UniCredit Bank

Annual Report 2008

UniCredit Bank

Annual Report
UniCredit Bank Czech Republic, a.s. 2008

«After 26 years working
for the Group, I thought
I had seen everything.
Then came 2008, which was
the most professionally
challenging year ever.
I have seen the dynamism
of the Group and its workforce.
I know we can rise to
the challenge.
I know our commitment.
I know our strength.
I know the best is yet
to come.»

Tony Hall
United Kingdom

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Financial highlights

(IFRS audited, non-consolidated)

(The results are for the year 2008. Certain data for the preceding period of fifteen months from 1 October 2006 to 31 December 2007 are not comparable.)

UniCredit Bank Czech Republic, a.s.	1 Jan – 31 Dec 2008 In CZK millions	1 Oct 2006 – 31 Dec 2007 In CZK millions
Operating performance		
Net interest income	6,408	6,521
Net fee and commission income	2,711	3,641
General administrative expenses	(3,933)	(5,543)
Profit before income tax	5,709	4,212
Net profit for the year	4,911	3,305
Balance sheet figures		
Total assets	278,681	269,014
Receivables from clients	173,856	152,774
Deposits from clients	170,770	166,283
Issued capital	5,125	5,125
Information about capital and capital adequacy		
Tier 1	22,409	20,007
Tier 2	1,000	1,000
Tier 3	–	–
Deductible items	(243)	(264)
Total capital	23,166	20,743
Risk-weighted assets	209,583	206,553
Capital adequacy ratio	10.06%	9.55%
Key ratios		
Return on average assets	1.8%	1.3%
Return on average equity	19.6%	15.1%
Number of employees at end of period	1,667	1,631
Branch offices	56	60

«Working together, we became friends. In the course of our daily activities we consolidated our relationships with our colleagues in the branches and also with our clients. Through our work, TOGETHER, we participated in the creation of a new status – Business Partner - representing a new beginning for all of us. So the key word to achieving our dreams is TOGETHER.»

Simona Vlasie
Romania

«There are moments when our operating decisions have to be made both rapidly and efficiently. Clients must not be exposed to pressure of any kind, as they are consumers of the end-product. Professionalism and good collaboration are the roots of our commitment.
And our commitment is our strength.»

Alexandru Sandu
Romania

Introduction from the Board of Directors

Dear shareholders, ladies and gentlemen,

Let me begin the Annual Report of UniCredit Bank Czech Republic, a.s. by stating that 2008 was a successful year for our bank in which we managed to surpass the majority of our established objectives. In light of the worldwide financial crisis that markedly affected many financial institutions not only in America and Europe but also in other countries, our results can be seen as even more meaningful.

I am pleased to share with you, by way of this annual report, the successful financial results of UniCredit Bank Czech Republic, a.s. For the past year, we recorded a net profit of CZK 4.911 billion, which represents growth by more than two thirds in comparison with 2007. Despite the financial crisis, we succeeded to increase the Bank's assets by 3.6% year on year.

Viewing the operations of UniCredit Bank Czech Republic, a.s., I must state that, after a year and a half from its establishment, I see the Bank as a distinctive banking institution that not only defended its position as the fourth largest bank in the Czech Republic and established firm roots in the domestic banking market, but also is one that now shows considerable potential for further growth.

UniCredit Bank Czech Republic, a.s. already today brings to its clients advantages that flow from its membership in the largest banking group in Central and Eastern Europe – UniCredit Group. It is no accident that we succeeded to introduce unified fees for ATM withdrawals across all European countries in the Group. Our integration within the international network does not end with ATM withdrawals, however. Other advantages are still to come, waiting for the most appropriate time when they can be used especially by our clients. Since its establishment, UniCredit Bank Czech Republic, a.s. has been a driving force for co-operation across the states of UniCredit Group and we have no intention of relinquishing this position in the coming years.

The end of 2008 was also marked by the opening of new branches in the regions, namely in Cheb and Frýdek-Místek. In 2009, we plan to cross the 60-branches line and to cover the entire territory of the Czech Republic. As is obvious from our steps, we want also to get closer to clients outside of Prague and other larger cities where we have very significant representation. We are not idle in expanding the banking network, but rather we are developing it and thus strengthening our position in the regions.

I have seen a significant shift also in clients' perceptions of UniCredit Bank Czech Republic, a.s. They increasingly regard us as a European bank with competent personal bankers who also are able to provide advisory on managing investments, whether these concern private banking, Art Banking, small and medium-sized enterprises, freelance professionals or individuals. In the fundraising area, we are a partner who is able to intermediate subsidies from European funds and funds of the Czech Republic. Our offer does not end there. We also provide a range of popular package accounts and cards that meet clients' demands.

We continue to work on our concept of strategic support in the arts and charity. Thus, we maintain our long-term partnership with the Rudolfinum Gallery, the National Gallery in Prague, and The Moravian Gallery in Brno. We wish to declare the stability of our partnership with prominent cultural institutions again for this year.

UniCredit Bank Czech Republic, a.s. is not, and never was at all, weakened by the challenging merger of HVB Bank and Živnostenská banka in 2007. To the contrary, this only strengthened the Bank to better face negative impacts of the financial crisis and respond to the market turmoil. Thanks to excellent operational planning and project management, we achieved great results. It is people – and in particular our employees, shareholders, and clients – who deserve thanks for those results. I am grateful to you all.

April 2009

Ing. Jiří Kunert
Chairman of the Board of Directors

Macroeconomic environment in 2008

The year 2008 was a significant milestone in the Czech economy. While the economy still maintained a solid growth rate through the first three quarters, the last three months of the year already brought a quarter-on-quarter decrease in GDP. In terms of the structure of growth, the global economic crisis contributed especially to a dramatic reversal in the development of the previously positive contribution from net exports. In 2008, despite the definite slowdown compared to 2007, private consumption and gross fixed capital formation maintained positive growth. In the case of consumption, rapidly falling inflation played a positive role and partially compensated for the dwindling household expenditures expressed in nominal terms. The slump in foreign demand in the last quarter powerfully hit domestic industry whose problems were manifested by rapidly growing unemployment even before the end of the year.

In 2008, the Czech crown went through some turbulence. While strengthening against the euro by more than 15% in the period from the beginning of the year up to its maximum in July, the Czech crown lost all its gains in the remaining part of the year. The EUR/CZK exchange rate thus finished the year almost at the same level as in 2007, but with a 10% lower average annual value. In addition to worsening domestic fundamentals, the weakening of the Czech crown in the second half of the year also reflected a negative sentiment towards the region of Central and Eastern Europe. A turning point also was reached in the monetary policy of the Czech National Bank, which completed a series of interest rate increases in February 2008 only to begin reducing these once again after half a year. Nevertheless, financial anxiety on the domestic interbank market greatly limited the transmission of CNB's lower rates into the actual interest costs of economic entities.

In 2008, the government succeeded in implementing measures to stabilise public finances, consisting in limits to social expenditures and changes in the tax system and system of financing health care. In the case of health care system reform, however, the success of the opposition in the October regional and senate elections led to the softening of certain steps adopted by the government. Growing disputes in the governing coalition had the result that no new reform measures were approved for 2009 apart from a moderate reduction in the social insurance contribution.

Corporate clients

The year 2008 was successful for the corporate clients division. Despite the fact that impacts of the global mortgage and financial crisis were fully projected into the Czech Republic in 2008, the division's operating revenues as well as the average volume of loans and deposits grew year on year. While the volume of corporate deposits on the Czech market fell by 8% during the last two months of 2008, the division managed to increase deposits by 7.5%. Although measures were introduced during the final quarter to ensure maximum prudence in providing loans, the division moderately increased its share in the corporate loans market. In 2008, the corporate clients division exceeded its plan in all business areas.

In the area of corporate banking, we continue to focus on providing our clients with comprehensive services tailored to their individual needs. We continue effectively to tap into the potential of cross-border client groups, for whom we are a unique partner given our exceptionally strong presence in CEE countries. We have also significantly expanded our services to Czech-owned companies.

Our bank is the exclusive distributor of EU funds for the Ministry of Finance until 2010. In 2008, we paid out subsidies totalling CZK 21 billion. This amount was divided among 2,653 entities for the implementation of 4,064 specific projects.

The positive development in the growth of Czech exports continued again in 2008. This was reflected also in increased demand for export financing, export production financing, and hedging of risks in the forms of bank guarantees and letters of credit. In the middle of the year, the organisation structure was changed, with the departments Trade Finance and Cash Management & eBanking merging into the Global Transaction Banking division. This change reflects a qualitative shift in the approach to offering a comprehensive palette of transaction banking products within UniCredit Group.

Despite rather complicated external conditions, we continued to finance new projects on the commercial real estate market and further stabilised our leading position. The maximum utilisation of our knowledge of the commercial real estate market and credit-related know-how combined with the Bank's balanced business strategy and led to improved quality in the portfolio of financed projects, which represents a positive starting point for activity in future periods.

In the area of structured finance and syndicated lending, we maintained our leading position in the segment of acquisitions financing and leveraged finance and also strengthened our position in the syndicated loans area. We successfully originated a number of large transactions, among the most important of which were, for example, the financing of OKD Doprava, a.s., the largest private railway carrier in the Czech Republic, in the total amount of EUR 83 million; a syndicated operating loan for Ferona a.s., the most important company trading in metallurgical products on the Czech market, in the total amount of CZK 5 billion; investment and operational financing for Veletrhy Brno, a.s. in a total amount exceeding CZK 1.2 billion; and comprehensive refinancing of the logistic group C.S.CARGO totalling CZK 2.5 billion.

Private and business clients

For the retail banking segment, 2008 was especially a year for implementing a new business model. The main pillar of this strategy is a focus on wealthy private clientele, entrepreneurs and small companies and, at the same time, the application of the "Customer Intimacy" principle. This principle consists in detailed understanding of each client's needs and their satisfaction through an individualised solution. A significant share of the aforementioned client segments in the growth of revenues confirms the validity of this strategy.

Implementation of the new strategy in 2008 confirmed the strong position of retail banking in the primary client segments – wealthy private clientele, entrepreneurs and small companies. In addition to the already mentioned substantial share in the growth of revenues – and in comparison with the mass retail clientele – the primary client segments show higher market shares and faster rates of growth in the number of newly acquired clients. Considering that the average revenues per client in the segment of wealthy private clientele are almost one quarter higher than the market average, the Bank has the ambition to come closer to the position of the leading market player.

