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated under the diminishing balance method during the economic useful life. The economic useful life is the period over which the Bank receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included as a net amount in Other net income.

(16) Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. The fee is recognised in the statement of income in Fee and commission income. Any increase and decrease in the liability relating to financial guarantees is included in Impairment losses.

(17) Employee retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

The Bank contributes to a defined contribution retirement benefit scheme for participating employees, which is in addition to the employer social security contributions required by the Czech Republic. Contributions are charged to the statement of income as they are made.

(18) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(19) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period. Deferred tax assets and liabilities are recognised due to differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(20) Fiduciary activities

The Bank commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

(21) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Future changes in accounting policies

Certain new standards, amendments and interpretations have been published which are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods and which the Bank has not early adopted. The Bank is expecting to adopt them in accordance with the effective date of the standards:

IFRS 8 Operating Segments (effective for periods beginning on or after 1 January 2009)

The standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Bank. The Bank determined that the operating segments would be the same as the business segments currently identified under IAS 14, Segment Reporting.

IAS 1 Revised Presentation of Financial Statements (effective for periods beginning on or after 1 January 2009)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

Other new standards, amendments or interpretations, which the Bank has not early adopted:

- IFRS 2 Share-based Payment (effective for periods beginning on or after 1 January 2009).
- IFRS 3 Business Combinations (effective for periods beginning on or after 1 July 2009).
- IAS 23 Borrowing Costs (effective for periods beginning on or after 1 January 2009).
- IAS 27 Consolidated and Separate Financial Statements (effective for periods beginning on or after 1 July 2009).
- IAS 32 Financial Instruments: Disclosure and Presentation (effective for periods beginning on or after 1 January 2009).
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective for periods beginning on or after 1 July 2009).
- IFRIC 13 Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008).

Unless otherwise described above, the new standards, amendments and interpretations are not expected to significantly affect the Bank's financial statements.

2.5 Comparative balances

Reclassifications

Since the Bank is a part of the consolidation scope of the KBC Bank NV, which prepares financial statements according to EU IFRS, the Bank has decided to use the same structure for its financial statements and presentation of items within this structure consistent with KBC Bank NV. Therefore certain items are presented in the financial statements at 31 December 2008 differently from the presentation applied in the financial statements at 31 December 2007. To conform with the changes in presentation in the current year, certain balances have been reclassified.

The following reconciliation shows the changes in the structure of the selected balance sheet items as at 31 December 2007:

(CZKm)	2007 As reported	Reclassification of accrued interest income/expenses	2007 Reclassified
Cash and balances with central banks	31,909	49	31,958
Financial assets held for trading	232,282	1,317	233,599
Financial assets designated at fair value through profit or loss	29,078	522	29,600
Available-for-sale financial assets	92,450	1,500	93,950
Held-to-maturity investments	90,174	2,490	92,664
Loans and receivables	247,578	1,355	248,933
Derivatives used for hedging	5,579	356	5,935
Accrued interest income	7,589	(7,589)	-
Financial liabilities designated at fair value through profit or loss	146,289	401	146,690
Financial liabilities at amortised cost	559,830	274	560,104
Derivatives used for hedging	1,309	(138)	1,171
Accrued interest expenses	537	(537)	-

A reconciliation of cash and cash equivalents as at 31 December is as follows:

(CZKm)	2007	2006
Cash and cash equivalents – as reported	16,414	23,223
Money market interbank advances repayable within 3 months	109,841	43,045
Cash and cash equivalents – reclassified	126,255	66,268

Transformation of business in Slovakia

In 2007, KBC Bank NV, as the sole shareholder of the Bank, decided to establish a new legal entity in the Slovak Republic for group strategic reasons and with the aim of management in both countries (Czech and Slovak Republics) to report directly to the KBC Group. The foundation agreement of Československá obchodná banka, a.s. (ČSOB SK) was signed on 14 August 2007, with an effective date of 1 January 2008.

The structure of shareholders of ČSOB SK is as follows:

	Share on capital (%)	Fair value of share of capital (SKKm)
ČSOB	56.74	11,408
KBC Bank NV	39.80	8,000
ČSOB Leasing CZ	2.02	407
ČSOB Factoring CZ	1.44	289
Total	100.00	20,104

The share of ČSOB is represented by the non-cash contribution of assets and liabilities recorded in the books of ČSOB Slovakia branch as at 31 December 2007 and the additional deposit of shares of all the ČSOB subsidiaries incorporated in the Slovak Republic.

The KBC Bank NV share is represented by a cash deposit.

The ČSOB Leasing CZ and ČSOB Factoring CZ shares are represented by their shares in ČSOB Leasing SK and ČSOB Factoring SK.

Based on the Agreement on the exercise of voting rights, signed on 14 August 2007, the execution of the voting rights of all other shareholders was transferred to KBC Bank NV. Therefore, from 1 January 2008, ČSOB SK has been controlled by KBC Bank NV. The share of the Bank in this entity is classified as an available-for-sale financial asset.

The transaction was held between entities under common control and was treated as a reorganisation of the currently existing group. Starting on 1 January 2008, the Bank's subsidiaries in the Slovak Republic were excluded from the Bank's financial statements as well as the deposited assets and liabilities, and were replaced by the share in ČSOB SK.

The net book value of assets contributed by the Bank to ČSOB SK represented CZK 4,230 m. The fair value of contributed assets was CZK 9,032 m. The difference between the net book value and the fair value of contributed assets was recognised in Reorganization reserve (CZK 2,055 m) and Available-for-sale reserve (CZK 2,747 m) (Note: 27). The reorganization reserve represents the dilution of Bank's interest in the assets of the ČSOB Slovakia branch and subsidiaries in exchange for an interest in ČSOB SK into which KBC Bank NV was contributing cash.

The main effects on the Bank's financial statements are shown below.

The following table shows the statement of income of the ČSOB Bank for the year ended 31 December 2007, excluding the results of the operations in the Slovak Republic:

(CZKm)	2007
Interest income	22,928
Interest expense	(9,248)
Net interest income	13,680
Fee and commission income	6,889
Fee and commission expense	(1,578)
Net fee and commission income	5,311
Dividend income	4,207
Net gains from financial instruments at fair value through profit or loss	1,109
Net realised losses on available-for-sale financial assets	(133)
Other net income	549
Operating income	24,723
Staff expenses	(5,176)
General administrative expenses	(5,774)
Depreciation and amortisation	(854)
Provisions	229
Operating expenses	(11,575)
Impairment losses	(785)
Profit before tax	12,363
Income tax expense	(1,773)
Profit for the year	10,590

The following table shows the balance sheet of the ČSOB Bank as at 31 December 2007, excluding balances in the Slovak Republic:

(CZKm)	2007
ASSETS	
Cash and balances with central banks	28,674
Financial assets held for trading	156,486
Financial assets designated at fair value through profit or loss	29,600
Available-for-sale financial assets	93,225
Loans and receivables	203,174
Held-to-maturity investments	89,373
Investments in subsidiaries, associates and joint ventures	33,329
Derivatives used for hedging	5,935
Current tax assets	563
Deferred tax assets	664
Property and equipment	4,574
Goodwill and other intangible assets	3,477
Non-current assets held-for-sale	27
Other assets	7,161
Total assets	656,262
LIABILITIES AND EQUITY	
Financial liabilities held for trading	12,974
Financial liabilities designated at fair value through profit or loss	76,640
Financial liabilities at amortised cost	503,494
Derivatives used for hedging	1,171
Other liabilities	17,112
Provisions	986
Total liabilities	612,377
Share capital	5,855
Share premium	6,673
Statutory reserve	18,687
Retained earnings	14,389
Available-for-sale reserve	(821)
Cash flow hedge reserve	(700)
Foreign currency translation reserve	(198)
Total equity	43,885
Total liabilities and equity	656,262

3. SEGMENT INFORMATION

The Bank's primary segment reporting is by customer segment.

Segment reporting information by customer segments for 2008

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Statement of income					
Net interest income	11,057	1,989	(244)	2,569	15,371
Net fee and commission income	4,162	912	(168)	580	5,486
Dividend income	-	-	1	1,091	1,092
Net gains/(losses) from financial instruments at fair value through profit or loss	1,283	1,069	(10,629)	(1,015)	(9,292)
Net realised gains on available-for-sale financial assets	-	-	45	69	114
Other operating income	107	49	(11)	1,146	1,291
Operating income	16,609	4,019	(11,006)	4,440	14,062
of which:					
External operating income	6,602	4,664	(213)	3,009	14,062
Internal operating income	10,007	(645)	(10,793)	1,431	-
Depreciation and amortisation	(130)	-	(2)	(891)	(1,023)
Other operating expenses	(6,596)	(584)	(266)	(3,957)	(11,403)
Operating expenses	(6,726)	(584)	(268)	(4,848)	(12,426)
Impairment losses - additions	(1,690)	(437)	(506)	(504)	(3,137)
Impairment losses - reversals	564	262	-	245	1,071
Profit/(loss) before tax	8,757	3,260	(11,780)	(667)	(430)
Income tax (expense)/benefit	(1,839)	(684)	2,457	1,179	1,113
Segment profit/(loss)	6,918	2,576	(9,323)	512	683
Assets and liabilities					
Total assets	85,685	105,981	408,632	106,078	706,376
Total liabilities	355,142	93,907	175,203	35,877	660,129

Segment reporting information by customer segments for 2007

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Statement of income					
Net interest income	10,417	2,381	822	1,890	15,510
Net fee and commission income	4,394	1,112	54	339	5,899
Dividend income	-	-	40	4,168	4,208
Net gains/(losses) from financial instruments at fair value through profit or loss	1,411	1,112	(695)	26	1,854
Net realised losses on available-for-sale financial assets	-	-	(133)	-	(133)
Other operating income	60	16	57	484	617
Operating income	16,282	4,621	145	6,907	27,955
of which:					
External operating income	7,097	4,948	10,471	5,439	27,955
Internal operating income	9,185	(327)	(10,326)	1,468	-
Depreciation and amortisation	(187)	(2)	(1)	(841)	(1,031)
Other operating expenses	(6,970)	(837)	(491)	(4,170)	(12,468)
Operating expenses	(7,157)	(839)	(492)	(5,011)	(13,499)
Impairment losses	(1,384)	138	-	127	(1,119)
Profit/(loss) before tax	7,741	3,920	(347)	2,023	13,337
Income tax (expense)/benefit	(1,858)	(941)	84	721	(1,994)
Segment profit/(loss)	5,883	2,979	(263)	2,744	11,343
Assets and liabilities					
Total assets	77,678	111,371	462,571	136,557	788,177
Total liabilities	360,054	105,457	228,317	49,536	743,364

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis. As a number of items are reported on a net basis, the balance of the intersegment transactions for these items is limited.

Definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover of less than CZK 300 m.

Corporate: Companies with a turnover of greater than CZK 300 m and non-banking institutions in the financial sector.

Financial markets and ALM: Asset Liability Management segment, Dealing segment.

Other: Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank), which has approximately 2.3 m customer accounts with deposits amounting to approximately CZK 129 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

The Bank operated in the Czech Republic and the Slovak Republic until 31 December 2007. On 1 January 2008, the Bank contributed the assets and liabilities recorded in the books of the ČSOB Slovakia branch as at 31 December 2007 and shares of all the ČSOB subsidiaries incorporated in the Slovak Republic into the new legal entity established in the Slovak Republic. The Bank's secondary segment reporting by geographical segment for 2007 was as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	653,986	110,026	24,723	1,391
Slovak Republic	134,191	21,502	3,232	75
Total	788,177	131,528	27,955	1,466

Balances in the segment reporting are net of inter-segment transactions.

4. INTEREST INCOME

(CZKm)	2008	2007
Cash balances with central banks	1,511	1,002
Loans and receivables		
Credit institutions	816	1,069
Other than credit institutions	11,342	10,994
Available-for-sale financial assets	3,838	2,468
Held-to-maturity investments	4,385	3,971
Financial assets held for trading	5,705	7,482
Financial assets designated at fair value through profit or loss	1,459	1,294
	29,056	28,280

Included within interest income is accrued interest income of CZK 275 m (2007: CZK 369 m) related to impaired financial assets.

5. INTEREST EXPENSE

(CZKm)	2008	2007
Financial liabilities at amortised cost		
Central banks	23	-
Credit institutions	1,130	378
Other than credit institutions	6,887	5,974
Debt instruments in issue	723	661
Subordinated liabilities	544	352
Discount amortisation on other provisions (Note: 26)	13	6
Financial liabilities designated at fair value through profit or loss	4,365	5,399
	13,685	12,770

6. NET FEE AND COMMISSION INCOME

(CZKm)	2008	2007
Fee and commission income		
Payment services	4,946	5,342
Credit commitments	660	686
Collective investments	513	628
Custody	154	150
Insurance	114	120
Securities	109	211
Asset management	21	36
Other	637	486
	7,154	7,659
Fee and commission expense		
Payment services	613	649
Contribution to Deposit Insurance Fund	394	415
Commissions to agents	61	73
Other	600	623
	1,668	1,760
Net fee and commission income	5,486	5,899

7. NET (LOSSES)/GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net (losses)/gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net (losses)/gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Bank:

(CZKm)	2008	2007
Net (losses)/gains from financial instruments at fair value through profit or loss - as reported	(9,292)	1,854
Net interest income (Notes: 4, 5)	2,799	3,377
	(6,493)	5,231
Financial instruments held for trading		
Interest rate contracts	2,671	7,642
Foreign exchange	463	4,327
Commodity contracts	50	(14)
	3,184	11,955
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	(7,697)	(242)
Financial liabilities designated at fair value through profit or loss	(4,393)	(5,421)
	(12,090)	(5,663)
Exchange differences revaluations	2,413	(1,061)
Financial instruments at fair value through profit or loss	(6,493)	5,231

8. OTHER NET INCOME

(CZKm)	2008	2007
Services provided to ČSOB SK	377	-
Operating leasing and rental income	83	70
Net gain on disposal of loans and receivables	2	28
Net (loss) / gain on disposal of associates, joint ventures and subsidiaries	(5)	49
Net (loss) / gain on disposal of property and equipment	(5)	22
Other	839	448
	1,291	617

9. STAFF EXPENSES

(CZKm)	2008	2007
Wages and salaries	3,726	4,195
Wages and other short-term benefits of senior management	78	99
Social security charges	1,144	1,311
Pension and similar expense	122	129
Other	264	342
	5,334	6,076

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

Only the Chairman of the Supervisory Board is remunerated for his membership in the Supervisory Board.

Retirement benefits

The Bank provides its Czech Republic employees (including senior management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries to the ČSOB Penzijní fond Stabilita, a.s. or ČSOB Penzijní fond Progres, a.s., wholly-owned subsidiaries of ČSOB, with a contribution of the Bank of 2% or 3% of their salaries, respectively.

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2008	2007
Retail service fees	1,090	953
Marketing	869	924
Information technology	846	709
Communication	737	804
Rental expenses	693	822
Other building expenses	458	506
Professional fees	287	336
Administration	167	403
Travel and transportation	135	164
Car expenses	49	82
Insurance	32	44
Other	763	874
	6,126	6,621

11. IMPAIRMENT LOSSES

(CZKm)	2008	2007
Impairment of loans and receivables (Note: 17)	(1,232)	(1,259)
Provisions for loan commitments and guarantees (Note: 26)	-	140
Impairment of available-for-sale financial assets	(165)	-
Impairment of held-to-maturity investments	(370)	-
Impairment of non-current assets held-for-sale	(9)	-
Impairment of other assets	(290)	-
	(2,066)	(1,119)

12. TAXATION

The components of income tax benefit/expense for the years ended 31 December 2008 and 2007 are as follows:

(CZKm)	2008	2007
Current tax expense	-	1,653
Previous year over accrual	(152)	(23)
Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences	(975)	250
Deferred tax expense resulting from reduction in tax rate	14	114
	(1,113)	1,994

A reconcilliation between the tax benefit/expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2008 and 2007 is as follows:

(CZKm)	2008	2007
(Loss)/Profit before taxation	(430)	13,337
Applicable tax rates	21%	24%
Taxation at applicable tax rates	(91)	3,201
Previous year over accrual	(152)	(23)
Tax effect of non-taxable income	(1,395)	(1,775)
Tax effect of non-deductible expenses	495	455
Effect on opening deferred taxes due to reduction in tax rate	14	114
Other	16	22
	(1,113)	1,994

During 2007, changes in the Income tax law were approved. The applicable tax rate for 2008 was 21% (2007: 24%) and for future periods it will be 20% for 2009 and 19% for 2010 onwards.

Deferred income tax is calculated on all temporary differences under the liability method using the income tax rate of 19% enacted for 2010 as the management expects that the majority of temporary differences will be reversed in 2010 or later.

The movement on the deferred tax account is as follows:

(CZKm)	2008	2007
At 1 January	704	192
Transformation of business in Slovakia	(39)	-
Statement of income charge	961	(364)
Available-for-sale securities		
Fair value remeasurement (Note: 27)	(823)	433
Transfer to net profit	22	(26)
Cash-flow hedges		
Fair value remeasurement (Note: 27)	(373)	398
Transfer to net profit	27	71
At 31 December	479	704

Deferred tax asset is attributable to the following items:

(CZKm)	2008	2007
Deferred tax asset		
Unused tax losses applicable in the next periods	819	-
Provisions	171	164
Impairment losses on financial investments	116	-
Legal claim	92	97
Allowances for credit losses	60	-
Impairment of occupied properties	3	1
Accelerated tax depreciation	(7)	22
Cash-flow hedges	(170)	175
Available-for-sale securities	(543)	258
Other temporary differences	(62)	(13)
	479	704

The deferred tax benefit/(charge) in the statement of income comprises the following temporary differences:

(CZKm)	2008	2007
Unused tax losses applicable in the next periods	819	-
Impairment losses on financial investments	116	-
Allowances for credit losses	60	-
Provisions	16	(48)
Available-for-sale securities	3	(16)
Impairment of occupied properties	2	(10)
Accelerated tax depreciation	-	(1)
Legal claim	-	(147)
Deferred tax expense resulting from reduction in tax rate	(14)	(114)
Other temporary differences	(41)	(28)
	961	(364)

The Bank's management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities. The Bank can carry forward tax loss generated in 2008 for up to 5 years.

13. DIVIDENDS PAID

Final dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. Based on the decision from 3 June 2008, a dividend of CZK 1,568 m per share was approved for 2007, representing a total dividend of CZK 9,181 m.

Based on the decision from 14 November 2007, a dividend of CZK 1,869 per share was approved for 2006, representing a total dividend of CZK 9,542 m.

14. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2008	2007
Cash	8,345	9,366
Mandatory minimum reserves	4,272	3,200
Other balances with central banks	2,783	19,343
	15,400	31,909
Accrued interest income	-	49
	15,400	31,958

Mandatory minimum reserves are not available for use in the Bank's day-to-day operations.

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on the mandatory minimum reserve balances at 1.5% in 2007.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2008	2007
Financial assets held for trading		
Loans and advances		
Reverse repo transactions	15,389	47,138
Money market placements	52,380	110,241
Debt instruments	24,658	56,521
Debt securities pledged as collateral	12,529	3,923
Derivative contracts (Note: 19)	33,435	14,459
	138,391	232,282
Accrued interest income	1,109	1,317
	139,500	233,599
Financial assets designated at fair value through profit or loss		
Debt instruments	26,170	27,714
Debt securities pledged as collateral	2,615	1,364
	28,785	29,078
Accrued interest income	745	522
	29,530	29,600
Financial assets at fair value through profit or loss	169,030	263,199

16. FINANCIAL INVESTMENTS

(CZKm)	2008	2007
Available-for-sale financial assets		
Debt securities	115,914	91,901
Equity securities	10,799	588
Provisions for impairment	(191)	(39)
	126,522	92,450
Accrued interest income	2,098	1,500
	128,620	93,950
Held-to-maturity investments		
Debt securities	98,201	90,174
Provisions for impairment	(402)	-
	97,799	90,174
Accrued interest income	2,621	2,490
	100,420	92,664
Financial investments	229,040	186,614

Included within Financial investments are debt securities of CZK 28,857 m (2007: CZK 56,236 m) pledged as collateral in repo transactions.

The gross amount of financial investments individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2008, amounts to CZK 632 m (31 December 2007: CZK 39 m). The Bank does not hold any collateral relating to financial investments individually determined to be impaired.

17. LOANS AND RECEIVABLES

(CZKm)	2008	2007
Analysed by category of borrower		
Central government	6,023	11,298
Non credit institutions	3,271	3,170
Credit institutions	28,319	20,727
Corporate	175,986	186,925
Retail	21,090	31,409
Gross loans	234,689	253,529
Allowance for impairment losses	(5,555)	(5,951)
	229,134	247,578
Accrued interest income	1,249	1,355
	230,383	248,933

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2007 and 2008 by segments and by individual and collective impairment:

(CZKm)	Credit institutions	Corporate	Retail	Total
At 1 January 2007	24	3,955	1,452	5,431
Net increase in allowances for credit losses (Note: 11)	97	583	579	1,259
Write-offs	(24)	(516)	(110)	(650)
Foreign currency translation	(2)	(68)	(19)	(89)
At 31 December 2007	95	3,954	1,902	5,951
Transformation of business in Slovakia	(46)	(598)	(700)	(1,344)
Net (decrease) / increase in allowances for credit losses (Note: 11)	(28)	693	567	1,232
Write-offs	-	(140)	(152)	(292)
Foreign currency translation	1	20	(13)	8
At 31 December 2008	22	3,929	1,604	5,555

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2007	4,987	444	5,431
Net increase / (decrease) in allowances for credit losses (Note: 11)	1,354	(95)	1,259
Write-offs	(650)	-	(650)
Foreign currency translation	(84)	(5)	(89)
At 31 December 2007	5,607	344	5,951
Transformation of business in Slovakia	(1,242)	(102)	(1,344)
Net increase in allowances for credit losses (Note: 11)	1,164	68	1,232
Write-offs	(292)	-	(292)
Foreign currency translation	(1)	9	8
At 31 December 2008	5,236	319	5,555

The gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2008, amounts to CZK 6,619 m (31 December 2007: CZK 7,004 m).

The fair value of collateral held by the Bank relating to loans individually determined to be impaired at 31 December 2008 amounts to CZK 1,591 m (31 December 2007: CZK 1,432 m). The collateral consists of cash, securities, guarantees received and properties.

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

Name	Country of incorporation	2008		2007	
		(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s.	Czech Republic	100.00	1,000	-	-
Auxilium, a. s.	Czech Republic	100.00	5,375	100.00	5,375
Bankovní informační technologie, s.r.o.	Czech Republic	100.00	30	100.00	30
Business Center, s.r.o.	Slovak Republic	-	-	100.00	234
Centrum Radlická a.s.	Czech Republic	100.00	969	100.00	969
ČSOB Asset Management, a.s.	Czech Republic	20.59	85	20.59	85
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic	-	-	100.00	52
ČSOB distribution, a.s.	Slovak Republic	-	-	100.00	35
ČSOB d.s.s., a.s.	Slovak Republic	-	-	100.00	560
ČSOB Factoring, a.s.	Czech Republic	100.00	1,175	100.00	1,175
ČSOB Investiční společnost, a.s.	Czech Republic	73.15	344	73.15	344
ČSOB Investment Banking Services, a.s.	Czech Republic	100.00	5,263	100.00	5,263
ČSOB Leasing, a.s. CZ	Czech Republic	100.00	4,700	100.00	4,700
ČSOB Leasing, a.s. SK	Slovak Republic	-	-	90.01	931
ČSOB Penzijní fond Progres, a.s.	Czech Republic	100.00	718	100.00	518
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100.00	1,207	100.00	1,007
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	-	-	100.00	593
ČSOB korporátní fond, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	-	-	100.00	1,300
ČSOB Property fund, uzavřený investiční fond, a.s.	Czech Republic	60.32	859	-	-
Hypoteční banka, a.s.	Czech Republic	99.90	13,517	99.87	8,017
Joint venture					
Českomoravská stavební spořitelna, a.s.	Czech Republic	55.00	1,540	55.00	1,540
Associate					
ČSOB Pojišťovna, a. s.	Czech Republic	25.00	601	25.00	601
			37,383		33,329

In July 2008, the Bank purchased the participation certificates of the První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s. and thus became the sole participant of this entity.

On 1 January 2008, the Bank deposited the shares of all the ČSOB subsidiaries incorporated in the Slovak Republic into a new legal entity established by KBC Bank NV in the Slovak Republic. The share of ČSOB in the entity represents 56.74% and it is reported as available-for-sale financial asset in accordance with the Agreement on the exercise of voting rights (Note: 2.5).

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 53% of the voting rights in the ČSOB Asset Management, a.s., therefore the company is considered to be a subsidiary.

In June 2008, the Bank sold all participation certificates of ČSOB korporátní fond, ČSOB Investiční společnost, a.s., otevřený podílový fond.

Based on a monetary contribution made as part of an increase in the share capital of ČSOB Property fund, uzavřený investiční fond, a.s. in 2008, the Bank acquired a 60% share in the company. In December 2008, all voting rights in ČSOB Property fund, uzavřený investiční fond, a.s. previously held by ČSOB Pojišťovna, a. s. were transferred to the Bank, whereby ČSOB is entitled to exercise 96.49% of all voting rights in ČSOB Property fund, uzavřený investiční fond, a.s.

Based on the Shareholders Agreement, the Bank controls Českomoravská stavební spořitelna, a.s. jointly with the other owner of remaining 45%. Therefore, the entity is classified as a joint venture.

In October 2008, 15% of voting rights in ČSOB Pojišťovna, a. s. previously held by KBC Verzekeringen NV were transferred to the Bank. ČSOB is therefore entitled to exercise 40% of the voting rights in ČSOB Pojišťovna, a. s.

The Bank executes its control over the company ČSOB Investiční společnost, a.s. indirectly through companies Auxilium, a. s. and ČSOB Asset Management, a.s., in which the Bank holds the majority of voting rights.

Ownership in other companies corresponds with the share of voting rights.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Bank for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Bank is exposed to credit risk in the event of non-performance by counterparties to the derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Bank bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Bank minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Bank obtains collateral where appropriate and uses bilateral master netting arrangements.

There are no significant concentrations of trading and hedging derivative credit exposures other than with the international banking sector, which are the usual counterparties to transactions undertaken for trading and managing the Bank's own risks.

All derivatives are traded over-the-counter.

The maximum credit risk on the Bank's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Bank's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Bank's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book and which do not meet the criteria of hedge accounting. The Bank used single currency interest rate swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2008 and 2007 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

	2008			2007		
		Fair value			Fair value	
(CZKm)	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Interest rate related contracts						
Swaps	936,683	17,929	22,093	887,408	7,390	7,770
Forwards	63,729	56	127	143,834	89	71
Options	29,232	160	151	21,668	83	42
	1,029,644	18,145	22,371	1,052,910	7,562	7,883
Foreign exchange contracts						
Swaps/Forwards	227,595	6,092	4,825	215,063	1,907	3,374
Cross currency interest rate swaps	61,438	3,315	1,968	114,569	3,504	1,622
Options	141,544	4,455	4,455	129,211	1,071	1,071
	430,577	13,862	11,248	458,843	6,482	6,067
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps	7,643	1,428	1,418	3,368	415	436
Total derivatives held for trading (Notes: 15, 23)	1,467,964	33,435	35,057	1,515,221	14,459	14,406

Cash flow hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to eliminate the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Bank policies to achieve these strategies currently require the use of cash flow hedges.