In 2008, UniCredit Bank further developed its successful model for servicing certain freelance professional clients. The basis for this model is the specialised Competence Centre, which brings its clients a high level of services and products with a view to the needs of individual professional groups and intensive co-operation with their respective professional associations.

For retail banking, 2008 also marked completion of the ongoing integration processes with emphasis on completing the IT system support. During the year, partial modifications were made in the Price List and General Business Terms and Conditions. The principle of "Customer Intimacy" realised through the services of a personal banker had positive impacts consisting in increased client satisfaction despite the initial "post-integration" effects.

The Bank once again confirmed its strong position in the key Private Banking segment, where its knowledgeable and capable private bankers provide professional and individually made-to-measure services.

During 2008, the Bank introduced the new Europe-wide communication concept "Maybe". This new concept was applied to all marketing activities, including printed client materials. In 2008, the pilot project for implementing the unified internet banking platform GWS (Group Web Solution) also was successfully completed in Czech Republic. Following the successful implementation, this platform began to be extended to the entire UniCredit Group in Central and Eastern Europe.

The Bank has at its disposal a broad palette of investment products with varying maturities and risk profiles. Offered in co-operation with Pioneer Investments, this makes it possible for the Bank to execute a business strategy directed to true client advisory in the investment area. The Bank thus is able to focus fully on the strategy to meet clients' concrete needs in accordance with their individual investment profiles. In the securities area, clients were offered additional variants of their favourite structured bonds. These included GREEN TECHNOLOGIES I./2011 and GREEN TECHNOLOGIES II./2011. In the deposit products area, a new product was offered – the Maxim deposit guaranteed for 6 months at a rate of up to 4%.

In the credit cards area, the Bank is already amongst the traditional leaders with regard to co-branded cards. Our co-operation with AXA insurance company, through a unique loyalty concept coupled with supplementary pension insurance, has proven very successful. Our co-operation with the Czech airline ČSA was renewed, and thus it is now possible to obtain a new Visa ČSA credit card together with select personal accounts. The Visa Classic credit card with CHARITY option, which offers the possibility to select a foundation that UniCredit Bank then supports from clients' payments, now can be offered not just to existing clients but also to new clients.

From 1 April 2008, we began to offer our clients a new method of internet banking security by means of a mobile security token. This constitutes another concrete step toward preventing any misuse of a client's sensitive information. UniCredit Bank employs the security standard designated for the entire UniCredit Group.

Since July 2008, clients of UniCredit Bank have been able to withdraw cash from more than 15,000 ATMs in 16 European countries within UniCredit Group under the same conditions as in the Czech Republic. This means that the majority of clients – holders of personal or business accounts – pay no fee for their withdrawals.

UniCredit Bank is the first bank in the Czech Republic to provide advisory in the field of art – Art Banking. It is an exclusive service for clients of the Private Banking segment.

At the close of 2008, the volume of client deposits decreased moderately due to the financial market instability in the autumn. Nevertheless, measures implemented by the Bank were positively reflected already in December and led to a change in that trend.

By the end of 2008, the total volume of loans had reached CZK 24.1 billion, which represents a year-on-year rise of 8%.

Investments in mutual funds stagnated in terms of net additions, but successful issues of the Bank's own bonds throughout the year nevertheless confirmed the Bank's trustworthiness and stability.

Treasury

The International Markets Division (IMD) has long been an important source of the Bank's profitability, and that is seen again in last year's results.

The year 2008 was particularly demanding for IMD, as the financial markets were undergoing a deep crisis. IMD thus became a direct participant in this crisis with regard to both its clients as well as the financial markets. The limited market liquidity across all products, high price volatility and sharp drop in assets, all accompanied by decreasing trust among trading counterparties, established entirely new conditions under which IMD had to learn quickly how to work. Thanks to its flexibility, IMD was able to maintain the direction set for this sphere in previous years and that is characterised by an innovative approach and individualised solutions for clients' needs. This only deepened our comprehensive approach to our clientele.

In the international markets area, clients are provided with services covering the foreign currency, money market, bond and stock market segments, as well as securities custody and depository services and such "next generation" products as commodity and interest-rate derivatives. In the area of securities management and custody, the Bank maintains its position among foreign institutional clients at the top of this highly competitive market segment. The Bank continues to maintain its leading position in providing depositary services for pension funds, where it has a market share exceeding 50%, as measured by both the volume of assets under management and the number of end-clients served by the given pension funds. As measured by income achieved, 2008 was historically the most successful year for trading in treasury products on the Bank's own account, and especially in the area of interest-rate and foreign-currency risks. In the area of equities risk, where the markets suffered a significant drop, the Bank, despite a moderate weakening, managed to maintain its successful trend of previous years.

Sponsoring and charity

In 2008, UniCredit Bank continued its long-term charity projects co-operation with Konto BARIÉRY. This was demonstrated by the ninth year of the so-called Artists' Auction Salon, which UniCredit Bank supported as a general sponsor. A total of CZK 3,221,000 was raised to benefit handicapped students who enrolled in the BARIÉRY Scholarship programme. At the same time, UniCredit Bank supported such regional charity projects as, for example, "Give blood!" in Brno and a leisure ranch for handicapped children in Hlučín near Ostrava.

UniCredit Bank is a member of UniCredit Group, where respect for the arts has its own tradition. Among the large number of projects sponsored by UniCredit Group in the Czech Republic, we may mention, for example, the year-long main partnership with the National Gallery in Prague. In 2008 alone, this co-operation made possible the organisation of such exhibitions as "St Wenceslas – Patron Saint of the Czech Nation" and "Pablo Picasso: Graphic Works 1904–1905 from the Gallery of Ambroise Vollard in Paris". Throughout the year, the Bank also sponsored exhibition activities of the Rudolfinum Gallery in Prague—where the sponsored exhibitions "Gregory Crewdson" and "Gottfried Helnwein – Angels Sleeping" attracted great interest from the general public—as well as the main exhibition of the Bienalle Brno 2008 at the Moravian Gallery in Brno. In total, the supported galleries were visited by more than 700,000 visitors. In addition to the gallery projects, UniCredit Bank supported retrospective exhibitions of the leading Czech artists Tono Stano, Oldřich Kulhánek, Aleš Lamr, and the duo Štěpánka Stein and Salim Issa.

Similarly important support was provided to the "Art Prague" contemporary art fair and, for the first time, to the "Prague Photo" exhibition at the Exhibition Hall Mánes, at which the Bank awarded the best photographer under 35 years of age with the UniCredit Prague Photo Award.

For several years we have worked with the Karlovy Vary International Film Festival, which is the most prominent international film festival in Central and Eastern Europe. The festival stands among such other prestigious international film festivals as those in Cannes, Berlin and Venice. Intended for both the general public and professionals, the festival provides its visitors with a carefully composed programme. Each year, several films appear in the official competition that later achieve significant international success and are pronounced the most successful films of the year in their respective countries. Furthermore, deserved international attention is devoted every year to new films from Central and Eastern Europe. After being premiered in Karlovy Vary, these films go on to be included in the programmes of other international festivals and to achieve international distribution.

Plans for 2009

We will continue in 2009 our successful co-operation with the largest and most prestigious galleries in the Czech Republic – the National Gallery in Prague, the Rudolfinum Gallery, and The Moravian Gallery in Brno.

Report of the Board of Directors

on the Company's business activities and the state of its property pursuant to Section 192, paragraph 2 of the Commercial Code

The Bank's financial results for 2008

In 2008, the Bank achieved excellent results, recording a profit of CZK 4.911 billion. This represents year-on-year growth of 65.63% in comparison with 2007. Profit net of one-time proceeds from the sale of ownership interests in 2008 grew by 29.5%.
During 2008, the Bank improved its financial indicators. Return on average assets grew to 1.8% from 1.3% in the previous year, and return on average equity reached 19.6%, as compared with 15.1% in 2007. Return on average assets net of one-time proceeds from the sale of ownership interests in 2008 was 1.4% and return on average equity was 15.3%.

Income statement

Net interest income rose by 21.04% year on year to CZK 6.408 billion. The growth was supported by increasing business volumes in all segments. Growth in the International Markets Division was based on the difference between the interest rates in Czech crowns and foreign currencies.
A reduction in net fee and commission income by 7.85% to CZK 2.711 billion was caused by growth in commissions paid for intermediating transactions, the costs of assuming risk, and a decline in revenues from foreign payments.
Net trading income decreased by 38.1% year on year to CZK 91 million. This was influenced by the increased volatility of interest rates and exchange rates in connection with the financial crisis. The difference between foreign currency and Czech crown interest rates also has a negative impact, but this impact is compensated by increased net interest income.
The rise in net income from financial investments to CZK 1.143 billion was influenced by the sale of certain of the Bank's ownership interests and a revaluation of the Bank's ownership interest in UniCredit Factoring, s.r.o.
The Bank's other operating income decreased by 54.21% to CZK 163 million. This reduction was caused by the lower use and release of other provisions and provisions for off-balance sheet items.
General administrative expenses fell by 7.04% in comparison with 2007 to CZK 3.933 billion. In 2008, the change in outsourcing of IT services was fully reflected in reduced personal costs and depreciation to the debit of other administrative expenses. In 2008, savings resulting from merger of the banks began to become evident, especially in the areas of payroll, depreciation, information technologies and marketing expenses.
Impairment losses from loans and receivables grew by 111.6% year on year, especially due to the necessity to create specific adjustments.
Other operating expenses decreased by 36.78% to CZK 306 million. These savings were achieved primarily due to the lower creation of other provisions and provisions for off-balance sheet items.
The amount of income tax did not change significantly year on year.