The Bank uses single currency interest rate swaps to convert floating-rate loans to fixed rates. Currency interest rate swaps were used to exchange a series of foreign currency cash flows originating from a foreign currency asset for a series of cash flows appropriately structured in the required currency and maturity to match the respective liabilities.

There was no significant cash flow hedge ineffectiveness as at 31 December 2008 and 2007.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding cash flow hedging derivatives as at 31 December 2008 and 2007 are set out as follows:

	2008			2007		
		Fair value			Fair value	
(CZKm)	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	53,594	1,582	1,018	51,734	188	650
Cross currency interest rate swaps	44,176	5,599	627	43,259	5,747	521
Total hedging derivatives	97,770	7,181	1,645	94,993	5,935	1,171

Net gains on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2008	2007
Interest income	139	297
Taxation	(27)	(71)
Net gains (Note: 27)	112	226

Most of the hedging derivatives are CZK single currency interest rate swaps. The Bank uses these instruments to hedge floating interest income from reverse repo operations with the CNB earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Bank and the fixed interest rate the Bank receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest income earning securities are included in Available-for-sale financial assets and Held-to-maturity investments of the Bank's balance sheet.

Since the cash-flows from the hedging interest rate swaps are variable and difficult to predict, the Bank uses the remaining contractual maturity analysis of the hedging derivatives notionals instead of expected future cash-flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notionals remaining maturity is more relevant.

The following table shows an analysis of notional amounts of hedging derivatives by remaining contractual maturity at 31 December:

(CZKm)	2008	2007
Less than 3 months	2,184	3,208
More than 3 months but not more than 6 months	2,138	2,352
More than 6 months but not more than 1 year	1,191	1,200
More than 1 year but not more than 2 years	23,958	5,429
More than 2 years but not more than 5 years	33,173	46,415
More than 5 years	35,126	36,389
	97,770	94,993

Fair value hedging derivatives

The Bank uses cross currency interest rate swaps and term deposits denominated in the Slovak crown to hedge the volatility of the fair value of a hedged item. In 2008, the hedged item was a currency risk related to ČSOB's share in the new legal entity ČSOB SK, established by KBC Bank NV in Slovakia on 1 January 2008. The investment is classified as Available-for-sale asset which is measured at fair value directly in equity. Because the changes in the fair value which correspond to changes in foreign exchange rates are marked as a hedged item, they are reported in Net losses from financial instruments at fair value through profit or loss in the statement of income.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding fair value hedging derivatives as at 31 December 2008 and 2007 are set out as follows:

	2008			2007		
		Fair value			Fair value	
(CZKm)	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Fair value hedges						
Cross currency interest rate swaps	5,303	-	824	-	-	-

The total realised foreign exchange gains in the amount of CZK 1,251 m on the hedged item attributable to the hedged currency risk is included in Net losses from financial instruments at fair value through profit or loss.

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2007	6,473	2,466	651	2,661	12,251
Depreciation and impairment at 1 January 2007	(1,711)	(2,139)	(492)	(2,017)	(6,359)
Net book value at 1 January 2007	4,762	327	159	644	5,892
Additions	448	257	107	187	999
Disposals	(3)	(1)	(2)	(8)	(14)
Depreciation	(283)	(189)	(38)	(259)	(769)
Foreign exchange adjustments	(13)	-	-	-	(13)
Net book value at 31 December 2007	4,911	394	226	564	6,095
of which					
Cost at 31 December 2007	6,896	2,361	687	2,395	12,339
Depreciation and impairment at 31 December 2007	(1,985)	(1,967)	(461)	(1,831)	(6,244)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2008	6,896	2,361	687	2,395	12,339
Depreciation and impairment at 1 January 2008	(1,985)	(1,967)	(461)	(1,831)	(6,244)
Net book value at 1 January 2008	4,911	394	226	564	6,095
Additions	299	393	47	226	965
Disposals	(13)	(1)	(1)	(5)	(20)
Transfer to non-current assets held-for-sale	(109)	-	-	-	(109)
Transformation of business in Slovakia	(1,400)	(33)	(41)	(46)	(1,520)
Depreciation	(203)	(234)	(32)	(203)	(672)
Net book value at 31 December 2008	3,485	519	199	536	4,739
of which					
Cost at 31 December 2008	5,197	2,287	544	2,132	10,160
Depreciation and impairment at 31 December 2008	(1,712)	(1,768)	(345)	(1,596)	(5,421)

The net book value of the Construction in progress, included in Property and equipment, amounted to CZK 404 m at 31 December 2008 (31 December 2007: CZK 460 m).

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2007	2,752	2,422	691	5,865
Amortisation and impairment at 1 January 2007	(63)	(2,173)	(340)	(2,576)
Net book value at 1 January 2007	2,689	249	351	3,289
Additions	-	329	138	467
Amortisation	-	(218)	(44)	(262)
Net book value at 31 December 2007	2,689	360	445	3,494
of which				
Cost at 31 December 2007	2,752	2,744	828	6,324
Amortisation and impairment at 31 December 2007	(63)	(2,384)	(383)	(2,830)

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2008	2,752	2,744	828	6,324
Amortisation and impairment at 1 January 2008	(63)	(2,384)	(383)	(2,830)
Net book value at 1 January 2008	2,689	360	445	3,494
Additions	-	440	83	523
Transformation of business in Slovakia	-	(6)	(10)	(16)
Amortisation	-	(278)	(73)	(351)
Net book value at 31 December 2008	2,689	516	445	3,650
of which				
Cost at 31 December 2008	2,752	3,141	901	6,794
Amortisation and impairment at 31 December 2008	(63)	(2,625)	(456)	(3,144)

Goodwill has been allocated to the Retail / SME segment, representing a cash-generating unit (Note: 3). The recoverable amount has been determined based on a value in use calculation. That calculation uses cash-flow projections based on the financial budgets approved by the management covering a period 2009 - 2011. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. Cash flows are represented by net profit generated by the cash-generating unit above the required capital, calculated as 8.00% of its risk weighted assets, and a terminal value of the business. The first ten-year period future cash flows were discounted using a risk free rate of 3.95% (2007: 4.50%) adjusted by a market risk premium of 7.05% (2007: 6.50%). For the calculation of the terminal value a sustainable discount rate of 9.5% and a long term growth of 3.00% were used for both the 2008 and the 2007 calculation. The management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

22. OTHER ASSETS

(CZKm)	2008	2007
Other debtors, net of provisions (Note: 34.2)	5,549	6,357
Receivables from securities clearing entities (Note: 34.2)	1,069	68
Accrued income (Note: 34.2)	668	382
Prepaid charges	539	467
VAT and other tax receivables	27	36
Other	12	16
	7,864	7,326

Included within Other debtors, net of provisions is a receivable from the Czech National Bank (CNB) related to ex-IPB off-balance sheet commitments repaid by the Bank in the amount of CZK 1,374 m at 31 December 2008. At 31 December 2007, a receivable from the Czech Ministry of Finance (MF CZ) in the amount of CZK 1,687m related to the ex-IPB assets originated by the repayment of ex-IPB off-balance sheet commitments and transferred to the Czech Consolidation Agency was included within this item. The Bank believes that the amount related to repayments of ex-IPB off-balance sheet commitments is fully covered by guarantee agreements issued by the institutions of the Czech state.

On 13 November 2008, the CNB instructed the Bank to derecognize the receivable from the MF CZ from its balance sheet. The Bank was obliged to comply with the CNB's instruction, although the Bank's management believes that the receivable from the MF CZ exists and is fully recoverable and that the CNB ruling is not correct. This assessment is supported by the opinions of external lawyers. At 31 December 2008, in accordance with the CNB instruction, the Bank is no longer recognizing the receivable on the basis of the MF CZ guarantee, which is subject to arbitration before the ICC International Court of Arbitration, in balance sheet. The Bank continues to recognize the receivable on the basis of a guarantee issued by the CNB. The difference in the amounts of the receivables (including accrued interest income) from the MF CZ and the CNB has been recognized in the statement of income. The receivable on the basis of the MF CZ guarantee is recorded in the off balance sheet.

23. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2008	2007
Financial liabilities held for trading		
Short positions	48	1,989
Derivative contracts (Note: 19)	35,057	14,406
	35,105	16,395
Financial liabilities designated at fair value through profit or loss		
Term deposits	33,489	117,293
Repo transactions	28,712	21,937
Promissory notes	491	5,299
Bonds issued	480	1,760
	63,172	146,289
Accrued interest expense	340	401
	63,512	146,690
Financial liabilities at fair value through profit or loss	98,617	163,085

The amount that the Bank would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is CZK 17 m less than the carrying amount at 31 December 2008 (31 December 2007: CZK 2 m more).

24. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2008	2007
Deposits received from central banks		
Repo transactions	17,000	-
Deposits received from credit institutions		
Current accounts	8,405	16,859
Term deposits	47,253	28,208
Repo transactions	14,422	12,723
	70,080	57,790
Deposits received from other than credit institutions		
Current accounts	270,230	291,139
Term deposits with agreed maturity	95,693	137,935
Term deposits at notice	52,122	36,583
Other deposits	4,589	5,432
	422,634	471,089
Debt securities in issue		
Bonds issued	1,381	4,257
Promissory notes	20,188	14,728
Certificates of deposit	4	5
	21,573	18,990
Subordinated liabilities		
Subordinated debt	11,965	11,961
Accrued interest expenses	712	274
Financial liabilities at amortised cost	543,964	560,104

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amounts of CZK 5,000 m and CZK 7,000 m to KBC Bank NV. Both subordinated debts are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank. The subordinated debt has been received to increase the capital adequacy ratio in order to support further business expansion.

25. OTHER LIABILITIES

(CZKm)	2008	2007
Other clearing accounts	6,269	9,933
Other creditors	4,288	3,818
Payables to employees including social security charges	1,269	1,424
Accrued charges	1,198	1,509
Payables to securities clearing entities	658	684
VAT and other tax payables	122	186
Income received in advance	77	87
Other debts to clients	40	54
Other	195	52
	14,116	17,747

26. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loan commitments and guarantees (Note: 31)	Total
At 1 January 2008	303	131	141	524	1,099
Additions	59	131	-	159	349
Amounts utilised	(6)	(31)	(23)	-	(60)
Unused amounts reversed	(87)	(100)	-	(159)	(346)
Discount amortisation (Note: 5)	-	-	13	-	13
Transformation of business in Slovakia	(69)	-	-	(45)	(114)
Foreign currency translation	2	-	-	20	22
At 31 December 2008	202	131	131	499	963

Only additions, reversals and utilisations of the provisions for legal issues and other losses, restructuring and contractual engagements are included in Provisions in the statement of income.

Restructuring

During 2008, the Bank finalised an old restructuring program, resulting in the release of a provision of CZK 100 m. In the framework of this restructuring program the total number of personnel reduced has reached 734, of which 146 occurred in 2008.

In December 2008, the Bank decided to begin a new restructuring program with the aim to reduce the total number of personnel by 496 by the end of 2009. Based on this decision, the Bank created a new provision in the amount of CZK 131 m to cover the related costs.

Contractual engagements

ČSOB assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) in which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise.

27. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2008, the total authorised share capital was CZK 5,855 m (31 December 2007: CZK 5,855 m) and comprised of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

In December 2007, KBC Bank NV increased the regulatory capital of ČSOB by CZK 6,000 m in order to maintain the capital structure of the Bank to reflect changes in economic conditions and the risk characteristics of its activities. This increase was effected through share capital by CZK 750 m and share premium by CZK 5,250 m.

No Treasury shares were held by the Bank at 31 December 2008 and 2007.

On 31 December 2008, the Bank was directly controlled by KBC Bank NV whose ownership interest in ČSOB was 100% (31 December 2007: 100%). On the same date, KBC Bank NV was controlled by KBC Group NV and, therefore, KBC Group NV was the company indirectly exercising ultimate control over the Bank.