Balance sheet

At the end of 2008, the Bank's assets totalled CZK 278.681 billion, which represents an increase of 3.59% in comparison with the end of 2007. The increase in receivables from banks and clients was partially compensated by a drop in financial assets held for trading, financial investments and other assets.
In 2008, receivables from clients grew by 13.8% and totalled CZK 173.856 billion. The percentage growth reflects especially growth in corporate client loans as well as growth in mortgages to individuals. The proportion of classified loans to total loans was 4.41% at the end of 2008, decreasing from the previous year's 5.76%.
Receivables from banks grew by 9.11% during 2008, especially due to an increase in loans provided under resale agreements, which, on the other hand, were offset by a reduction in term deposits at other banks. Unlike their structure, the amount of deposits from banks did not change markedly year on year. A reduction in current account balances was compensated by an increase in liabilities from repo operations.
Clients' deposits grew by 2.7% year on year and totalled CZK 170.770 billion. Their structure also changed. A rise in term deposits was compensated by a reduction in clients' current account balances.
Issued bonds grew by 22.95% in comparison with the end of 2007 to CZK 37.270 billion. During 2008, the Bank continued successfully issuing mortgage-backed securities and other bonds intended for individual investors.
At the end of 2008, the Bank's shareholder's equity amounted to CZK 27.063 billion, which represents year-on-year growth by 17.31%. The increase is comprised of the profit for the current period and the positive change in the valuation differences. The Bank paid a dividend of CZK 1 billion to the sole shareholder in 2008. Capital adequacy reached 10.03%.

Report of the Board of Directors (Continued)

Expected economic and financial situation of UniCredit Bank in 2009

UniCredit Bank's business goals for 2009 will focus on maintaining and, in specific areas, increasing its market share. It intends to achieve this by holding onto its existing clients and acquiring new clients through the provision of comprehensive services tailored to their individual needs. Despite the changed macroeconomic conditions, the Bank expects to achieve a moderate increase in operating profit. It will continue using and sharing group solutions and will further apply efficient cost management. We expect negative development in the costs of credit risk. More specifically, we anticipate that growth in the net creation of individual adjustments to loans will double or even triple in comparison with 2008.

The Bank's overall balance sheet will record low growth not exceeding 2% year on year. In the assets area, we expect stagnation or a moderate rise in loans to clients by a maximum of 2%. In the area of liabilities, the Bank anticipates that clients' deposits will increase by 3% to 5%.

Statement by the persons responsible for the annual report

While exercising all due care, to the best of my knowledge the data contained in the annual report are correct and no facts that could change the meaning of the annual report were withheld.

In Prague on 29 April 2009

For the Board of Directors of UniCredit Bank Czech Republic, a.s.

Ing. Jiří Kunert
Chairman of the Board of Directors

Ing. Aleš Barabas
Member of the Board of Directors

Report of the Supervisory Board

The Supervisory Board of UniCredit Bank Czech Republic, a.s. was regularly informed of the progress of the Bank's business during the period 1 January to 31 December 2008 through meetings and discussions with the Board of Directors, and it has performed all of its tasks as set forth by Czech law and the Bank's Articles of Association.

The financial statements as at 31 December 2008 and the Annual Report, which are hereby presented, have been examined by the Supervisory Board and deemed to be correct. The financial statements and the Annual Report were audited by the Bank's auditor, KPMG Česká republika Audit, s.r.o.

The Supervisory Board endorses the findings of the auditor's report on the financial statements as at 31 December 2008.

The Supervisory Board would like to thank the members of the Board of Directors and all the staff of UniCredit Bank Czech Republic, a.s. for their contributions to the results achieved by the Bank in its 2008 business year.

Basis for calculating the contribution to the Guarantee Fund

pursuant to Section 129 of Act No. 256/2004 Coll., on Capital Market Undertakings

The basis for calculating the contribution to the Guarantee Fund pursuant to Section 129 of Act No. 256/2004 Coll., on Capital Market Undertakings, consists of fees and commissions received for providing investment services. The basis for calculating the contribution to the Guarantee Fund in 2008 was CZK 188,827,022. The contribution to the Guarantee Fund is 2% of this amount, and thus was CZK 3,776,540.

«The secret of our strength is quite simple: we do not follow corporate values handed down to us from a sheet of paper.
We exemplify through our own lives what the sheet of paper has to say!»

Oliver Riedl
Germany

«The network of our Group allows us to support our customers with different specialized products.
The values of the Integrity Charter differentiate our Group. Different languages, different cultures, different working experiences, but one Group, one commitment and one way – straight forward!
That is our strength.»

Christian Kiss
Austria

Non-consolidated financial statements

Income statement

	Note	1. 1. – 31. 12. 2008	1. 10. 2006 – 31. 12. 2007
		MCZK	MCZK
Interest income and similar income	5	12 723	12 328
Interest expense and similar charges	5	(6 315)	(5 807)
Net interest income and similar income		**6 408**	**6 521**
Dividend income	6	253	252
Fee and commission income	7	3 240	4 277
Fee and commission expenses	7	(529)	(636)
Net fee and commission income		**2 711**	**3 641**
Net trading income	8	91	140
Net income from financial investments	11	1 143	(62)
Other operating income	10	163	411
General administrative expenses	9	(3 933)	(5 543)
Impairment of loans and receivables	15	(821)	(561)
Other operating expenses	10	(306)	(587)
Profit before income tax		**5 709**	**4 212**
Current income tax	28	(755)	(883)
Deferred income tax	28	(43)	(24)
Profit for the period		**4 911**	**3 305**

Balance sheet

As at 31 December 2008	Note	31. 12. 2008 MCZK	31. 12. 2007 MCZK
ASSETS			
Cash in hand and balances with central banks	12	1 805	1 720
Financial assets held for trading	13	14 116	18 159
Receivables from banks	14	51 882	47 549
Receivables from clients	15	173 856	152 774
Financial investments	16	32 748	36 227
Property, plant and equipment	18	1 690	1 662
Intangible assets	19	3	6
Deferred tax asset	28	237	402
Other assets	20	2 344	10 155
Non-current assets held for sale	17	–	360
Total assets		**278 681**	**269 014**
LIABILITIES			
Deposits from banks	22	27 048	27 004
Deposits from clients	23	170 770	166 283
Debt securities issued	24	37 270	30 314
Financial liabilities held for trading	25	6 668	5 194
Provisions	26	522	631
Deferred tax liability	28	23	–
Other liabilities	27	8 317	15 519
Subordinated liabilities	29	1 000	1 000
Total liabilities		**251 618**	**245 945**
SHAREHOLDER'S EQUITY			
Issued capital	30	5 125	5 125
Share premium	30	3 473	3 473
Reserve funds	32	2 849	2 849
Reserves from revaluation of financial instruments		(296)	(379)
Retained earnings	32	15 912	12 001
Total shareholder's equity		**27 063**	**23 069**
Total liabilities and shareholder's equity		**278 681**	**269 014**

Statement of changes in equity

For 2008								MCZK
	Issued capital	Share premium	Reserve funds		Reserves from revaluation		Retained earnings	Equity
			Statutory	Other	headging instruments	of available -for-sale securities		
Balance at 1 October 2006	**5 125**	**3 357**	**1 025**	**1 824**	**(198)**	**195**	**9 410**	**20 738**
Capital items of HVB Reality CZ, s.r.o.	570			3			(500)	73
Transfer of capital items regarding the merger with HVB Reality CZ, s.r.o.	(570)	52		(3)			500	(21)
Change in revaluation of available-for-sale securities stated in equity						(390)		(390)
Change in revaluation of available-for-sale securities transferred to income statement						(13)		(13)
Net amount of cash flow hedge derivatives stated in equity					7			7
Net amount of cash flow hedge derivatives transferred to income statement					20			20
Unrealized gains/losses booked into equity					**27**	**(403)**		**(376)**
Dividend paid							(650)	(650)
Net profit for the period from 1/10/2006 to 31/12/2007							3 305	3 305
Additional transfer of HVB Reality CZ, s.r.o. profit into the Bank's share premium		64					(64)	–
Balance at 31 December 2007	**5 125**	**3 473**	**1 025**	**1 824**	**(171)**	**(208)**	**12 001**	**23 069**
Change in revaluation of available-for-sale securities stated in equity						506		506
Change in revaluation of available-for-sale securities transferred to income statement						(170)		(170)
Net amount of cash flow hedge derivatives stated in equity					(327)			(327)
Net amount of cash flow hedge derivatives transferred to income statement					74			74
Unrealized gains/losses booked into equity					**(253)**	**336**		**83**
Dividend paid							(1 000)	(1 000)
Net profit for 2008							4 911	4 911
Balance at 31 December 2008	**5 125**	**3 473**	**1 025**	**1 824**	**(424)**	**128**	**15 912**	**27 063**

Cash flow statement

For 2008		
	1. 1. – 31. 12. 2008 MCZK	1. 10. 2006 – 31. 12. 2007 MCZK
Net profit for the period	**4 911**	**3 305**
Adjustments for non-cash items:		
Impairment of loans and receivables	821	561
Impairment of property, plant and equipment and intangible assets	(16)	(152)
Impairment of other assets	147	(4)
Impairment of participation interests	100	0
Creation and release of other provisions	(109)	207
Depreciation of property, plant and equipment and intanglible fixed assets	148	365
Deferred tax	43	24
Operating profit before change in operating assets and liabilities	*6 045*	*4 306*
Financial assets held for trading	4 043	(10 121)
Loans and receivables from banks	(4 333)	(5 432)
Loans and receivables from customers	(21 839)	(11 441)
Other assets	7 664	(8 789)
Deposits from banks	44	(5 645)
Deposits from customers	4 487	24 830
Financial liabilities held for trading	1 474	1 722
Other liabilities	(7 202)	11 525
Net cash flows from operating activities	**(9 617)**	**955**
Changes in financial investments	2 820	(2 860)
Proceeds from sale of non-current assets, property, plant and equipment and intangible assets	1 550	0
Acquisition of property, plant and equipment and intangible assets	(624)	(309)
Net cash flows from investing activities	**3 746**	**(3 169)**
Dividends paid	(1 000)	(650)
Debt securities issued	6 956	3 925
Subordinated liabilities repaid	0	(663)
Net cash flows from financial activities	**5 956**	**2 612**
Cash and cash equivalents at 1 January 2008	1 720	1 322
Net cash flows from operating activities	(9 617)	955
Net cash flows from investing activities	3 746	(3 169)
Net cash flows from financing activities	5 956	2 612
Cash and cash equivalents at 31 December 2008	**1 805**	**1 720**
Income tax paid	(681)	(910)
Interest received	11 239	12 657
Interest paid	(5 639)	(6 853)
Dividends received	253	252

Notes to the non-consolidated financial statements

1. Background

UniCredit Bank Czech Republic, a.s. ("the Bank") was established through the merger of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. on 1 October 2006. All rights and obligations of the dissolved company Živnostenská banka, a.s. were assumed by the continuing company, HVB Bank Czech Republic a.s. In 2008 the Bank acquired HVB Reality CZ, s.r.o. HVB Reality CZ, s.r.o. was the dissolved company and the Bank was the assuming shareholder. The change of name and other changes connected with the acquisition were recorded on 10 December 2008 in the Commercial Register maintained by the District Court of Prague, in part B, file 3608. The sole shareholder of the Bank is UniCredit Bank Austria AG, Vienna. Ultimate parent of the whole UniCredit Group is Unicredit S.p.A, Milano.