Other reserves

The following table shows movements of Other reserves in 2008 and 2007:

(CZKm)	Reorgani-zation reserve	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2007	-	633	931	(198)	1,366
Net unrealised losses on available-for-sale financial investments	-	(2,000)	-	-	(2,000)
Net realised losses on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	-	107	-	-	107
Tax effect of net losses on available-for-sale financial investments (Note: 12)	-	433	-	-	433
Net unrealised losses on cash flow hedges	-	-	(1,803)	-	(1,803)
Net gain on cash flow hedges reclassified to the statement of income (Note: 19)	-	-	(226)	-	(226)
Tax effect of net losses on cash flow hedges (Note: 12)	-	-	398	-	398
At 31 December 2007	-	(827)	(700)	(198)	(1,725)
Net unrealised gains on available-for-sale financial investments	-	4,609	-	-	4,609
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	-	(92)	-	-	(92)
Tax effect of net gains on available-for-sale financial investments (Note: 12)	-	(823)	-	-	(823)
Net unrealised gains on cash flow hedges	-	-	1,913	-	1,913
Net gain on cash flow hedges reclassified to the statement of income (Note: 19)	-	-	(112)	-	(112)
Tax effect of net gain on cash flow hedges (Note: 12)	-	-	(373)	-	(373)
Transformation of business in Slovakia	2,055	2,753	-	2	4,810
At 31 December 2008	2,055	5,620	728	(196)	8,207

The amounts disclosed in Transformation of business in Slovakia could be described as follows:

(CZKm)	Reorganization reserve	Available for-sale reserve
Exclusion of Available-for-sale reserve recognised by Slovak branch as at 31-12-2007	-	6
Recognition of Reorganization reserve as at the date of the transaction (Note: 2.5)	2,055	-
Available-for-sale reserve arisen from subsequent measurement of the Bank's share in ČSOB SK (Note: 2.5)	-	2,747

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2008		2007	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	15,400	15,400	31,958	31,958
Financial assets held for trading	139,500	139,500	233,599	233,599
Financial assets designated at fair value through profit or loss	29,530	29,530	29,600	29,600
Available-for-sale financial assets	128,620	128,620	93,950	93,950
Loans and receivables	230,383	231,955	248,933	248,928
Held-to-maturity investments	100,420	98,446	92,664	91,358
Derivatives used for hedging	7,181	7,181	5,935	5,935
Financial liabilities				
Financial liabilities held for trading	35,105	35,105	16,395	16,395
Financial liabilities designated at fair value through profit or loss	63,512	63,512	146,690	146,690
Financial liabilities at amortised cost	543,964	547,371	560,104	560,179
Derivatives used for hedging	2,469	2,469	1,171	1,171

The following methods and assumptions were applied in estimating the fair values of the Bank's financial assets and liabilities:

Held-to-maturity investments

Fair values for held to maturity securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

Loans and receivables to credit institutions and balances with central banks

The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the balance sheet date.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using current interbank market rates.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue

Bonds issued are publicly traded and their fair values are based upon quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Financial assets and liabilities at fair value

Financial assets and liabilities at fair value (available-for-sale, held for trading, designated at fair value through profit or loss) are valued as follows:

- If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices, which means that no model is involved in the process of revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.
- If there is no active market, fair value is obtained using a valuation technique (e.g. discounted cash flow analysis and option pricing techniques) based on the prices from currently observable market transactions with similar instruments, or based on available observable market data obtained from independent sources. Financial instruments valued on this basis include forward interest rate and foreign exchange contracts, money market loans and deposits.
- When valuation parameters are not observable, fair value is based on the best information available in the circumstances, which may include ČSOB's own or KBC Group's data. Such parameters reflect ČSOB's own or KBC Group's assumptions about what information is relevant for the pricing of a financial asset or liability. Financial instruments for which the parameters are not observable include collateralised debt obligations (CDOs) and unlisted shares.

  CDOs issued by KBC Financial Products (KBC FP) are actually priced according to a model administrated by KBC Group, which is based on the quotations of Credit Default Swaps and Moody's ratings of individual CDO tranches. The prices are derived from CDS indices: CDX, iTraxx and ABX, weighted proportionally according to the asset breakdown of the CDO collateral pool. Market Value Adjustments (MVA) are set up for the close-out and liquidity of these instruments. In view of the uncertainty associated with such valuation, the Bank has conservatively decided to book an additional MVA putting the fair value of all tranches at zero.

  The total amount of the unrealised loss attributable to the negative change in fair value estimated using a valuation technique, for which valuation parameters are not observable, that was recognised in the Bank's profit for 2008 was CZK 10,150 m (2007: CZK 1,105 m).

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those based on valuation techniques:

(CZKm)	2008			
	Quoted market price	Valuation techniques based on market observable inputs	Valuation techniques based on non-market observable inputs	Total
Financial assets				
Financial assets held for trading	16,604	122,896	-	139,500
Financial assets designated at fair value through profit or loss	15,609	13,751	170	29,530
Available-for-sale financial assets	23,314	94,650	10,656	128,620
Derivatives used for hedging	-	7,181	-	7,181
Financial liabilities				
Financial liabilities held for trading	48	35,057	-	35,105
Financial liabilities designated at fair value through profit or loss	-	63,512	-	63,512
Derivatives used for hedging	-	2,469	-	2,469

(CZKm)	2007			
	Quoted market price	Valuation techniques based on market observable inputs	Valuation techniques based on non-market observable inputs	Total
Financial assets				
Financial assets held for trading	18,313	215,286	-	233,599
Financial assets designated at fair value through profit or loss	8,182	11,126	10,292	29,600
Available-for-sale financial assets	24,825	69,091	34	93,950
Derivatives used for hedging	-	5,935	-	5,935
Financial liabilities				
Financial liabilities held for trading	1,989	14,406	-	16,395
Financial liabilities designated at fair value through profit or loss	-	146,690	-	146,690
Derivatives used for hedging	-	1,171	-	1,171

29. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the balance sheets

(CZKm)	2008	2007
Cash and balances with central banks	11,129	28,709
Loans and advances to credit institutions	42,531	114,445
Deposits from credit institutions	(25,480)	(16,899)
Cash and cash equivalents	28,180	126,255

Change in operating assets

(CZKm)	2008	2007
Net change in financial assets held for trading	(56,920)	(13,462)
Net change in financial assets designated at fair value through profit or loss	70	(688)
Net change in available-for-sale financial assets	(22,004)	(39,702)
Net change in loans and receivables	(26,514)	(47,065)
Net change in derivatives used for hedging	527	(2,450)
Net change in other assets	(1,054)	2,922
	(105,895)	(100,445)

Change in operating liabilities

(CZKm)	2008	2007
Net change in financial liabilities held for trading	22,961	2,210
Net change in financial liabilities designated at fair value through profit or loss	(13,127)	61,489
Net change in financial liabilities at amortised cost	30,605	93,375
Net change in derivatives used for hedging	474	802
Net change in other liabilities	(3,736)	(107)
	37,177	157,769

Non-cash items included in profit before tax

(CZKm)	2008	2007
Allowances and provisions for credit losses	(921)	1,119
Depreciation and amortisation	1,023	1,031
Amortisation of discounts and premiums	376	438
Impairment on other assets	290	-
Impairment on investment securities (AFS + HTM)	538	-
Provisions	(22)	(229)
Other	(71)	14
	1,213	2,373

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Bank by remaining expected maturity as at 31 December 2008:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	94,361	29,317	15,783	39	139,500
Financial assets designated at fair value through profit or loss	1,745	4,720	23,065	-	29,530
Available-for-sale financial assets	10,191	22,358	85,328	10,743	128,620
Loans and receivables	126,138	66,028	31,753	6,464	230,383
Held-to-maturity investments	9,044	33,340	58,036	-	100,420
Derivatives used for hedging	2,753	3,760	668	-	7,181
Total carrying value	244,232	159,523	214,633	17,246	635,634
LIABILITIES					
Financial liabilities held for trading	20,530	10,651	3,924	-	35,105
Financial liabilities designated at fair value through profit or loss	63,052	402	50	8	63,512
Financial liabilities at amortised cost	169,731	120,715	241,900	11,618	543,964
Derivatives used for hedging	1,508	848	113	-	2,469
Total carrying value	254,821	132,616	245,987	11,626	645,050

The following table sets out the financial assets and liabilities of the Bank by remaining expected maturity as at 31 December 2007:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	201,914	16,611	15,074	-	233,599
Financial assets designated at fair value through profit or loss	921	5,228	23,451	-	29,600
Available-for-sale financial assets	5,938	32,127	55,336	549	93,950
Loans and receivables	133,836	68,733	41,413	4,951	248,933
Held-to-maturity investments	8,011	33,826	50,827	-	92,664
Derivatives used for hedging	2,275	3,108	552	-	5,935
Total carrying value	352,895	159,633	186,653	5,500	704,681
LIABILITIES					
Financial liabilities held for trading	9,874	4,883	1,638	-	16,395
Financial liabilities designated at fair value through profit or loss	141,987	4,630	50	23	146,690
Financial liabilities at amortised cost	230,529	102,130	227,417	28	560,104
Derivatives used for hedging	715	402	54	-	1,171
Total carrying value	383,105	112,045	229,159	51	724,360

31. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Bank recovered a written-off loan amounting to CZK 485 m in 2007. Due to uncertainty regarding the outcome of the appeal by the counterparty against the ruling, the Bank will not recognise this amount in the statement of income until the final court ruling regarding the Bank's claim is known.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December are as follows:

(CZKm)	2008	2007
Loan commitments	112,344	131,528
Financial guarantees	28,551	30,316
Other commitments	2,530	2,423
	143,425	164,267
Provisions for loan commitments and guarantees (Note: 26)	499	524

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements.

Litigation

Other than the litigation, for which provisions have already been made (Note: 26), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank is subject to a number of claims brought by Nomura, their affiliates and other parties in the context of the IPB acquisition amounting to tens of billions of Czech Crowns, but the Bank is not able to reliably estimate the total effective amount, since the claims are interdependent. The Bank believes that such claims are unfounded. In addition, potential losses arising from such claims are covered by guarantee agreements issued by the institutions of the Czech state and thus they have no risk of material impact on the financial position of the Bank.

In June 2007, the Bank initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable from the MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency (Note: 22). The Bank believes that its position in this case is strong and is confident that the International Court of Arbitration will rule in its favour. This assessment of the outcome of this case is supported by opinions of external lawyers. The arbitration is still ongoing.

Further, the Bank has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments

Future minimum lease payments under operating leases related to land and buildings are as follows:

(CZKm)	2008	2007
Not later than 1 year	30	28
Later than 1 year and not later than 5 years	479	407
Later than 5 years	182	93
	691	528

These operating leases can be technically cancelled under Czech law; however, the Bank is commercially bound to continue with these leases for the periods set out above.

32. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Bank has made to counterparties in reverse repurchase agreements according to the lines of the balance sheet in which they are included:

(CZKm)	2008	2007
Financial assets		
Cash and balances with central banks	-	18,050
Financial assets held for trading	15,401	47,163
	15,401	65,213

Under reverse repurchase agreements, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2008 was CZK 16,275 m, of which CZK 1,606 m has been either sold or repledged (31 December 2007: CZK 108,602 m and CZK 14,737 m, respectively).

The following table shows an analysis of the loans the Bank has received from counterparties in repurchase agreements according to the lines of the balance sheet in which they are included:

(CZKm)	2008	2007
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	28,929	21,943
Financial liabilities at amortised cost	31,601	13,047
	60,530	34,990

33. RELATED PARTY DISCLOSURES

A number of banking transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
KBC Bank NV	16,555	-	-	73	4,103	-
Entities under common control	1,249	185	920	2,517	-	5
Subsidiaries						
ČSOB Asset Management, a.s.	-	-	54	-	-	-
ČSOB Factoring, a.s.	-	-	-	2,914	-	-
ČSOB Investiční společnost, a.s.	1	-	-	-	-	183
ČSOB Investment Banking Services, a.s.	-	-	-	36	-	-
ČSOB Leasing, a.s.	500	-	4,131	17,897	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	114	-	-	-	-	-
Centrum Radlická a.s.	-	-	-	270	-	-
Hypoteční banka, a.s.	7,506	6,910	62,137	14,053	-	-
Other	43	-	8	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	26	-	-	-	-	10
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	-	957	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management personnel	-	-	62	-	-
KBC Bank NV	10,271	4,636	31,431	1,512	-
Entities under common control	54	1,934	377	-	157
Subsidiaries					
ČSOB Asset Management, a.s.	-	-	207	-	-
ČSOB Investiční společnost, a.s.	-	-	501	-	-
ČSOB Investment Banking Services, a.s.	-	-	-	-	-
ČSOB Leasing, a.s.	-	-	266	-	-
ČSOB Penzijní fond Stabilita, a.s.	16	-	286	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	-	-	194	-	173
Centrum Radlická a.s.	-	-	2	-	-
Bankovni Informacni Technologie, s.r.o.	-	-	187	-	-
Hypoteční banka, a.s.	-	-	16,805	-	-
Other	4	10	579	-	-
Associates					
ČSOB Pojišťovna, a.s.	18	42	1,577	-	-
Joint ventures					
Českomoravská stavební spořitelna, a.s.	-	1,285	6,878	-	-

The outstanding balances of assets from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
KBC Bank NV	12,180	-	-	96	3,936	3
Entities under common control	489	9,287	-	408	-	-
Subsidiaries						
ČSOB Asset Management, a.s.	4	-	-	10	-	-
ČSOB Factoring, a.s. CZ	15	-	-	2,372	-	-
ČSOB Factoring a.s. SK	-	-	131	-	-	-
ČSOB Investiční společnost, a.s.	-	-	-	-	-	99
ČSOB Investment Banking Services, a.s.	1	-	-	35	-	-
ČSOB Leasing, a.s. CZ	949	-	9,798	18,085	-	-
ČSOB Leasing, a.s. SK	255	-	-	5,430	-	-
ČSOB Property fund, uzavřený investiční fond, a.s.	-	-	-	872	-	-
ČSOB stavebná sporitel'na, a.s.	-	-	-	167	-	-
Centrum Radlická a.s.	-	-	-	300	-	-
Hypoteční banka, a.s.	6,668	6,388	35,392	3,899	-	-
Other	3	-	-	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	22	-	-	-	-	-
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	-	957	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2007 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management personnel	-	-	95	-	-
KBC Bank NV	3,960	77,054	31,490	581	-
Entities under common control	66	2,470	636	-	19
Subsidiaries					
ČSOB Asset Management, a.s.	13	-	204	-	-
ČSOB Investiční společnost, a.s.	-	-	269	-	-
ČSOB Investment Banking Services, a.s.	5	-	665	-	-
ČSOB Leasing, a.s. CZ	199	-	10,156	53	-
ČSOB Leasing, a.s. SK	42	-	350	-	-
ČSOB Penzijní fond Stabilita, a.s.	24	445	-	-	-
ČSOB Property fund, uzavřený investiční fond, a.s.	-	-	43	-	-
ČSOB stavebná sporitel'ňa, a.s.	-	-	402	-	-
Centrum Radlická a.s.	-	-	79	-	-
Bankovní informační technologie, s.r.o.	-	-	203	-	-
Hypoteční banka, a.s.	-	-	5	-	-
Other	5	55	514	-	-
Associates					
ČSOB Pojišťovna, a.s.	48	51	598	-	-
Joint ventures					
Českomoravská stavební spořitelna, a.s.	-	-	2,529	-	-

The outstanding balances of interest income and expense from related party transactions at 31 December are as follows:

	2008		2007	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
KBC Bank NV	213	1,731	142	2,505
Entities under common control	770	69	23	196
Subsidiaries				
ČSOB Asset Management, a.s.	-	8	-	6
ČSOB Factoring, a.s. CZ	133	-	85	-
ČSOB Factoring a.s. SK	-	-	7	-
ČSOB Investiční společnost, a.s.	-	14	-	9
ČSOB Investment Banking Services, a.s.	4	-	2	43
ČSOB Leasing, a.s. CZ	943	5	282	3
ČSOB Leasing, a.s. SK	-	-	266	4
ČSOB Penzijní fond Stabilita, a.s.	-	3	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	10	20
Centrum Radlická a.s.	13	-	6	-
Bankovní informační technologie, s.r.o.	-	6	-	3
Hypoteční banka, a.s.	2,217	217	1,099	7
Other	9	7	1	11
Associates				
ČSOB Pojišťovna, a.s.	-	40	-	14
Joint ventures				
Českomoravská stavební spořitelna, a.s.	50	228	40	8

The outstanding balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

	2008		2007	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	936	74	432	73
Entities under common control	425	27	-	20
Subsidiaries				
ČSOB Leasing, a.s. CZ	-	539	-	532

Dividend income received from subsidiaries, associates and joint ventures in 2008 amounted to CZK 1,014 m (2007: CZK 4,190 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2008 amounted to CZK 166 m (2007: CZK 140 m).