Registered office of the Bank:
Na Příkopě 858/20
111 21 Prague 1

The Bank provides retail, commercial and investment banking services, in Czech and foreign currencies for domestic and foreign clients, mainly in the Czech Republic but also in other European Union countries.

The main activities of the Bank are as follows:
- receiving deposits from the public;
- granting loans;
- investing in securities on its own behalf;
- system of payments and clearing;
- issuing payment products;
- granting guarantees;
- opening letters of credit (export financing);
- administration of cash collection;
- trading on own behalf or on behalf of clients:
  1. with foreign exchange currency products,
  2. with forward and option contracts including foreign currency and interest rate contracts,
  3. with transferable securities;
- participation in share subscriptions and other related services;
- issuing of mortgage bonds in accordance with legislation;
- financial brokerage;
- managing securities including portfolio management on behalf of clients;
- depository services and administration of securities;
- depository services for investment funds;
- foreign currency exchange services;
- providing banking information;
- rent of safe-deposit boxes;
- activities directly connected with the activities mentioned above.

2. Basis for preparation

With effect from 1 January 2008 the Bank acquired the assets of HVB Reality CZ, s.r.o. The opening balance sheet of the Bank was issued as at this date for statutory purposes.
These separate financial statements have been prepared for the accounting period from 1 January 2008 to 31 December 2008. Even though the above mentioned acquisition was taken into consideration in preparation of the opening balance sheet as at 1 January 2008 the Bank decided to adjust also comparative information and adjusted it as the acquisition had occurred as at 1 October 2006. The aggregated data, which is based on the statutory financial statements of both companies for the 15-month period from 1 October 2006 to 31 December 2007 is used as comparative information. This period was determined taking into account the merger of HVB Czech Republic a.s. and Živnostenská banka a.s., which was effective as of 1 October 2006. The Bank has also prepared comparable income statements for the twelve-month periods ended 31 December 2008 and 2007, which are presented in Note 39.
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.
All presented amounts are in millions of Czech crowns (MCZK), unless stated otherwise. Numbers in brackets represent negative amounts.
These financial statements are separate financial statements prepared in accordance with the Act on Accounting No. 543/1991 Coll. The Bank also prepares consolidated financial statements, which form a part of the Bank's Annual Report for the year 2008.
The financial statements have been prepared based on the fair value principle including for financial derivatives, financial assets and liabilities measured at fair value through profit and loss and available-for-sale financial assets, except those whose fair value cannot be reliably determined. The methods for determining fair value are presented in Note 3(b), part (iv). Recognized assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value by virtue of hedged risk. Other financial assets and liabilities and non-financial assets and liabilities are valued at amortized cost or historical cost.

3. Significant accounting policies

(a) Foreign currency

Transactions in foreign currencies are stated in the domestic currency translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are not stated at fair value, are translated at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement as "Net trading income".

(b) Financial instruments

(i) Classification

Financial assets and financial liabilities at fair value through profit and loss include instruments classified as held for trading and instruments designated by the Bank as at fair value through profit and loss upon initial recognition.

Trading instruments are those held by the Bank principally for the purpose of short-term profit taking. These include investments in debt instruments and shares, certain purchased loans and derivative contracts that are not designated hedging instruments. These instruments are reported as "Financial assets held for trading" or as "Financial liabilities held for trading".

Financial assets designated by the Bank upon initial recognition as at fair value through profit and loss are included within "Financial investments".

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on the markets. Loans and receivables are mainly those created by the Bank providing money to a debtor other than those created for the purpose of short-term profit taking. Loans and receivables comprise loans and advances to banks and non-bank customers and unquoted bonds purchased upon primary issue.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain quoted bonds purchased upon primary issue and purchased debt securities. Held-to-maturity assets are included in "Financial investments".

Available-for-sale assets are financial assets that are not classified as financial assets recognized at fair value through profit and loss, loans and receivables, or held to maturity. Available-for-sale instruments include debt and equity investments and certain quoted bonds purchased upon primary issue. Available-for-sale assets are included in "Financial investments".

On 13 October 2008 an amendment to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 Financial Instruments Disclosures was issued by the International Accounting Standards Board ("IASB"). This amendment permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. In specific situations the amendment also permits an entity to transfer a financial asset from the available-for-sale category to loans and receivables. The Bank evaluated both possibilities and decided not to change the classification of its financial assets.

(ii) Recognition

Financial assets at fair value through profit and loss are recognized on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognized in the Bank's income statement on the trade date.

Available-for-sale financial assets are recognized on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognized in equity on the trade date.

Held-to-maturity assets are recognized on the settlement date.

The Bank initially recognizes loans and receivables on their origination dates.

(iii) Measurement

Financial instruments are measured initially at fair value, including (in the case of financial assets not at fair value through profit and loss) transaction costs.

Subsequent to initial recognition all financial assets and liabilities at fair value through profit and loss and all available-for-sale assets are measured at fair value, with the exception of any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses.

All loans and receivables and held-to-maturity assets are measured at amortized cost including the aliquot part of discount or share premiums less impairment losses. Share premiums and discounts, including relevant initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market rates at the balance sheet date.

The fair value of unquoted equity instruments is determined as the share in the issuer's equity.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Bank would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties.

In connection with the situation on the financial markets during the second half of 2008, the Bank paid increased attention to monitoring the development of market factors and prices having an impact on the valuations of all the instruments in the Bank's portfolio. In the light of the growing credit crisis, the Bank made it a priority to determine bond issuers' creditworthiness.

The valuation of bonds in the Bank's portfolio is carried out on a daily basis using available market rates. The market rate is compared with the price calculated using a risk-free interest rate (based on interest rate swaps), on a daily basis. By comparing the two prices, the Bank estimates the value of the credit spread between the current and risk-free investment.

The calculated spread is then compared to the previous day's revaluation to verify that there was no misquote to the market price and that the price used for revaluation is appropriate. If there is a significant spread change, the input market factors and spread changes are verified for correctness so that the source of the quotation used for the valuation could be changed, or to confirm the change in the spread as being justified (i.e. a change in the credit status of the issuer or in the liquidity of the particular bond).

If there is no market price available as a source of valuation, the Bank will carry out the valuation on the basis of a risk-free swap rate, to which the last verified credit spread is applied. The Bank continues to apply this method until:

– Market quotations are again available
– The Bank receives other information about a change of spread applied
– The issuer's credit rating changes (change of internal/external rating; evidence from the market that credit is worsening)
– The liquidity of the specific securities has worsened significantly (e.g. a bid price is not available).

Subsequently the Bank will carry out the valuation comprising new aspects of the market price including assessment of possible impairment losses (see Note 3g(ii)).

Another model is used for Value at Risk (VaR) calculation (see Note 36) in the system for market risk management which assists to determine the volatility of the credit interest spread between given securities and the risk-free interest rate of an interest rate swap.

This model divides the calculated risk into credit (Spread VaR) and interest (VaR IR) portions. This spread VaR is calculated based on the volatility of the credit spread between securities and the risk-free interest rate. For this purpose the yield curves of particular issuers, industries, or groups of issuers with an identical rating are downloaded into the system for market risk management. Specific securities are matched with these yield curves, and the volatility of the credit spread is calculated. In connection with the situation on the financial markets and the development of the credit spreads of securities that the Bank holds in its portfolio, the securities were rematched in the system for market risk management during the year so that the calculated Spread VaR reflects more accurately the behaviour of the specific securities. This does not, however, have any impact on the method used for the securities portfolio valuation.

The Bank's management believes that the fair value of the assets and liabilities presented within the financial statements can be measured reliably.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets held for trading are recognized directly in the income statement as "Net trading income".

Gains and losses arising from a change in the fair value of other financial assets and liabilities at fair value through profit and loss are recognized directly in the income statement as "Net income from financial investments".

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity as "Change in revaluation of available-for-sale securities". When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement as "Net income from financial investments". Interest income from available-for-sale debt securities is recognized in the income statement as "Interest income and similar income". The accounting for impairment of available-for-sale assets is described in Note 3 (g).

Gains and losses arising from financial assets and liabilities carried at amortized cost are recognized in the income statement when the financial asset or liability is derecognized or impaired (see Note 3(g)), and through the amortization process.

(vi) Derecognition

A financial asset is derecognized when the Bank loses the contractual rights to the cash flow from an asset or the Bank transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is settled.

Available-for-sale assets and assets recognized at fair value through profit and loss that are sold are derecognized and the corresponding receivables from the buyer are recognized as at the settlement date. The Bank uses accounting methods to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the maturity date or on the day they are transferred to another portfolio.

(c) Participation interest

Controlling interest means a participation interest, where the Bank factually or legally executes direct or indirect controlling interest on governance of the company (that means the Bank's ability to participate in the financial and operational management of the company and to gain benefits from the activities).

This participation interest results from a share of the Registered Capital

or from contract or statutes regardless of the total amount of participation interest.
Substantial interest means a participation interest, where the Bank factually or legally executes direct or indirect substantial interest on guidance or prosecution of the company (that means the Bank's ability to participate on financial and operational guidance of the company without executing controlling interest). This participation interest results from a share of the Registered Capital (more than 20%) or from contract or statutes regardless of the total amount of participation interest.
Controlling and substantial interests are valued at acquisition price less losses arising from impairment of these participation interests.
Participation interests are shown within "Financial investments".

(d) Derivatives

(i) Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognition of fair value depends on the model of hedge accounting applied.
Hedge accounting can be applied if:
- the hedge is in line with the Bank's risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- it is expected that the hedge relationship will be highly effective throughout its life,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is highly effective throughout the accounting period,
- in the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of recorded assets and liabilities or unrecognized commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on re-measurement of the interest-bearing hedged item and hedging derivative are recognized in the income statement in "Interest income and similar income" or "Interest expense and similar charges".
If the derivative hedges the exposure to the variability of cash flows related to recognized assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognized in equity in "Reserve from revaluation of hedging instruments". The ineffective part of the hedge is recognized in the income statement.
If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative recognized in equity are transferred to the income statement at the same moment as the hedged item affects the net profit or loss.
When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognized in equity remains in equity and is recognized in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is recognized in the income statement immediately.

(ii) Embedded derivatives

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative must be separated from the host contract and accounted for as a separate derivative if, and only if:
– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
– a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
– the host instrument is not measured at fair value with changes in fair value recognized in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognized in the balance sheet.

(e) Borrowing and lending of securities and repurchase (resale) agreements

Investments lent under securities lending arrangements or sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.
As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Bank recognizes a liability to either banks or customers.
Investments borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognized in the balance sheet.
As a result of the cash collateral placements in respect of securities borrowed/purchased under resale agreements, the Bank recognizes loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security.
Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations are recognized on an accrual basis over the period of the transactions and are included in "Interest income and similar income" or "Interest expense and similar charges".

(f) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled in the balance sheet on a net basis.

(g) Impairment

Assets are assessed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated and the impairment of the asset is recognized in the income statement.

(i) Loans and receivables and held-to-maturity assets

Loans and receivables and held-to-maturity assets are presented net of impairment losses for uncollectibility.
Specific impairment losses are made against the carrying amount of loans and receivables and held-to-maturity assets that are identified as being individually impaired based on regular reviews of the outstanding balances in order to reduce these assets to their recoverable amounts. The recoverable amount of loans and receivables and held-to-maturity assets is calculated as the present value of the estimated future cash flows, discounted at the instrument's original effective interest rate.
Collective impairment losses of portfolios of standard loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on historical loss experience and considering the credit rating of the underlying customers, late payments of interest or penalties and other qualitative factors. Historical loss experience is the basis for the calculation of the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio as at the balance sheet date.
When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly and any previously unrecognized loss is recognized in the income statement under "Impairment of loans and receivables". Any consideration received in respect of a written off loan is recognized in the income statement under "Other operating income".
If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the income statement in "Impairment of loans and receivables".

(ii) Available-for-sale financial assets

Where an available-for-sale asset is impaired, and a decline in the fair value was previously recognized directly in equity, the cumulative loss is transferred to the income statement and recognized in "Net income from financial investments". Where a debt instrument classified as an available-for-sale asset is impaired, and an increase in the fair value of the asset was previously recognized in equity, the increase in fair value of the asset recognized in equity is reversed to the extent of the impairment. Any additional impairment loss is recognized in the income statement. Impairment losses recognized in the income statement arising from investment in equity instruments classified as available-for-sale are not reversed through profit and loss.

(h) Property, plant, equipment and intangible fixed assets

Property, plant, equipment and intangible assets are assets which are held in order to pursue banking activities and which may be used for a period over 1 year.
Property, plant, equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment.
Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation periods (over estimated useful lives) for individual categories of property, plant, equipment and intangible assets are as follows:

• Buildings	30–50 years
• Technical improvement of buildings protected as a cultural heritage	15 years
• Technical improvement of rented premises	10 years
• Air-conditioning equipment	5 years
• Machinery and equipment	4–5 years
• Bank vaults	20 years
• Fixtures and fittings	6 years
• Motor vehicles	4 years
• IT equipment	4 years
• Software and intangible assets	2–6 years
• Low value tangible assets	2 years

Both tangible and intangible assets are assessed for potential impairment or a reduction in useful life. The gains and losses on disposal are determined based on the net book value and are included in "Other operating income". The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalized.

(i) Provisions

Provisions relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions are recognized when:
– there is an obligation (legal or constructive) as a result of a past event,
– it is probable that an outflow of resources will be required to settle the obligation (probable means the probability exceeds 50%),
– the amount of the obligation can be reliably estimated.

(j) Interest income and expense

Interest income and expenses are recognized in the income statement in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued linearly on a daily basis. Interest income and expenses include the amortization of any discount or premium, relevant transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. Unless a management decision to the contrary is made, accrued interest income is also recognized in the income statement for impaired loans and receivables (except for loans and receivables in bankruptcy proceedings). In such cases, the interest income represents a part of the amortized cost which forms a basis for the impairment calculation.

(k) Fee and commission income and expense

Fee and commission income and expense represents fees and commissions received/paid by the Bank for providing financial services other than those related to the origination of a financial asset or liability, which form a part of the effective interest income/expense. Fees and commissions arise on financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognized when the corresponding service is provided.

(l) Dividend income

Dividend income is recognized in the income statement in “Dividend income” on the date that the dividend is declared.

(m) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits. Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the period of the asset recovery or liability settlement. A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

(n) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments.
The Bank’s primary segment reporting relates to its business segments, which correspond to the Bank’s various operations: retail banking, corporate banking, investment banking and other.
As regards geographical segments, the Bank operates principally in the Czech Republic and in other member states of the EU.

Retail banking includes providing consumer loans, mortgages, payment services (including payment cards for consumers), term and saving deposits.
Corporate banking includes providing loans, credit commitments and guarantees to corporate clients, cash management, payment services (including documentary letters of credit), term deposits, operations with derivatives and foreign currencies with corporate clients, government institutions etc.
Investment banking includes capital market activities including underwriting of investments for clients, investment consultancy, mergers and acquisition consultancy.
Other includes banking activities that are not included in retail, corporate or investment banking.

(o) Impact of standards that are not yet effective

The Bank has evaluated the impact of standards, interpretations and amendments to valid standards mentioned below, which are not yet in force, but which are already approved and will have an impact in the future on the Bank’s financial statements.
Amendment to IFRS 3 Business Combinations – effective from 1 July 2009, incorporates several changes related to accounting for business combinations having impact on the amount of recognized goodwill and on the profit in the acquisition period as well as in the subsequent periods.
IFRS 8 Operating Segments – effective from 1 January 2009, will replace IAS 14. This new standard introduces different approach to segment reporting and introduces a new term “operating segment”, which is a segment for which the accounting entity prepares internal reports. Those are controlled on a regular basis by a person responsible for operating decisions.
Amendment to IAS 1 Presentation of Financial Statements – effective from 1 January 2009, newly distinguishes between changes in owners’ equity arising from transactions with a company’s owners and other changes. In the statement of changes in owners’ equity there ought to be shown detailed information only regarding transactions with owners, while all other changes in owners’ equity therein will be presented in a single line. The amendment further introduces the so-called statement of comprehensive income, whereby the accounting unit may choose to present all revenue and cost items charged to the income statement as well as all other items charged to revenues and costs in either a single statement of comprehensive income or to divide these between an income statement and an interdependent statement of comprehensive income.
Amendment to IAS 27 Consolidated and Separate Financial Statements – effective from 1 July 2009, requires accounting for changes in ownership interests in a subsidiary that occur without loss of control to be recognized as an equity transaction.
Amendment to IAS 32 Financial Investments: Disclosures and IAS 1

Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, effective from 1 January 2009, if certain conditions are met, requires puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity and to disclose certain information in relation to these instruments.
Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective from 1 July 2009, clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The Bank's management regards the effect of these standards to be immaterial.

4. Critical accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (see Note 36).

(a) Key sources of estimation uncertainty

(i) Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 3(b)(iii).
The specific counterparty component of the impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.
Collectively assessed impairment cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective impairment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.
In order to estimate the required impairment, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy in quantifying the impairment depends upon how well the Bank is able to estimate these future cash flows for specific counterparties and the quality in establishing the models' parameters.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(b)(iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgments depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Critical accounting judgments in applying the Bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

(i) Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that these meet the description of trading assets and liabilities set out in accounting policy 3(b)(i).
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that these have met at least one of the criteria for this designation set out in accounting policy 3(b)(i).

Details of the Bank's classification of financial assets and liabilities are given in Note 3 (b) (i).

(ii) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument.
In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

(iii) Change in accounting policy

The Bank decided to change the accounting policy for reimbursement of litigation costs ("přísudky"). These are litigation costs ordered by the court to be paid in favour of the Bank or third parties (e.g. a law firm), which the Bank had previously booked as a receivable (Other assets) and revenue (Other operating revenues) based on a legitimate court ruling. As the actual collection rate for these payments is significantly below 50% of the costs ordered by the court and a significant proportion are not due to the Bank but to third parties, the Bank decided to change the accounting method in accordance with IAS 18 and IAS 37. Therefore, the revenue arising from the reimbursement of litigation costs is only recognized in revenues when cash is collected from the debtor rather than at the time of court approval.
As a result of this change, an existing receivable of CZK 44 million has been written off to expenses ("Other operating expenses") and impairment charges have been released. The change has been applied retrospectively as of 31 December 2007.

The impacts of the accounting policy change on the balance sheet and the income statement are as follows:			
MCZK	Original balance 2007	Impact of the. policy change	New balance 2007
Assets			
Other assets (gross)	10,209	(44)	10,165
Adjustment to other assets	(33)	23	(10)
Liabilities			
Provisions	652	(21)	631
Income statement			
Other operating income	367	44	411
Other operating expenses	(543)	(44)	(587)
Total impact on profit		**–**	

5. Net interest income and similar income

MCZK		
	2008	1. 10. 2006 – 31. 12. 2007
Interest income and similar income		
Balances with central bank	698	1,104
Receivables from banks	1,578	307
Loans and receivables from customers	8,908	9,105
Financial investments	1,539	1,800
Net income from fair value hedges	–	12
Interest income and similar income	**12,723**	**12,328**
Interest expense and similar charges		
Repos with the central bank	(149)	(232)
Deposits from banks	(814)	(849)
Deposits from customers	(3,895)	(3,577)
Debt securities issued	(1,395)	(1,104)
Net loss from fair value hedges	(15)	–
Subordinated liabilities	(47)	(45)
Interest expense and similar charges	**(6,315)**	**(5,807)**
Net interest income and similar income	**6,408**	**6,521**

6. Dividend income

MCZK	2008	1. 10. 2006 – 31. 12. 2007
Dividend income		
From subsidiaries	–	83
Thereof Hypo stavební spořitelna a.s.	–	79
From investment certificates classified as securities at fair value through profit and loss not held for trading	253	169
Total dividend income	**253**	**252**

7. Net fee and commission income

MCZK	2008	1. 10. 2006 – 31. 12. 2007
Fee and commissions income from		
Securities transactions	29	208
Management, administration, deposit and custody services	249	222
Loans	376	529
Payment services	832	1,022
Foreign exchange (FX) transactions	1,282	1,646
Payment cards	457	627
Other	15	23
Fee and commission income	**3,240**	**4,277**
Fee and commission expense from		
Securities transactions	(84)	(128)
Management, administration, deposit and custody services	(48)	(1)
Loans	(15)	(37)
Payment services	(21)	(27)
Payment cards	(279)	(394)
Other	(82)	(49)
Fee and commission expense	**(529)**	**(636)**
Net fee and commission income	**2,711**	**3,641**

Net fee and commission income from clearing services includes FX commissions from flat and documentary payments and from cash transactions and currency exchange transactions with customers of the Bank. The FX commission represents the difference between the buy/sell FX rate set by the Bank and the official CNB FX rate, which is required by the Accounting Act when valuing transactions denominated in foreign currency. FX commission is included in “Net fee and commission income” as this income represents significant continuous income from cash transactions and currency exchange transactions with customers of the Bank.