34. RISK MANAGEMENT

34.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability. Each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. They are monitored through the KBC Group's Internal capital adequacy assessment process (ICAAP).

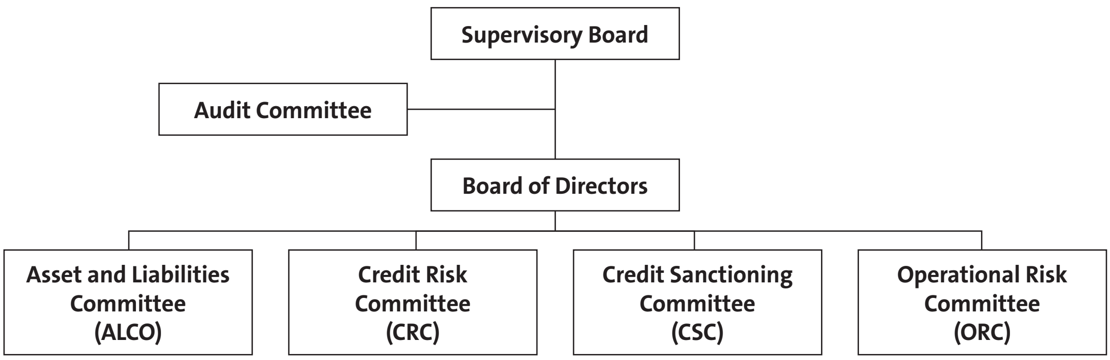
Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The structure of Value and Risk Management in ČSOB is based on a uniform principle of Value and Risk Management applied within the KBC Group. It is based on the risk governance model that defines the responsibilities and tasks of various bodies and persons within the organization to guarantee the sound management of value creation and all the associated risks.

This model includes:

- Involvement of the Bank's top bodies in the process of value and risk management;
- The activities of specialized committees and independent departments involved in risk management at the level of ČSOB with group-wide control; and the
- Primary risk management within departments and organizational units of individual companies.



Supervisory Board

The Supervisory Board has responsibility for monitoring the overall risk process within the Bank.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee is responsible for providing assistance to the Supervisory Board in monitoring and reporting on the overall risk process within the Group. The Audit Committee supervises the integrity, efficiency and effectiveness of the internal control and the risk management processes and tools in place.

Risk committees

Asset and liability committee (ALCO)

The ALCO has overall responsibility for the development of the market and liquidity risk strategy and implementing principles, frameworks, policies and limits for the Bank's investment portfolio. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk committee (CRC)

The CRC has overall responsibility for the development of the credit risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit risk sanctioning committee (CSC)

The CSC is a committee entrusted with the Group-wide responsibility and authority to take decisions on (individual) credit applications falling within the delegated decision powers of the CSC. As such it acts in principle as the highest decision committee for the Bank.

Operational risk committee (ORC)

The ORC has overall responsibility for the development of the operation risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Other bodies

Senior Executive Officers (SEO) responsible for Financial Markets and Risk Management

These two SEOs have overall responsibility for the development of the market risk strategy and implementing principles, frameworks, policies and limits for the trading portfolio of the Bank. They are responsible for fundamental risk issues and manage and monitor relevant risk decisions.

Value and Risk Management (VRM)

The Value and Risk Management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process (except for credit risk). VRM is also responsible for monitoring compliance with risk principles, policies and limits, across the Bank. VRM is responsible for the independent control of risks (except for credit risk), including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Credits unit

The Credits unit is responsible for implementing and maintaining credit risk related procedures to ensure an independent control process. The Credits unit is also responsible for monitoring compliance with credit risk principles, policies and limits, across the Bank.

The Credits unit is responsible for the independent control of credit risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Asset and liability management unit (ALM)

The Bank's ALM unit is responsible for managing assets and liabilities of the Bank's investment portfolio. It is also primarily responsible for the funding and liquidity risks of the Bank.

Financial Markets unit (FM)

The Bank’s FM unit is responsible for managing assets and liabilities of the Bank‘s trading portfolio.

Internal audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit discusses results of all assessments with the management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank‘s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the ALCO, and the CRC. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Bank.

A daily report is given to the senior management and all other relevant members of the Bank on the use of market limits and analysis of VaR in the trading book. A weekly report is given to the senior management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office (based on economic considerations rather than the IFRS hedge accounting criteria). The effectiveness of all hedge relationships is monitored by the Unit quarterly. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank‘s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank‘s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

34.2 Credit risk

Credit risk is a potential shortfall relative to the value expected as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to an inter-professional transaction, or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as 'country risk'.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical or industry concentrations. The Bank monitors exposures in relation to these limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating Probability of Default (PD rating). Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

Corporate and large SME credits

ČSOB has developed and implemented internal rating models / tools within the credit process for Corporates, SMEs, municipalities, housing cooperatives and other clients. The models were built in compliance with the Basel II regulations, that allow the Bank to use their output (PD) for capital adequacy calculations. The non-retail models produce rating grades on a unified KBC "PD master scale". Rating grades 1-9 are used for non-default/normal clients while rating grades 10-12 are used for clients in default. Each rating grade is associated with a predefined range of probability of default (e.g. a client carrying PD rating 3 has a probability of default between 0.20% - 0.40%). Clients with a PD rating 8 and 9 are considered as "weak normal" and the management of such files is monitored by the Bad Debts unit.

Validation of the model is performed by an independent unit from the Value and Risk Management unit and finally approved by KBC Group Model Committee. The whole "model lifecycle" is defined in the KBC Model Management Framework unified for the KBC Group.

The Bank expects to further improve the predictive capability of the models in line with the increasing amount of available data.

ČSOB applies using models developed by the KBC Group to assess the quality of sovereign and banking counterparties. These models are validated by the KBC Group as well.

Acceptance Process

The acceptance process for Corporate and large SME clients is organized in three steps. First, the relationship manager of the introducing entity prepares a written credit proposal. In the second step, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares a recommendation. Credit files that carry only a limited expected loss can be approved by the Head of a Corporate Branch. Finally, a decision is made at the appropriate decision-making level (committee). The "four eyes" principle is always respected. The decision always includes an approved counterparty rating.

The newly created rating models that assign to each client a specific probability of default enable the determination of the level of potential risk and the acceptance process to be adapted accordingly. Thus, the Bank can modify the acceptance authority, follow a simpler framework in cases of lower risk, adjust price policy, set more precise on monitoring rules, implement advanced risk control based on the portfolio system, etc. New rating models were integrated into specialized rating tools, which can be used also for pricing purposes.

Retail and small SME credits

The Bank has implemented the Internal Rating Based (IRB) approach to calculate its capital requirement. This includes the development of scorecards for retail portfolios within the Bank, estimates of key parameters such as PD, Exposure at Default (EAD) and Loss Given Default (LGD) within defined homogenous sets of exposures (so-called pools) and a process of regular recalculation, validation and monitoring. Basel II scorecards are used in the application process so that they influence the incoming population. All models have to follow the standards maintained within the KBC Group via the Model management framework and have to be approved by the local Credit Risk Committee and the Group Model committee.

Acceptance process

The retail acceptance process is based on a number of internally developed scorecards and uses access to external data sources (Credit Bureaus) that bring additional information about a client's risk profile. Each application process runs on an in-house developed scorecard. These decision support tools allow complex control over the newly accepted risks. Scorecards are typically based on both socio-demographic and behavioural data. The acceptance process also covers pre-approved limits for existing clients.

Portfolio risk management

Several loss-predicting models are used to manage the risk of the major retail credit portfolios. Regular back-testing of those models shows high precision of the predicted development. The use of these modelling techniques and the implemented scorecards together with management techniques significantly reduces the credit risk taken within retail portfolios, although the acceptance rate has been kept almost the same.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risk

The Bank grants its customers guarantees that may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of a letter of credit. They expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Note	2008	2007
Cash and balances with central banks	14	7,055	22,592
Financial assets held for trading	15	139,500	233,599
Financial assets designated at fair value through profit or loss	15	29,530	29,600
Available-for-sale financial assets	16	128,620	93,950
Loans and receivables	17	230,383	248,933
Held-to-maturity investments	16	100,420	92,664
Derivatives used for hedging	19	7,181	5,935
Other assets	22	7,286	6,807
Total		649,975	734,080
Contingent liabilities	31	31,081	32,739
Commitments	31	112,344	131,528
Total		143,425	164,267
Total credit risk exposure		793,400	898,347

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2008 was CZK 105,003 m (2007: CZK 59,160 m) before taking account of collateral or other credit enhancements and CZK 105,003 m (2006: CZK 59,160 m) net of such protection.

The Bank's financial assets, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions:

(CZKm)	2008	2007
Czech Republic	653,341	555,008
Slovak Republic	21,809	160,667
Other Europe	110,505	167,942
Other	7,745	14,730
Total	793,400	898,347

An industry sector analysis of the Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

(CZKm)	2008	2007
Central government	188,603	227,118
Non-credit institutions	8,677	7,890
Credit institutions	257,167	266,968
Insurance companies	254	1,063
Financial services	55,276	52,244
Other non-financial companies	255,503	303,400
Retail customers	27,920	39,664
Total	793,400	898,347

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from its parent company for loans to its subsidiaries.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also makes use of master netting agreements with counterparties.

Quality of credit portfolio

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines (in gross amounts), based on the Bank's credit rating system at 31 December:

(CZKm)	2008			
		Impaired assets		Total
	Unimpaired assets PD rating 1-7	Collectively PD rating 8-9	Individually PD rating 10-12	
Financial assets designated at fair value through profit or loss	29,530	-	-	29,530
Available-for-sale financial assets	117,869	-	143	118,012
Loans and receivables				
Central government	6,023	-	-	6,023
Noncredit institutions	3,271	-	-	3,271
Credit institutions	27,703	114	502	28,319
Corporate	167,871	3,688	4,427	175,986
Retail	19,183	217	1,690	21,090
Accrued interest income	1,247	2	-	1,249
	225,298	4,021	6,619	235,938
Held-to-maturity investments	100,389	-	433	100,822
Total	473,086	4,021	7,195	484,302

(CZKm)	2007			
Financial assets designated at fair value through profit or loss	29,600	-	-	29,600
Available-for-sale financial assets	93,401	-	-	93,401
Loans and receivables				
Central government	11,298	-	-	11,298
Noncredit institutions	3,170	-	-	3,170
Credit institutions	20,234	485	8	20,727
Corporate	181,176	994	4,755	186,925
Retail	28,911	257	2,241	31,409
Accrued interest income	1,342	13	-	1,355
	246,131	1,749	7,004	254,884
Held-to-maturity investments	92,664	-	-	92,664
Total	461,796	1,749	7,004	470,549

The table below shows an ageing analysis of gross past due but not individually impaired loans and receivables of the Bank:

(CZKm)	2008 Less than 30 days	2008 More than 30 days but less than 90 days	2007 Less than 30 days	2007 More than 30 days but less than 90 days
Credit institutions	3	71	-	-
Corporates	2,096	218	743	191
Retail	1,093	161	983	303
Total	3,192	450	1,726	494

Individually impaired financial assets and the related impairment are as follows:

(CZKm)	2008 Gross amount	2008 Impairment	2007 Gross amount	2007 Impairment
Available-for-sale financial assets				
Equity securities	56	(56)	39	(39)
Debt securities	143	(136)	-	-
Held-to-maturity investments				
Debt securities	433	(402)	-	-
Loans and receivables				
Credit institutions	502	(19)	8	(5)
Corporates	4,427	(3,769)	4,755	(3,806)
Retail	1,690	(1,448)	2,241	(1,796)
	6,619	(5,236)	7,004	(5,607)
Total	7,251	(5,830)	7,043	(5,646)

The carrying amount of the financial assets that would otherwise be past due or impaired whose terms have been renegotiated was CZK 163 m at 31 December 2008 (31 December 2007: CZK 117 m) (Note: 2.3 (7) (iii)).