8. Net trading income

MCZK	2008	1. 10. 2006 – 31. 12. 2007
Net realized and unrealized gain/(loss) from securities held for trading	22	(5)
Net realized and unrealized gain/(loss) from derivatives held for trading	(1,070)	(291)
Net realized and unrealized gain/(loss) from spot transactions with FX and from revaluation of receivables and liabilities denominated in FX	1,139	436
Net trading income	**91**	**140**

9. General administrative expenses

MCZK	2008	1. 10. 2006 – 31. 12. 2007
Personnel expenses		
Wages and salaries paid to employees	(1,230)	(1,636)
Social and health insurance	(504)	(698)
	(1,734)	**(2,334)**
Including wages and salaries paid to:		
Members of the Board of Directors	(39)	(26)
Other executives	(98)	(106)
	(137)	**(132)**
Other administrative expenses		
Rent and building maintenance	(366)	(549)
Information technologies	(702)	(990)
Promotion and marketing	(295)	(481)
Consumables used	(39)	(77)
Audit, legal and advisory services	(68)	(95)
Payments services	(216)	(277)
Services	(352)	(351)
Other	(29)	(51)
	(2,067)	**(2,871)**
Depreciation of property, plant and equipment	(146)	(282)
Depreciation of intangible fixed assets	(2)	(83)
Impairment loss from tangible and intangible assets	–	(5)
Release of impairment loss from tangible and intangible assets	16	32
	(132)	**(338)**
Total general administrative expenses	**(3,933)**	**(5,543)**

The average number of employees of the Bank (including UCI Group expatriates) was as follows:		
	2008	1. 10. 2006 – 31. 12. 2007
Employees	1,635	1,573
Members of the Board of Directors	5	5
Members of the Supervisory Board	3	6
Other executives	28	24

Social and health insurance includes employees' pension supplementary insurance paid by the Bank in the amount of MCZK 13 (for the period from 1 October 2006 to 31 December 2007: MCZK 13). Information about bonuses tied to equity is included in Note 31.

10. Other operating income and expenses

MCZK		
	2008	1. 10. 2006 – 31. 12. 2007
Income from written-off and ceded receivables	24	9
Income from rent	12	151
Release of other adjustments	3	23
Release of other provisions	11	93
Release of provisions for off-balance sheet items	44	70
Use of other provisions	60	5
Income from litigations settlement	3	24
Other	6	36
Total other operating income	**163**	**411**
Deposits and transactions insurance	(128)	(146)
Other receivables write-off	(6)	(49)
Creation of other adjustments	(154)	(19)
Creation of other provisions	(8)	(184)
Loss on disposal of fixed assets	–	(20)
Creation of provisions for off-balance sheet items	–	(161)
Other	(10)	(8)
Total other operating expenses	**(306)**	**(587)**

11. Net income from financial investments

MCZK	2008	1. 10. 2006 – 31. 12. 2007
Net gain/(loss) from available-for-sale and held-to-maturity securities	396	(118)
Net gain/(loss) from hedging against risk of changes in fair value of available-for-sale securities	11	(1)
Net gain/(loss) from securities at fair value through profit and loss	43	58
Gain from sale of participation interest	793	–
Impairment of participation interest	(100)	(1)
Net income from financial investments	**1,143**	**(62)**

The net income from financial investments in 2008 was influenced by the gain from the sale of a subsidiary, HYPO stavební spořitelna a.s., and of the Bank's share in Burza cenných papírů Praha, a.s.

12. Cash in hand and balances with central banks

MCZK	31. 12. 2008	31. 12. 2007
Cash in hand	1,689	1,612
Obligatory minimum reserves	80	92
Other balances at central banks	36	16
Total cash in hand and balances with central banks	**1,805**	**1,720**

The obligatory minimum reserves represent deposits whose average monthly value is determined in accordance with Czech National Bank (CNB) regulations and which are not available for ordinary operations. CNB provides interest on these mandatory deposits based on the official CNB two week repo rate. Cash in hand and balances with central bank are defined as cash and cash equivalents for the purpose of the cash flow statement.

13. Financial assets held for trading

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return held for trading	9,096	14,263
Shares and other securities with a variable rate of return held for trading	20	88
Fair value of financial derivatives held for trading	5,000	3,808
Total financial assets held for trading	**14,116**	**18,159**

(a) Analysis of bonds and other securities with a fixed rate of return held for trading

MCZK	31. 12. 2008	31. 12. 2007
Issued by financial institutions	1	–
Issued by government sector	9,095	14,263
Total	**9,096**	**14,263**

All the bonds held for trading are listed on public markets.

(b) Analysis of shares and other securities with a variable rate of return held for trading

MCZK	31. 12. 2008	31. 12. 2007
Shares issued by financial institutions	7	15
Shares issued by non-financial institutions	13	73
Total	**20**	**88**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31. 12. 2008	31. 12. 2007
Interest rate contracts	2,051	994
Currency contracts	2,685	853
Equity contracts	96	1,957
Commodity contracts	168	4
Total	**5,000**	**3,808**

See Note 36 for the Bank's business strategy related to financial assets held for trading.

14. Receivables from banks

(a) Analysis of receivables from banks by type

MCZK	31. 12. 2008	31. 12. 2007
Current accounts at other banks	643	1,725
Loans provided to banks	23,307	13,096
Term deposits	27,932	32,728
Total receivables from banks	**51,882**	**47,549**
Impairment losses of receivables from banks	–	–
Net receivables from banks	**51,882**	**47,549**

(b) Subordinated loans due from banks

The Bank granted a subordinated loan to another bank, totalling TEUR 7,500 in 2004. The subordinated loan balance as at 31 December 2008 was MCZK 203 (as at 31 December 2007: MCZK 200). The loan has a contractual maturity of 10 years. The interest period can be selected within the range from 1 to 6 months, the interest rate is based on the relevant EURIBOR rate.

(c) Analysis of receivables from banks by geographical sector

MCZK	31. 12. 2008	31. 12. 2007
Czech Republic	26,738	19,325
European Union	22,715	27,051
Others	2,429	1,173
Total receivables from banks	**51,882**	**47,549**

15. Receivables from customers

(a) Analysis of receivables from customers by type

MCZK	31. 12. 2008	31. 12. 2007
Loans to clients	176,928	155,089
Total receivables from customers	**176,928**	**155,089**
Impairment losses of receivables from customers	(3,072)	(2,315)
Net receivables from customers	**173,856**	**152,774**

(b) Classification of receivables from customers

MCZK	31. 12. 2008	31. 12. 2007
Receivables not impaired		
Standard	169,129	146,163
Internal grade 1	*5,994*	*2,651*
Internal grade 2	*15,216*	*15,572*
Internal grade 3	*22,879*	*21,030*
Internal grade 4	*47,251*	*30,380*
Internal grade 5	*44,995*	*34,961*
Internal grade 6	*21,504*	*18,932*
Other internal grades	*2,766*	*946*
Receivables without internal grading	*8,524*	*21,691*
Receivables impaired		
Watched	2,850	6,256
Substandard	1,847	1,053
Doubtful	1,150	489
Loss	1,952	1,128
Total receivables from customers	**176,928**	**155,089**

(c) Analysis of receivables from customers by sector

MCZK	31. 12. 2008	31. 12. 2007
Financial institutions	26,226	22,732
Non-financial institutions	120,484	105,804
Government sector	453	188
Non-profit organizations	423	467
Self-employed	1,471	1,238
Resident individuals	17,729	16,064
Non-resident	10,142	8,596
Total receivables from customers	**176,928**	**155,089**

The above gross amounts include unpaid interest from low rated loans which are more than 90 days overdue in the amount of MCZK 61 (as at 31 December 2007: MCZK 26) and loans that have not been adjusted for interest accruals in the amount of MCZK 237 (as at 31 December 2007: MCZK 158). Had the accrual principle been applied for interest income on these loans the Bank would have recognized MCZK 10 as interest income for the year 2008 (for the period from 1 October 2006 to 31 December 2007: MCZK 8).

The Bank regularly classifies its receivables from customers. The categories used for classification consider the Bank's analysis of the probability of repayment and analysis of the debtor's behaviour (number of days payments are past due) financial performance, payment discipline, etc. The Bank assesses whether there is evidence of impairment of loans and receivables. If such evidence has been identified, the amount of the loss is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows (including cash flows from realized collateral).

(d) Analysis of receivables from customers by type of security provided

MCZK	31. 12. 2008	31. 12. 2007
Personal guarantee	118	439
Bank and similar guarantee	17,797	11,288
Mortgage	52,687	49,516
Corporate guarantee	1,324	8,790
Bill of exchange	478	538
Other security	2,703	5,018
Unsecured	101,821	79,500
Total receivables from customers	**176,928**	**155,089**

(e) Analysis of receivables from customers by business activity

MCZK	31. 12. 2008	31. 12. 2007
Real estate services	57,993	46,556
Financial services	26,348	23,007
Wholesale	11,991	14,269
Household services	18,602	16,745
Retail	3,080	4,914
Leasing	357	1,018
Others	58,557	48,580
Total receivables from customers	**176,928**	**155,089**

(f) Analysis of receivables from customers by region

MCZK	31. 12. 2008	31. 12. 2007
Czech Republic	166,787	146,491
Other countries of European Union	7,695	6,143
Other	2,446	2,455
Total receivables from customers	**176,928**	**155,089**

(g) Impairment of receivables from customers

MCZK	31. 12. 2008	31. 12. 2007
Impairment of individual receivables from customers	(2,141)	(1,301)
Impairment of portfolios of standard receivables from customers	(931)	(1,014)
Total impairment of receivables from customers	**(3,072)**	**(2,315)**
Balance as at 1 October 2006		(1,925)
Creation during the current year	(1,784)	
Release during the current year	1,223	
Net effect on income statement		(561)
Receivables written off – use		143
FX differences		28
Balance of impairment of receivables from customers as at 31 December 2007		**(2,315)**
Balance as at 1 January 2008		(2,315)
Creation during the current year	(1,242)	
Release during the current year	421	
Net effect on income statement		(821)
Receivables written off – use		70
FX differences		(6)
Balance of impairment of receivables from customers as at 31 December 2008		**(3,072)**

16. Financial investments

(a) Classification of financial investments into portfolios based on the Bank's intention

MCZK	31. 12. 2008	31. 12. 2007
Available-for-sale securities	25,266	26,763
Financial assets at fair value through profit and loss not held for sale	7,481	9,363
Participation interests	1	101
Total financial investments	**32,748**	**36,227**

(b) Analysis of available-for-sale securities

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	14,697	14,771
Issued by government sector	7,798	8,758
Power industry	1,057	1,048
Leasing	–	151
Other	1,698	2,013
Total	**25,249**	**26,741**

Financial investments include bonds that were provided as collateral with the market value of MCZK 5,815 (as at 31 December 2007: MCZK 1,176). In 2008 the Bank assessed its financial investments for impairment. Based on the results, the Bank did not recognize any impairment loss for available-for-sale securities. The management of the Bank believes that the issuers of the securities held in the Bank's portfolio are of a high credit rating and will be able to settle their obligations arising from the debts owed to the Bank. Nevertheless, the Bank continues to carefully monitor development in their credit standing and is prepared to take appropriate actions in case of any negative development to minimize losses arising from potential defaults.

Shares and other securities with a variable rate of return		
Issued by financial institutions	17	22
Total	**17**	**22**
Total available-for-sale securities	**25,266**	**26,763**
Thereof:		
Listed	25,214	25,715
Unlisted	52	1,048

(c) Analysis of securities at fair value through profit and loss

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	3,806	5,168
Issued by government sector	125	328
Power industry	–	269
Other	728	695
Total	**4,659**	**6,460**
Shares and investment certificates with a variable rate of return		
Issued by financial institutions	2,822	2,903
Total	**2,822**	**2,903**
Total of securities at fair value through profit and loss	**7,481**	**9,363**
Thereof:		
Listed	4,627	6,426
Unlisted	2,854	2,937

(d) Analysis of participation interests

	Registered	Business	Date of	Acquisition	Net book	Share of the Bank	
Name	office	activity	Acquisition	price	value	31. 12. 2008	31. 12. 2007
UniCredit Factoring s.r.o.	Prague	factoring	26.10.2004	100	–	100%	100%
CAE PRAHA a.s. in the		lease of					
process of liquidation	Prague	real estate	27.6.2003	78	0.53	100%	100%
CBCB – Czech Banking							
Credit Bureau, a.s.	Prague	bank register	10.10.2001	0.24	0.24	20%	20%
Total				**178.24**	**0.77**	**–**	**–**

In 2008 the Bank recognized an impairment of MCZK 100 related to its participation interest in UniCredit Factoring, s.r.o. The impairment is included in the income statement under "Net profit/(loss) from financial investments". On 17 December 2008 the Bank decided to increase the registered capital of this company by MCZK 150, to MCZK 250. At the end of 2008 this increase had not been recorded in the Commercial Register. As result, the Bank presented in "Other assets" (Note 20) a receivable of MCZK 150. At the same time the Bank recognized an impairment loss of this receivable at the same amount (Note 20). The increase of the registered capital was recorded in the Commercial Register as at 19 January 2009. The Bank decided to merge with UniCredit Factoring, s.r.o. as at 1 January 2009. As at 31 December 2008 the impairment losses of participation interests amounted to MCZK 107 (as at 31 December 2007: 7 MCZK). The liquidation of CAE PRAHA a.s. (in the process of liquidation) is expected in 2009. As at 31 December 2007 the Bank also had a 100% stake in HVB Reality CZ, s.r.o. As at 1 January 2008 the Bank merged with this subsidiary (Note 2). Including the assets and liabilities of the Company into the Bank gave rise to a merger surplus that has been recognized as part of the share premium.

Notes to the non-consolidated financial statements (CONTINUED)

MCZK	1. 10. 2006
Receivables from banks	30
Tangible assets	476
Deferred tax asset	8
Other assets	25
Liabilities to banks	(447)
Other liabilities	(19)
Net assets	73
Cost of investment	21
Merger surplus	52
Additional merger surplus as at 1 January 2008	64
Total additional merger surplus in share premium	**116**

The merger surplus has been calculated as the surplus of the net asset value of HVB Reality CZ, s.r.o. over the cost of investment. As all the comparative information for the prior period has been restated in relation to the HVB Reality CZ, s.r.o. merger (see Note 2) the merger surplus was already presented as at 1 October 2006 despite the effective date of the merger (1 January 2008). Additional merger surplus then represents a profit of HVB Reality CZ, s.r.o. for the period 1 October 2006 to 31 December 2007.

17. Non-current assets held for sale

The Bank decided to withdraw from the building savings segment and sell its 60% participation interest in HYPO stavební spořitelna, a.s. The sale agreement was concluded on 19 November 2007, which is also the date of reclassification of this participation interest to the “Non-current assets held for sale”. Contract conditions were satisfied on 7 March 2008 which is the date of effective control takeover by Raiffeisen Bausparkassen Holding GmbH. The price for which this subsidiary was sold substantially exceeds the acquisition price of this asset. The net gain from the transaction is a part of 2008 income statement of the Bank (see Note 11).

18. Property, plant and equipment

Movements in property, plant and equipment						MCZK
	Land and buildings	Machinery and Equipment	Fixtures and fittings	Other non-oper. property	Fixed assets not yet in use	Total
Cost						
At 1 October 2006	3,531	1,200	432	3	13	5,179
Additions	39	74	4	–	63	180
Disposals	(150)	(379)	(57)	–	(11)	(597)
Other	–	(42)	41	–	1	–
At 31 December 2007	3,420	853	420	3	66	4,762
At 1 January 2008	3,420	853	420	3	66	4,762
Additions	66	92	24	–	442	624
Disposals	(288)	(154)	(86)	(1)	(435)	(964)
Other	–	–	–	–	–	–
At 31 December 2008	3,198	791	358	2	73	4,422
Depreciation						
At 1 October 2006	(1,531)	(1,008)	(349)	(3)	–	(2,891)
Charge for the year	(165)	(96)	(21)	–	–	(282)
Disposals	71	355	31	–	–	457
Other	–	27	(27)	–	–	–
At 31 December 2007	(1,625)	(722)	(366)	(3)	–	(2,716)
At 1 January 2008	(1,625)	(722)	(366)	(3)	–	(2,716)
Charge for the year	(81)	(55)	(10)	–	–	(146)
Disposals	286	128	83	1	–	498
Other	–	–	–	–	–	–
At 31 December 2008	(1,420)	(649)	(293)	(2)	–	(2,364)
Impairment						
At 1 October 2006	(457)	–	–	–	–	(457)
Creation	(5)	–	–	–	–	(5)
Release	32	–	–	–	–	32
Use	46	–	–	–	–	46
At 31 December 2007	(384)	–	–	–	–	(384)
At 1 January 2008	(384)	–	–	–	–	(384)
Creation	–	–	–	–	–	–
Release	16	–	–	–	–	16
Use	–	–	–	–	–	–
At 31 December 2008	(368)	–	–	–	–	(368)
Net book value						
At 1 October 2006	**1,543**	**192**	**83**	**–**	**13**	**1,831**
At 31 December 2007	**1,411**	**131**	**54**	**–**	**66**	**1,662**
At 31 December 2008	**1,410**	**142**	**65**	**–**	**73**	**1,690**

The release of impairment losses is included in the income statement in “General Administrative Expenses”.

19. Intangible assets

Movements in intangible fixed assets				MCZK
	Software	Software acquisition	Other	Total
Cost				
At 10 October 2006	635	26	41	702
Additions	70	57	2	129
Disposals	(705)	(82)	(23)	(810)
At 31 December 2007	–	1	20	21
At 1 January 2008	–	1	20	21
Additions	–	–	–	–
Disposals	–	(1)	–	(1)
At 31 December 2008	–	–	20	20
Amortization				
At 10 October 2006	(382)	–	(25)	(407)
Charge for the year	(78)	–	(5)	(83)
Disposals	460	–	15	475
At 31 December 2007	–	–	(15)	(15)
At 1 January 2008	–	–	(15)	(15)
Charge for the year	–	–	(2)	(2)
Disposals	–	–	–	–
At 31 December 2008	–	–	(17)	(17)
Impairment				
At 10 October 2006	(79)	–	–	(79)
Creation	–	–	–	–
Use	79	–	–	79
At 31 December 2007	–	–	–	–
At 1 January 2008	–	–	–	–
Creation	–	–	–	–
Use	–	–	–	–
At 31 December 2008	–	–	–	–
Net book value				
At 1 October 2006	**174**	**26**	**16**	**216**
At 31 December 2007	**–**	**1**	**5**	**6**
At 31 December 2008	**–**	**–**	**3**	**3**

20. Other assets

MCZK	31. 12. 2008	31. 12. 2007
Prepaid expense and accrued income	113	148
Trade receivables	156	301
Increase of capital in subsidiary UniCredit Factoring, s.r.o.	150	–
Positive fair value of hedging derivatives	1,747	455
Receivables from securities	27	8,304
Suspense accounts	305	855
Taxes	–	99
Other	3	3
Total other assets	**2,501**	**10,165**
Impairment of other assets	(157)	(10)
Net other assets	**2,344**	**10,155**

The increase of capital in the Bank's subsidiary and consequent recognition of an impairment loss is described in Note 16.
The increased balance of "Receivables from securities" is mainly caused by two unsettled over-the-counter trades which were performed shortly before the year end. These trades were settled at the beginning of January 2008.