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment yet. Allowances are evaluated on each reporting date with each portfolio subject to separate review.

The collective assessment takes account of impairments that are likely to be present in the portfolio even though there is no objective evidence of the impairments in an individual assessment yet. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period that can extend for as long as 4 months. The impairment allowance is then reviewed by the credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Financial crisis

As a consequence of global financial crisis, ČSOB reassessed the quality of its financial assets and recognized related losses in the Bank's statement of income for 2008. The revaluation losses from the CDO portfolio were CZK 10,121 m and were included in Net losses from financial instruments at fair value through profit or loss. Exposures to Icelandic banks were adjusted by a total amount of CZK 591 m, of which impairment on available-for-sale debt securities was in the amount of CZK 136 m and revaluation losses relating to held-for-trading money market interbank advances included in Net losses from financial instruments at fair value through profit or loss were in the amount of CZK 455 m. Held-to-maturity debt securities issued by Lehman Brothers were impaired by CZK 370 m.

The Bank has not changed its approach to risk management significantly due to the financial crisis. The Bank uses the same measures for risk management as before the crisis. Nevertheless, the Bank's liquidity development is closely monitored. Accordingly, the risk appetite of the Bank was decreased. Credit risk interbank limits are more frequently (weekly) evaluated with utilization of Credit Default Swaps.

The Bank will be affected by the economic slowdown in 2009, as Gross Domestic Product is predicted to slightly decrease. The Bank actively manages the credit portfolio to limit its deterioration. Moreover, the majority of vulnerable assets has been already revaluated to more conservative values.

34.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral that could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a statutory deposit with the CNB equal to 2% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The Bank focused on improving its liquidity risk management in 2008. A liquidity gap analysis is currently the key tool for managing the Bank's liquidity. The Bank introduced new limits of one week and one month for a short liquidity position. The general rule is that the Bank can hold a short liquidity gap position only up to the amount of liquid securities. Liquidity gap positions are reported weekly. The Stock Liquidity Ratio (SLR) indicator was abandoned as at 1 January 2009.

The SLR during the year was as follows:

(%)	2008	2007
31 December	276	166
Average during the period	143	185
Highest	276	368
Lowest	112	132

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Bank's financial liabilities based on the contractual discounted repayment obligations.

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2008:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
Financial liabilities					
Financial liabilities held for trading	20,530	10,651	3,924	-	35,105
Financial liabilities designated at fair value through profit or loss	63,052	402	50	8	63,512
Financial liabilities at amortised cost	497,301	17,678	24,389	4,596	543,964
Derivatives used for hedging	1,508	848	113	-	2,469
Total carrying value	582,391	29,579	28,476	4,604	645,050

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2007:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
Financial liabilities					
Financial liabilities held for trading	9,874	4,883	1,638	-	16,395
Financial liabilities designated at fair value through profit or loss	141,987	4,630	50	23	146,690
Financial liabilities at amortised cost	509,598	11,417	27,250	11,839	560,104
Derivatives used for hedging	715	402	54	-	1,171
Total carrying value	662,174	21,332	28,992	11,862	724,360

34.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR (hVaR) methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – Trading (including financial assets and financial liabilities designated at fair value through profit or loss)

The Board of Directors has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Bank has neither no net position in FX options, nor any position in equity. A small nominal technical limit is set for interest rate options; the position in this product, however is not material.

Standard VaR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Bank. The Bank analyses scenarios, dependent and independent of the Bank’s position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Bank also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Bank uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Bank applies VaR assumptions to estimate potential loss at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for ten days. The use of a 99% confidence level means that, within a 10 day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Bank uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Bank‘s market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The Bank received a regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks in June 2007.

The tables below show capital requirements analysed using VaR model in 2008 and 2007:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2008	338.3	6.1	(43.1)	301.3
Average during the period	231.7	9.2	(11.2)	229.7
Highest	553.1	67.3	(95.0)	525.4
Lowest	144.7	0.9	(1.0)	144.6

Daily losses were greater than the 1 day VaR two times in 2008.

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2007	176.2	23.6	(26.9)	172.9
Average during the period	158.8	10.0	(10.0)	158.8
Highest	228.1	35.5	(36.0)	227.6
Lowest	67.6	1.3	(0.3)	68.6

Daily losses were never greater than the 1 day VaR in 2007.

Market risk – Non-trading (ALM risk)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity. The Board of Directors has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of income and equity.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2008 and 31 December 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The table below shows the sensitivity of the statement of income and equity as at 31 December 2008:

			Sensitivity of equity				
(CZKm)	Increase in basis points	Sensitivity of net interest income	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	9	-	(1)	(39)	(277)	(317)
EUR	+ 10	(4)	(1)	(1)	(1)	(28)	(31)
USD	+ 10	-	-	-	-	(12)	(12)

			Sensitivity of equity				
(CZKm)	Decrease in basis points	Sensitivity of net interest income	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(9)	-	1	39	277	317
EUR	+ 10	4	1	1	1	28	31
USD	+ 10	-	-	-	-	12	12

The table below shows the sensitivity of the statement of income and equity as at 31 December 2007:

(CZKm)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity: Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(6)	(1)	(2)	(104)	(165)	(272)
EUR	+ 10	(1)	(1)	-	13	9	21
SKK	+ 10	(4)	-	-	(1)	(1)	(2)
USD	+ 10	-	-	-	1	-	1

(CZKm)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity: Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	6	1	2	105	166	274
EUR	- 10	1	1	-	(13)	(10)	(22)
SKK	- 10	4	-	-	1	1	2
USD	- 10	-	-	-	(1)	-	(1)

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Bank adopted a strategy under which the banking book has no open positions in foreign currencies. Therefore, the Bank has not set any limits for open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Bank set technical limits for these positions. There was an open currency position in the banking book at the end of 2008 due to a significant decrease in the value of the CDO's in EUR. The revaluation of the CDO financial instruments led to the overhedging of the whole position. This currency position was partially closed in the subsequent days as the hedging was accommodated to the new value of the CDO position.

The table below shows a foreign currency risk sensitivity of the statement of income as at 31 December:

(CZKm)	2008: Position in foreign currency	2008: Increase of foreign exchange rate by 1 CZK/EUR	2008: Decrease of foreign exchange rate by 1 CZK/EUR	2007: Position in foreign currency	2007: Increase of foreign exchange rate by 1 CZK/EUR	2007: Decrease of foreign exchange rate by 1 CZK/EUR
EUR	11,910	442	(442)	-	-	-

Sensitivity of the statement of income on foreign currencies other than EUR is not significant.

Equity price risk

The Bank has no equity risk in investment (non-trading) portfolio.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Bank's products is negligible, however, it is regularly monitored.

34.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and systems errors, or from external events. Operational risks include legal, compliance and tax risks. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

35. CAPITAL

The Bank actively manages the capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("Basel ll") and adopted by the CNB in the Regulation No. 123/2007 Coll. on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 July 2007).

During the past year, the Bank complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure considering the changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may ask the sole shareholder to increase capital and optimise its structure.

(CZKm)	2008	2007
Tier 1 capital	33,707	31,477
Tier 2 capital	11,967	12,618
Deductible items of Tier 1 and Tier 2	(11,283)	(855)
Total capital	34,391	43,240
Risk weighted assets	397,672	388,996
Capital adequacy ratio	8.65%	11.12%

In order to keep a long-term target for the capital adequacy ratio and to cover its business activities the Bank received a subordinated loan provided by KBC Bank NV in 2007 and 2006. This subordinated debt is part of Tier 2 capital.

In December 2007, the Bank's Tier 1 capital was increased by CZK 6,000 m (Note: 27).

Report of the Board of Directors of Československá obchodní banka, a. s., on Relations between Related Parties

according to the provision of Section 66a of Act No. 513/1991 Coll., the Commercial Code, as amended (hereinafter referred to as the "ComC").

1. Controlled Entity

Československá obchodní banka, a. s.

Praha 5, Radlická 333/150, Postcode 150 57
Company ID No.: 00001350
Incorporated in the Commercial Register, Section B XXXVI, File 46,
maintained at the Municipal Court in Prague
(hereinafter referred to as "ČSOB" or the "Bank")

2. Ultimate Controlling Entity

KBC Group NV

Belgium, 1080 Brussels, (Sint-Jans Molenbeek), Havenlaan 2

3. Accounting Period

This report describes relations between related parties in accordance with Section 66a of the Commercial Code for the accounting period from 1 January 2008 to 31 December 2008 (hereinafter referred to as the "accounting period").

4. Relations between Related Parties

In the accounting period, ČSOB maintained relations with related parties in the following are as:

4.1 Basic Banking Transactions

Note: The balances of these transactions are disclosed in the Separate Financial Statements for 2008 (Note: 33)

a. Accounts, Deposit Products, Cash Payments, Domestic and International Cash Management
In the accounting period, ČSOB concluded contracts with some of the related entities for the provision of services relating to the maintenance of various types of accounts, current and term accounts, interbank deposits, accounts for payments of deposits intended to acquire or increase participation in a company, and for the provision of the following products: Cash Management NightLine, Fictive Cash Pooling and Real One-Way Cashpooling, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services based on the price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. Payment Cards

In the accounting period, ČSOB concluded contracts with some of the related entities for the issue of payment cards, or they were issued in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services based on the price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. Electronic Banking

In the accounting period, ČSOB concluded contracts with some of the related entities on the basis of which it provided the following electronic banking products: ČSOB Linka 24, ČSOB Internetbanking, ČSOB Businessbanking, ČSOB MultiCash 24 and ČSOB Edifact 24, or these products were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services based on the price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. Cheques and Bills of Exchange

In the accounting period, ČSOB concluded contracts with some of the related entities for the procurement of bills of exchange and their custody and contracts for securing the bill-of-exchange program, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual fees and commissions for placing the bills of exchange. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

e. Credit Products and Guarantees

In the accounting period, ČSOB concluded contracts with some of the related entities on the basis of which it provided the following credit products: overdrafts, commercial loans, revolving loans, special purpose loans, subordinated loans and current account overdrafts, and accepted and issued guarantees, provided suretyship, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual fees, remuneration and interest for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. Investment Services

In the accounting period, ČSOB concluded contracts with some of the related entities for the purchase and sale of investment instruments, ISDA contracts, custody contracts, contracts for the settlement of transactions with investment instruments, contracts for the administration of securities, agreements on the authorization of fax instructions regarding settlement and administration of securities, or these services were provided in the accounting period on the basis of contracts and agreements concluded in previous accounting periods. The consideration provided by the related entities consisted of commissions and contractual fees. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

g. Mortgage Bonds and Bonds

In the accounting period, ČSOB concluded mandate contracts with some of the related entities for the procurement of an issue of mortgage bonds issued in the domestic market within the framework of a bond programme, and mandate contracts for the procurement of an issue of debentures, contracts for subscription and purchase of mortgage bonds/bonds, contracts for the administration of the issue and arrangement of payments, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual commissions for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

4.2 Other Relations

4.2.1 Contracts

a. Leasing Contracts
In the accounting period, ČSOB concluded leasing contracts with some of the related entities and, in certain cases, related entities provided performance in the accounting period on the basis of leasing contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of financial leasing. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. Insurance Contracts
In the accounting period, ČSOB concluded insurance contracts with some of the related entities and, in certain cases, related entities performed activities in the accounting period on the basis of insurance contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of insurance and insurance compensation. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. Lease and Rent Contracts
In the accounting period, ČSOB concluded contracts with some of the related entities for the rent of non-residential areas, parking places and movable assets and, in certain cases, related entities performed activities in the accounting period on the basis of rent contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the lease of certain items. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. Co-operation Agreements – Employee Benefits
In the accounting period, ČSOB concluded co-operation agreements - employee benefits with some of the related entities and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of employee benefits. Agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these agreements.

e. Co-operation Agreements – Selling Products and Services
In the accounting period, ČSOB concluded cooperation agreements with some of the related entities whose subject was, in particular, cooperation in the areas of product sales, products sales agency, sales support, consultancy, opportunity-seeking and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of co-operation, contractual commissions, contractual fees or selling products. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

Additionally, in the accounting period ČSOB concluded with some of the related entities agreements on personal data processing, confidentiality agreements, agreements on the transmission of information, agreements on mutual rights and duties in connection with the co-operation agreements, and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of information and confidentiality. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. Agreements on Providing Services – IT
In the accounting period, ČSOB concluded agreements with some of the related entities for providing services in the area of information systems and technologies, involving, in particular, leasing or borrowing hardware or software, assignment of rights to software, provision of software licences and software maintenance, and, in certain cases, related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the provision of hardware, software or licences, or the assignment of rights to software or software maintenance. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

g. Agreements on Providing Services – Call centre

In the accounting period, ČSOB concluded agreements with some of the related entities for providing Call centre services, and, in certain cases, related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual commissions. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

h. Agreements on Providing Services – back office

In the accounting period, ČSOB concluded agreements with some of the related entities for providing services in the area of back-office, and, in certain cases, related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual commissions. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

i. Other Contracts and Agreements

Contracts and agreements concluded in the accounting period:

Name of contract	Consideration	Party of the contract	Damage incurred
Agreement on re-invoicing price for provided services to Reuters Czech Republic, s.r.o.	Re-invoicing	ČMSS	None
General agreement on delivery of promotion and advertising items from REDA, a.s.	Contractual price	ČMSS	None
Agreement on mutual cooperation in performance (including amendment)	Contractual price	ČSOB Factoring CZ	None
Contract for mutual cooparation with settlement of shares (including money transfer check sending by fax)	Contractual price	ČSOB Factoring CZ	None
Agreement on mutual cooperation in performance (including amendment)	Contractual price	ČSOB IBS	None
Contract for subscription of shares	New shares	ČSOB PF Progres	None
Agreement on procurement of an issue of a common deed to substitute shares	Technical processing and issue of the common deed	ČSOB PF Stabilita	None
Agreement on the exercise of voting rights	Exercise of voting rights of ČSOB Pojišťovna	ČSOB Pojišťovna	None
Agreement on re-invoicing price for energy (including amendment)	Re-invoicing	ČSOB Pojišťovna	None
Shareholders agreement of ČSOB Property fund	Co-operation	ČSOB Property fund	None
Contract for subscription of shares	New shares	ČSOB Property fund	None
Contract for subscription of shares	New shares	Hypoteční banka	None
Re-invoicing ESP expense for ČSOB	Re-invoicing	KBC	None
Subordinated loan agreement	Loan	KBC Bank NV, Dublin branch	None
Agreement on execution of group audit and confidentiality	Co-operation	KBC Global Services NV	None

4.2.2 Other Legal Acts

In the accounting period, ČSOB adopted a Resolution of the sole shareholder/partner on behalf of some related entities (subsidiaries where the Bank is the sole shareholder/partner) on the following:
- Approval of the year-end financial statements,
- Settlement of profit and dividends pay-out,
- Election of board members and their remuneration,
- Amendment to the Articles of Association,
- Increase of registered capital,
- including new companies to the consolidation scope,
- Approval of the status and pension plan,
- Share in newly incorporated Československá obchodná banka, a.s. (SK) through a non-monetary contribution.

On behalf of ČSOB, KBC Bank expressed its assent to the Memorandum of Association founding Československá obchodná banka, a.s. (SK).

Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

4.2.3 Other Measures

Name of legal act	Related entity in the interest of which the measures were performed	Related entity on whose initiative the measures were performed
Dividend paid out by ČSOB	KBC Bank	KBC Bank

The following related entities paid dividends to ČSOB in the accounting period: Auxilium, ČMSS, ČSOB Factoring CZ, ČSOB PF Stabilita, ČSOB PF Progres, ČSOB IS, ČSOB IBS, ČSOB AM CZ and BANIT.

5. Conclusion

The Board of Directors of ČSOB states that it has exercised due professional care in determining the range of related parties for the purposes of this report. In particular, entities controlling ČSOB were asked about the range of parties controlled by these entities.

The Board of Directors of ČSOB believes that the monetary benefits and, where applicable, the considerations within the framework of relations between the related parties described in this report were carried out at prices determined on an arm's length basis, similar to relations with other nonrelated entities, and that ČSOB incurred no damage from relations described above.

In Prague on 25 March 2009

Československá obchodní banka, a. s.

On behalf of the Board of Directors

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

Information on ČSOB Securities

Shares

Shares and share capital of ČSOB *(as at 31 December 2008)*

ISIN	CZ0008000288
Class	Ordinary shares
Type	Registered shares with limited transferability
Edition	Book-entered
Number of shares	5,855,000
Nominal value	CZK 1,000
Total issue volume	CZK 5,855,000,000
Amount of share capital	**CZK 5,855,000,000**
Paid up	100%

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, **is the sole shareholder of ČSOB**.

ČSOB has not issued any convertible bonds or priority bonds as defined by Section 160 of the Commercial Code. In 2008, ČSOB neither held any own shares, nor issued stock certificates.

ČSOB shares **are not listed securities**, i.e. they have not been admitted to trading on any official regulated market in either an EU member state, or an EEC member state.

Rights attached to ČSOB shares

Shareholder rights and liabilities attached to ČSOB shares include in particular:

a) The right to obtain a share in the company's profit (dividend) approved by the General Meeting for distribution according to the company's economic results.

b) The right to ask the Board of Directors to convene an Extraordinary Meeting of Shareholders to discuss proposed matters. This right only pertains to a shareholder or shareholders who hold shares with a total nominal value exceeding 3% of the share capital.

c) The right to attend the General Meeting of Shareholders.
At a General Meeting, shareholders have the right to:
   1. Vote;
   2. Request and receive explanation to matters related to the company and controlled persons, should such explanation be necessary to assess a topic discussed by the General Meeting; and
   3. Put forward proposals and counter-proposals.

d) The right to obtain a share in the liquidation balance when the company is dissolved trough liquidation.

Voting rights attached to ČSOB shares are unlimited.

Bonds
(outstanding)

All the bonds and mortgage bonds described herein were issued under the **ČSOB's bond issuance program** in the Czech Republic. The program was approved by the Securities Commission in November 2003 (including joint issue terms for a previously non-determined number of bond issues) with a maximum amount of CZK 30 bn of outstanding bonds and 10-year tenure.

By 31 December 2008, ČSOB had issued the following bond issues under the bond issuance program in the Czech Republic:

Issue name	ISIN	Issue date	Total issue amount
Bond ČSOB VAR1/2008 1)	CZ0003700775	17. 3. 2004	CZK 500 m
Mortgage bond ČSOB 4.60%/2015	CZ0002000706	15. 11. 2005	CZK 1,300 m
Bond ČSOB ZERO/2009	CZ0003701310	13. 6. 2007	CZK 1,000 m
Bond ČSOB ZERO II/2009	CZ0003701336	8. 8. 2007	CZK 1,000 m
Bond ČSOB ZERO III/2009	CZ0003701369	5. 9. 2007	CZK 1,000 m
Bond ČSOB ZERO IV/2009	CZ0003701393	10. 10. 2007	CZK 1,000 m
Bond ČSOB ZERO V/2009	CZ0003701419	5. 12. 2007	CZK 1,000 m
Bond ČSOB ZERO CZK/2010	CZ0003701450	23. 1. 2008	CZK 1,000 m
Bond ČSOB ZERO EUR/2010	CZ0003701468	23. 1. 2008	EUR 30 m
Bond ČSOB ZERO USD/2010	CZ0003701476	23. 1. 2008	USD 30 m
Bond ČSOB ZERO CZK II/2010	CZ0003701484	13. 2. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK III/2010	CZ0003701492	27. 2. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK IV/2010	CZ0003701500	19. 3. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK V/2010	CZ0003701534	16. 4. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK VI/2010	CZ0003701542	30. 4. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK VII/2010	CZ0003701641	21. 5. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK VIII/2010	CZ0003701674	2. 7. 2008	CZK 1,000 m
Bond ČSOB ZERO EUR II/2010	CZ0003701682	2. 7. 2008	EUR 30 m
Bond ČSOB ZERO CZK IX/2010	CZ0003701708	23. 7. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK X/2010	CZ0003701716	6. 8. 2008	CZK 1,000 m
Bond ČSOB ZERO CZK XI/2010	CZ0003701724	27. 8. 2008	CZK 5,000 m
Bond ČSOB VAR/2018 2)	CZ0003701799	22. 12. 2008	CZK 100 m

Note: Mortgage bond = Hypoteční zástavní list; Bond = Dluhopis

1) The VAR1/2008 bond was listed at the Free market of the Prague Stock Exchange (trading closed on 30 November 2008).

2) **The VAR/2018 bond is listed at the Free market of the Prague Stock Exchange** (trading started on 22 December 2008).

The remaining bonds and mortgage bonds are unlisted.

In the first three months 2009, ČSOB issued the following bond issues under the bond issuance program in the Czech Republic:

Issue name	ISIN	Issue date	Total issue amount
Bond ČSOB ZERO USD II/2011	CZ0003701914	11. 3. 2009	USD 30 m

Note: Bond = Dluhopis

The bond issuance program's prospectus, amendments thereto and pricing supplements as well as the prospectus of the VAR/2018 bond are available at ČSOB's website: www.csob.cz.

Activity of ČSOB

ČSOB is active as **a universal bank** in the Czech Republic.

Legislation Governing ČSOB

As a legal entity subject to the Czech law, ČSOB **follows the applicable legislation in force in the territory of the Czech Republic**. Its activities are regulated primarily under the Banking Act, the Act on Business Activities on the Capital Market (also known as the Act on Undertakings on the Capital Market) and the Commercial Code.

A single banking licence granted to ČSOB in accordance with the Banking Act by the decision of the CNB of 28 July 2003, reference number 2003/3350/520, is of fundamental importance for ČSOB's business activities. In addition, ČSOB holds a certificate of registration in the register of insurance brokers and independent loss adjusters of insured accidents confirming that it was entered in the register as a tied **insurance broker** under number 038614VPZ on 20 March 2006.

ČSOB's Board of Directors decided in 2008 to implement key strategic objectives of the KBC group in the area of shared services with the aim to optimize services and processes in the group. The Bank will outsource its IT activities to KBC Global Services (a subsidiary of the KBC Group). To provide the services, KBC Global Services Czech Branch, an organization unit of KBC Global Services, was founded on 14 January 2009.

Main Areas of Activities

ČSOB's scope of business is defined in the ČSOB Articles of Association (in the part "Corporate Activities and Organisation of the Company – III. Scope of Business").

ČSOB, being a universal bank, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the domestic and foreign activities of banks. In particular, **it accepts deposits from the public and provides loans**.

In addition to these basic services, ČSOB is authorized to carry out the following activities according to the applicable Czech legal regulations:

– Investment in securities on the Bank's own account
– Financial leasing
– Payments and clearance
– Issuance and administration of payment instruments
– Provision of guarantees
– Issuance of letters of credit
– Provision of collection services
– Provision of all investment services according to a special law
– Issuance of mortgage bonds
– Financial brokerage
– Provision of depository services
– Exchange office services (purchase of foreign exchange)
– Provision of banking information
– Trading in foreign exchange values and gold on the Bank's own account or on a client's account
– Rental of safe-deposit boxes
– Activities directly related to the activities mentioned above, and
– Activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company.

Significant Contracts

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

ČSOB is unaware of any agreements in which it is a contracting party and that come into effect, are amended, or the efficiency of which terminates in consequence of any changes in the control circumstances implied by an offer for takeover.

Governmental, Legal or Arbitration Proceedings in 2008

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB group's financial position or profitability

Information on court disputes

– is available in Note no. 31 of the Notes to the Separate Financial Statements for 2008 according to EU IFRS and in Note no. 33 of the Notes to the Consolidated Financial Statements for 2008 according to EU IFRS.

In this respect, ČSOB emphasizes the existence of the Agreement and State Guarantee concluded with the Ministry of Finance of the Czech Republic and the Agreement and Indemnity concluded with the Czech National Bank in 2000. These guarantee agreements fully cover the risks of the Bank related to the takeover of ex-IPB enterprise. The possibility for the Ministry of Finance of the Czech Republic and the Czech National Bank to perform their obligations under these guarantee agreements was confirmed by the European Commission in 2004. Based on the above, the Bank is of the opinion that the disputes related to ex-IPB assets do not represent a significant negative impact on its financial position.

Court disputes (as at 31 December 2008) where the value of receivables / liabilities exceeds 5% of net business assets, or 5% of ČSOB shareholders' equity, respectively, are shown in the following tables.

I. Litigation initiated by ČSOB *(the plaintiff)*

	Counterparty of the dispute	Receivable
1.	Nomura International PLC and Nomura Principal Investment PLC	CZK 24,008 m
2.	Nomura Principal Investment PLC and others	CZK 2,000 m

II. Litigation against ČSOB *(the defendant)*

	Counterparty of the dispute	Liability
1.	General factoring, a.s.*	CZK 40,000 m
2.	Nomura Principal Investment PLC	CZK 20,292 m
3.	Česká republika	CZK 33,252 m
4.	imAge Alpha, a.s.	CZK 17,647 m
5.	ICEC-HOLDING, a.s.	CZK 11,893 m
6.	HERTZ spol.s r.o.	CZK 2,040 m

** Legal successor of the company IP banka, a.s.*

Legal disputes indicated in list I represent no risk even in case of a potential defeat.

According to the Bank, legal disputes in list II do not appear to constitute any risk, given their absolute unreasonableness. Legal disputes with numbers 1, 2, 5 and 6 in list II have the risk of any potential defeat covered by the CNB's indemnity issued in connection with the sale of the IPB.

The total effective claim cannot be reliably estimated, since the claims are interdependent.

Other Information

Annex No. 1 to Additional Information
Summary explanatory report

Annex No. 2 to Additional Information
Information according to Annex No. 30 of Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms

Information published within this Annual Report

Information	Reference [1]
Important Events and Significant Changes in 2008	Report of the Board of Directors
Bodies of ČSOB	Managing and Supervisory Corporate Governance Policy Note no. 3 [2]
New Products and Services Introduced in 2008	Report of the Board of Directors
Description of Markets where ČSOB Competes	Report of the Board of Directors
Profit distribution	Note no. 13
Activities Undertaken in the Area of Environmental Protection [3]	Corporate Social Responsibility
Information on entities included into the ČSOB consolidated financial statements as at 31 December 2008	Companies of the ČSOB group Note no. 3 [2]
Research and development costs – ČSOB neither incurs nor reports.	

1) The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for 2008 according to EU IFRS (unless stated otherwise)
2) The content refers to a note in Notes to the Consolidated Financial Statements for 2008 according to EU IFRS
3) Together with this Annual Report, ČSOB also publishes the ČSOB Group Sustainability Report 2008

Remuneration Paid to Auditors for 2008

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 118, paragraph 3, provisions f).

Services provided		ČSOB	Consolidated ČSOB unit
Auditor services	CZKm	16	25
Advisory	CZKm	-	-
Total	CZKm	**16**	**25**

Basis for calculation of the contribution to the Securities Brokers Guarantee Fund

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 16, paragraph 1.

		ČSOB	Consolidated ČSOB unit
Basis for calculation of the contribution to the Securities Brokers Guarantee Fund **for 2008**	CZKm	824.170	977.855

Expected Economic and Financial Situation of ČSOB in 2009

In 2009, the ČSOB group will continue to concentrate on providing high quality services to the clients. It is our aim to better serve the needs of our existing clients and to further increase our market share in specific areas, also by expanding our client base.

The most recent macroeconomic forecast of ČSOB projects negative GDP growth of 1% in 2009, while investment activity and industrial production will also show year on year declines. Construction output and retail sales are not expected to further decrease.

The ČSOB group has taken cost containment measures to reflect its expectations for a decline in the growth of the demand for certain banking products. ČSOB is also, on a continuing basis, adapting its risk assessment policies in order to preserve its high asset quality. In 2008, ČSOB has marked down its entire portfolio of structured securities to zero. The ČSOB group's financial targets for 2009 include a further growth in operating profit, stringent cost management and close attention to the evolution of credit risks, while preserving its strong liquidity and solid solvency ratios.

Information on the Publication of the ČSOB Annual Report

ČSOB will publish its Annual Report 2008 on its Internet website at www.csob.cz.

The Czech National Bank will add the ČSOB Annual Report 2008 to the collection of deeds of the Register of Companies pursuant to Section 21a of the Accounting Act.

Annex No. 1 to Additional Information

Summary explanatory report

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 118, paragraph 3, provisions g) to q):

g) *Information about the structure of the shareholders' equity of ČSOB, including securities not accepted to be traded on a regulated market with its registered office in an EU member state and possible designation of different kinds of shares, rights and obligations attached to shares of the same kind and the stake of every kind of share in the registered capital.*

Information about the structure of the shareholders' equity is provided in the financial part of this Annual Report, mainly on pages 50, 51, 92 and 93. The registered capital of the ČSOB is divided in 5,855,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up. All the shares carry the same rights.

h) *Information about any restriction of the securities transferability.*

Any transfer of ČSOB's shares requires the prior consent of the Supervisory Board.

i) *Information about significant direct and indirect stakes in the issuer's voting rights.*

KBC Bank NV is the sole shareholder with a direct stake of 100% of the voting rights.

j) *Information about the owners of securities with special rights including the description of these Rights.*

ČSOB has not any shares with special rights.

k) *Information about any restrictions of voting rights.*

The voting rights attached to ČSOB's shares are not restricted.

l) *Information about contracts between shareholders which may render more difficult the transferability of shares or voting rights if they are known to the issuer.*

ČSOB has a sole shareholder.

m) *Information about special rules for the election and withdrawal of the members of the Board of Directors and for the revision of the Articles of Association of the company.*

ČSOB has no special rules for the election and withdrawal of the Members of the Board of Directors. Members of the Board of Directors of ČSOB are elected and recalled by the General Meeting. ČSOB has no special rules for the revision of the Articles of Association of the company, for this purpose ČSOB uses routine according to the Commercial Code.

n) *Information about special powers of the members of the Board of Directors, especially about authorizations under Ss. 161a and 210 of the Commercial Code.*

The Members of the Board of Directors of ČSOB have no special powers.

o) *Information about important contracts with the issuer as a contracting party which take effect, are altered or discharged if the person in control of the issuer changes as a consequence of a take-over bid, and about the effects thereof, with the exception of the contracts whose disclosure would cause material harm to the issuer; this shall not affect the other obligations to disclose such information under this Act or under special legal regulations*

ČSOB has not entered into any such contracts.

p) *Information about contracts between the issuer and the members of its Board of Directors or employees which stipulate the issuer's obligation to perform in the event that they cease to serve as members of the Board of Directors or cease to be employed in connection with a take-over bid.*

ČSOB has not entered into any such contracts.

The emoluments are stipulated by the Collective Agreement compliant with the Labour Code and the said emoluments increase with the length of the employment contract with the employer. Members of the top management, including members of the ČSOB Board of Directors and the ČSOB Supervisory Board, have no emoluments established in addition to the framework set out by the applicable provisions of the Labour Code and the Collective Agreement.

q) *Information about possible programs which allow the members of the Board of Directors and employees of the company to acquire company's securities, options on these securities or other rights under preferential conditions, and on the method used to exercise the rights attached to these securities*

There are no such programs in ČSOB.

Annex No. 2 to Additional Information

Information according to Annex No. 30 of Decree No. 123/2007 Coll.,

stipulating the prudential rules for banks, credit unions and investment firms

1. Information on the capital of the Regulated Consolidated Unit

Summary of conditions and main features of the capital and its constituents

The rules for the capital adequacy calculation of the Regulated consolidated unit are stipulated by the Czech National Bank's Decree No. 123/2007 Coll. on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (as amended by Decree No. 282/2008 Coll.); the Regulation also contains rules for the definition of the regulated consolidated unit.

The total authorized share capital as at 31 December 2008 equals CZK 5,855 m and is composed of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each. The share premium is CZK 7,509 m.

To support the capital structure of its group, ČSOB received subordinated debt in the nominal amount of CZK 12 bn in two tranches: CZK 5 bn in September 2006 with the maturity date falling on 29 September 2016 and CZK 7 bn in February 2007 with the maturity date falling on 28 March 2017.

As at 1 January 2008, the Slovak branch (including all Slovak subsidiaries) was separated from the ČSOB group (Czech Republic), by way of contribution of shares into the newly established entity ČSOB SK.

The amount of the capital investment the ČSOB group held in this unconsolidated company as at 31 December 2008 equaled CZK 10.6 m; this investment is fully deductible from original capital.

Information on Capital of the Regulated consolidated unit

Information on capital	(CZKths)	**31. 12. 2008**
1. Original capital (Tier 1)		**42,130,816**
Paid-up basic capital registered in the Commercial Register		5,855,000
Own shares		0
Share premium		7,508,552
Mandatory reserve funds		18,686,645
Retained profit from previous periods		14,479,435
Minority interests		815,490
Goodwill from consolidation		-887,727
Resulting exchange rate differences from consolidation		0
Goodwill other than from consolidation		-2,688,910
Intangible assets other than goodwill		-1,274,828
Negative valuation difference from real value changes in AFS shares		-362,841
2. Total supplementary capital (Tier 2)		**11,966,647**
3. Total capital to cover market risk (Tier 3)		**0**
4. Items deductible from original and supplementary capital (from Tier 1 + Tier 2)		**-12,364,304**
in which: IRB Provision shortfall and IRB equity expected loss amount		-474,863
Total regulatory capital		**41,733,159**

2. Information on Capital Requirement of the Regulated Consolidated Unit

Amount of the Regulatory capital requirements of the Regulated consolidated unit

Capital requirements	(CZKths)	31. 12. 2008
1. Credit risk total		**26,453,938**
1.1 Total capital requirements for credit risks with standardized approach (STA)		***3,699,865***
Exposures to central governments and central banks		0
Exposures to institutions		70,978
Exposures to enterprises		2,052,021
Retail exposures		948,799
Share exposures		102,452
Other exposures		522,915
Securitized exposures		2,701
1.2 Total capital requirement to credit risk subject to IRB approach		***22,754,072***
Exposures to central governments and central banks		237,344
Exposures to institutions		2,513,593
Exposures to enterprises		15,006,260
Retail exposures		3,617,593
Share exposures		0
Securitized exposures		144,160
Other exposures		1,235,123
2. Capital requirement **to settlement risk**		**20,000**
3. Capital requirement **to position currency and commodity risk**		**2,500,667**
4. Capital requirement **to operational risk**		**3,404,046**
5. Capital requirement **to trading portfolio exposure risk**		**0**
6. Capital requirement **to trading portfolio to other tools**		**0**
7. **Other and transitional** capital requirement **resulting from transition to IRB or AMA approach**		**0**
Total capital requirement		**32,378,651**

3. ČSOB's Ratios (unconsolidated)

Ratio		31. 12. 2008
Capital adequacy	%	8.65
Return on average assets (ROAA)	%	0.09
Return on average equity (ROAE)	%	2.09
Assets per employee	CZKths	100,763
Administrative expenses per employee*	CZKths	1,442
Profit after income tax per employee*	CZKths	97

** Annualized*

Persons responsible for the ČSOB Annual Report 2008

hereby declare that:

all the information contained in the ČSOB Annual Report 2008 is in accordance with reality; no significant facts that are likely to influence an accurate and correct assessment of ČSOB and its securities in issue were omitted or misrepresented; and the ČSOB Annual Report 2008 contains true account of all significant events occurred in 2008 and their potential impact on financial statements, including a description of potential major risks and uncertainties in 2008.

In Prague, 23 April 2009

Československá obchodní banka, a. s.

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

AUDITOR'S REPORT ON THE ANNUAL REPORT AND ON THE RELATED PARTIES REPORT

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Československá obchodní banka, a. s.:

I. We have audited the consolidated financial statements of Československá obchodní banka, a. s. ("the Company") as at 31 December 2008, which are presented in the annual report of the Company on pages 49 - 117, on which we have issued an auditor's report, dated 11 March 2009, which is presented in the annual report of the Company on page 48. We have also audited the separate financial statements of the Company as at 31 December 2008, which are presented in the annual report of the Company on pages 119 - 181, on which we have issued an auditor's report, dated 11 March 2009, which is presented in the annual report of the Company on page 118 (both referred to further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of Československá obchodní banka, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report which describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1 - 47 and 182 - 203 is consistent with that contained in the audited financial statements as at 31 December 2008. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information included in the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2008 presented in the annual report of the Company on pages 182 - 187. The management of Československá obchodní banka, a. s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with applicable International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of Company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2008 is materially misstated.

Ernst & Young

Ernst & Young Audit, s.r.o.
Licence No. 401
Represented by

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

23 April 2009
Prague, Czech Republic

ABBREVIATIONS

Abbreviation	Business company
ČSOB the Bank	Československá obchodní banka, a. s.
ČSOB SK	Československá obchodní banka, a.s., pobočka zahraničnej banky v SR (foreign branch, until 31 December 2007) Československá obchodná banka, a. s. (separate legal entity, since 1 January 2008)
PSB	Poštovní spořitelna

Abbreviation	Business company
Auxilium	Auxilium, a.s.
AXA First special OEF	První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s.
BANIT	Bankovní informační technologie, s.r.o.
Business Center	Business Center, s.r.o.
Centrum Radlická	Centrum Radlická a.s.
CNB	Czech National Bank
ČMSS	Českomoravská stavební spořitelna, a.s.
ČSOB AM CZ	ČSOB Asset Management, a.s., a member of the ČSOB group
ČSOB AM SK	ČSOB Asset Management, správ.spol., a.s. (Slovak Republic)
ČSOB d.s.s.	ČSOB d.s.s., a.s.
ČSOB distribution	ČSOB distribution, a.s.
ČSOB Factoring CZ	ČSOB Factoring, a.s.
ČSOB Factoring SK	ČSOB Factoring a.s. (Slovak Republic)
ČSOB IBS	ČSOB Investment Banking Services, a.s., a member of the ČSOB group
ČSOB IS	ČSOB Investiční společnost, a.s., a member of the ČSOB group
ČSOB korporátní	ČSOB korporátní, ČSOB Investiční společnost, a.s., a member of the ČSOB group, open-ended equity fund
ČSOB Leasing CZ	ČSOB Leasing, a.s.
ČSOB Leasing SK	ČSOB Leasing, a.s. (Slovak Republic)
ČSOB Leasing poisťovací maklér	ČSOB Leasing poisťovací maklér, s.r.o. (Slovak Republic)
ČSOB Leasing pojišťovací makléř	ČSOB Leasing pojišťovací makléř, s.r.o.
ČSOB PF Progres	ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group
ČSOB PF Stabilita	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group
ČSOB Poisťovňa	ČSOB Poisťovňa, a.s. (Slovak Republic)
ČSOB Pojišťovna	ČSOB Pojišťovna, a. s., a member of the ČSOB holding
ČSOB Property fund	ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group
ČSOB růstový	ČSOB růstový, ČSOB Investiční společnost, a.s., a member of the ČSOB group, open-ended equity fund
ČSOB SP	ČSOB stavebná sporiteľňa, a.s. (Slovak Republic)
ČSOB výnosový	ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB group, open-ended equity fund
EBRD	European Bank for Reconstruction and Development
Hyporeal Praha	Hyporeal Praha, a.s.
Hypoteční banka	Hypoteční banka, a.s.
IPB Group Holding	IPB Group Holding, a.s. in liquidation
IPB Leasing	IPB Leasing, a.s.

Abbreviation	Business company
KBC Bank	KBC Bank NV
KBC Group	KBC Group NV (legal entity)
KBC group	group of companies of the KBC Group NV
KBC Insurance	KBC Insurance NV
MF CZ	Ministry of Finance of the Czech Republic
Motokov	Motokov a.s.
Patria Finance	Patria Finance, a.s.
Patria Finance CF	Patria Finance CF, a.s.
Property LM	Property LM, s. r. o.
Property Skalica	Property Skalica, s.r.o.
Zemský PF	Zemský penzijní fond, a. s.

CONTACT DETAILS

Investor relations

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External communication

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FINANCIAL CALENDAR FOR 2009

ČSOB group financial results releases
(EU IFRS, consolidated)

Period	Date of release	Event
FY 2008	12 February 2009	Presentation on the Internet and press conference
1Q 2009	14 May 2009	Presentation on the Internet
1H 2009	6 August 2009	Presentation on the Internet and press conference
3Q 2009	13 November 2009	Presentation on the Internet
FY 2009	11 February 2010	Presentation on the Internet and press conference

Note: This schedule is for information only; dates might be subject to change during the year