Impairment of other assets	MCZK
Balance as at 1 October 2006	(14)
Creation during the current year	(19)
Release during the current year	23
Balance of impairment of other assets as at 31 December 2007	**(10)**
Balance as at 1 January 2008	(10)
Creation during the current year	(154)
Release during the current year	3
Write-offs and others	4
Balance of impairment of other assets as at 31 December 2008	**(157)**

The impairment is presented in the income statement under "Other operating expenses".

21. Impairment of assets total

MCZK	Receivables from clients (Note 15)	Financial investments (Note 16)	Tangible and intangible assets (Note 18,19)	Other assets (Note 20)	Total
Balance as at 1 October 2006	(1,925)	(7)	(536)	(14)	(2,482)
Creation during the current year	(1,784)	(1)	(5)	(19)	(1,809)
Release during the current year	1,223	–	32	23	1,278
Write-offs and others	171	1	125	–	297
Impairment loss as at 31 December 2007	**(2,315)**	**(7)**	**(384)**	**(10)**	**(2,716)**
Balance as at 1 January 2008	(2,315)	(7)	(384)	(10)	(2,716)
Creation during the current year	(1,242)	(100)	–	(154)	(1,496)
Release during the current year	421	–	16	5	442
Write-offs and others	64	–	–	2	66
Impairment loss as at 31 December 2008	**(3,072)**	**(107)**	**(368)**	**(157)**	**(3,704)**

22. Deposits from banks

Analysis of deposits from banks by type

MCZK	31. 12. 2008	31. 12. 2007
Current accounts	2,886	5,641
Bank loans	9,821	7,111
Term deposits	14,341	14,252
Total deposits from banks	**27,048**	**27,004**

23. Deposits from customers

(a) Analysis of deposits from customers by type

MCZK	31. 12. 2008	31. 12. 2007
Current accounts	73,645	85,905
Loans	9,454	4,282
Term deposits	72,682	58,046
Issued depository notes	12,377	15,174
Saving deposits	2,612	2,876
Total deposits from customers	**170,770**	**166,283**

Issued depository notes are short-term securities and represent an alternative form of financing from clients. Therefore the Bank decided to include them in “Deposits from clients” rather than “Debt securities issued”.

(b) Analysis of deposits from clients by sector

MCZK	31. 12. 2008	31.21.2007
Financial institutions	12,821	13,938
Non-financial institutions	65,830	73,511
Government sector	29,326	11,056
Non-profit organizations	1,391	1,485
Self-employed	10,003	14,407
Resident individuals	42,625	43,833
Non-residents	8,774	8,053
Total deposits from customers	**170,770**	**166,283**

24. Debt securities issued

(a) Analysis of payables in respect of debt securities issued

MCZK	31. 12. 2008	31. 12. 2007
Mortgage bonds	31,097	26,607
Structured bonds	4,110	3,182
Zero coupon bonds	1,892	511
Other issued bonds	171	14
Net book value	**37,270**	**30,314**

(b) Analysis of mortgage bonds issued

Issue date	Maturity Date	Currency	Interest rate	31. 12. 2008 MCZK	31. 12. 2007 MCZK
4 February 2002	4 February 2009	CZK	6.00%	6,913	6,945
9 October 2003	9 October 2008	CZK	4.50%	–	509
19 August 2004	19 August 2012	CZK	6.00%	1,401	1,422
29 September 2005	29 September 2015	CZK	4.00%	1,060	1,068
5 October 2005	5 October 2015	CZK	4.50%	5,312	5,316
15 November 2005	15 November 2010	CZK	3.50%	3,981	3,937
23 November 2005	15 November 2025	CZK	5.00%	168	116
15 June 2007	16 September 2008	CZK	–*	–	225
15 June 2007	16 June 2008	CZK	–*	–	371
15 June 2007	15 June 2012	CZK	5.00%	63	5
12 December 2007	21 December 2037	CZK	2.00%	6,658	6,693
12 December 2007	16 March 2009	CZK	–*	962	–
12 December 2007	15 June 2009	CZK	–*	980	–
12 December 2007	15 September 2009	CZK	–*	456	–
12 December 2007	15 December 2009	CZK	–*	73	–
12 December 2007	15 March 2010	CZK	–*	29	–
12 December 2007	15 June 2010	CZK	–*	12	–
12 December 2007	15 September 2010	CZK	–*	2	–
12 December 2007	15 December 2010	CZK	–*	1	–
12 December 2007	15 March 2011	CZK	–*	19	–
27 December 2007	28 December 2017	CZK	2.84%	3,001	–
17 October 2008	19 October 2009	CZK	2.39%	1	–
24 October 2008	29 October 2009	CZK	2.08%	5	–
Total of mortgage bonds issued				31,097	26,607

* discounted mortgage bonds

25. Financial liabilities held for trading

See Note 36 (a) for the Bank's business strategy.

MCZK	31. 12. 2008	31. 12. 2007
Interest rate contracts	2,145	885
Currency contracts	3,861	861
Equity contracts	86	1,947
Commodity contracts	164	3
Liabilities from short sales of securities	412	1,498
Total financial liabilities held for trading	**6,668**	**5,194**

26. Provisions

Provisions include the following items:

MCZK	31. 12. 2008	31. 12. 2007
Provisions for off-balance sheet credit items	394	438
Other provisions	128	193
Claims and litigations	60	62
Unclaimed vacation	58	60
Other	10	71
Total provisions	**522**	**631**

(a) Provisions for off-balance sheet credit items

MCZK	
Balance at 1 October 2006	347
Creation during the current year	161
Release during the current year	(70)
Balance of provisions for off-balance sheet credit items at 31 December 2007	**438**
Balance at 1 January 2008	438
Creation during the current year	–
Release during the current year	(44)
Balance of provisions for off-balance sheet credit items at 31 December 2008	**394**

(b) Other provisions

MCZK	Claims and litigations	Unclaimed vacation	Other	Total
Balance at 1 October 2006	47	30	–	77
Creation during the current year	37	30	126	193
Use during the current year	–	–	(5)	(5)
Release of provisions	(22)	–	(50)	(72)
Balance of provisions at 31 December 2007	**62**	**60**	**71**	**193**
Balance at 1 January 2008	62	60	71	193
Creation during the current year	2	–	6	8
Use during the current year	(3)	–	(57)	(60)
Release of provisions	–	(2)	(11)	(13)
Other	(1)	–	1	–
Balance of provisions at 31 December 2008	**60**	**58**	**10**	**128**

The use of MCZK 2 in provisions for unclaimed vacation payments is presented as a part of general operating costs, under “Wages and salaries”.

27. Other liabilities

MCZK	31. 12. 2008	31. 12. 2007
Deferred income and accrued expenses	217	222
Trade payables	231	338
Negative fair value of hedging derivatives	1,819	525
Income taxes payable	25	–
Other taxes payable	31	16
Estimated payables	529	740
Unsettled securities dealing	–	108
Suspense accounts	5,457	13,558
Other	8	12
Total other liabilities	**8,317**	**15,519**

The decrease in “Suspense accounts” balances was caused by two unsettled over-the-counter trades which were performed shortly before year end 2007. These trades were settled at the beginning of January 2008.

28. Income tax

(a) Tax in income statement

MCZK	31. 12. 2008	31. 12. 2007
Current year income tax	(809)	(885)
Income tax for previous period (adjustment of estimate)	31	2
Tax refund of previous periods	23	–
Deferred tax	(43)	(24)
Total income tax	**(798)**	**(907)**

In 2008 the income tax rate for legal entities was changed from the 24% used in 2007 to 21% according to the Income Tax Act No. 586/1992 Coll.

The Bank's income tax is different from the theoretical income tax, which would be calculated using the tax rate applicable in the Czech Republic, as follows:

MCZK	31. 12. 2008
Current year profit (loss) before tax	5,709
Income tax calculated using tax rate 21%	1,199
Effect of the difference between Czech Accounting Standards used for calculating the tax base and IFRS	(57)
Effect of previous years	(100)
Foreign income tax effect	(32)
Non-taxable income	(402)
Tax non-deductible expenses	150
Change in deferred tax by reason of the tax rate change	12
Change in deferred tax	31
Other	(3)
Total income tax	**798**

The effective tax rate of the Bank is 14% (for the period from 1 October to 31 December 2007: 21.5%).

(b) Tax in balance sheet

The Bank made advance payments for income tax of MCZK 784 (for the period from 1 October 2006 to 31 December 2007: MCZK 984). When offsetting with the income tax payable, the Bank presents for the accounting period net tax payable of MCZK 25 in the item "Other liabilities" (as at 31 December 2007: net tax receivable of MCZK 99 included in "Other assets").

(c) Deferred tax asset and liability

Deferred income tax is calculated on all temporary differences using the balance sheet liability method and applying the appropriate tax rate. Deferred income tax assets and liabilities are attributable to the following:

MCZK	31. 12. 2008		31. 12. 2007	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	13	–	16	–
Social and health insurance from bonuses	22	–	25	–
Impairment of loans	186	–	213	–
Fixed assets net of book value differences	2	–	11	–
Other	14	–	15	–
Deferred tax liability/asset	237	–	280	–
Net deferred tax liability/asset recognized in income statement	**237**	**–**	**280**	**–**
Revaluation reserve for available-for-sale assets	–	(23)	122	–
Net deferred tax liability/asset recognized in equity	**–**	**(23)**	**122**	**–**
Total deferred tax asset	**214**		**402**	

When calculating the net tax liability/asset the Bank offset deferred tax liabilities and deferred tax assets arising from income tax payable to the tax authority within the same tax category. Deferred tax liabilities and assets recognized in equity are not offset against deferred tax liabilities and assets recognized in the income statement account.

The Bank's management believes that it is highly probable that the Bank will fully realize its deferred tax asset as at 31 December 2008 based on the Bank's current and expected future level of taxable profits.

29. Subordinated liabilities

MCZK	31. 12. 2008	31. 12. 2007
Subordinated loan, UniCredit S.p.A.	1,000	1,000
Total of subordinated liabilities	**1,000**	**1,000**

On 29 December 2004, the Bank drew subordinated debt of MCZK 1,000 from the parent company UCI. The interest charged on the subordinated debt is PRIBOR + 0.6% until 29 December 2009 and PRIBOR + 1.2% thereafter. The interest is payable quarterly in arrears, and the principal is repayable on 29 December 2014. The principal may not be repaid before 29 December 2009 and without the Czech National Bank's consent. The subordinated debt is not collateralized, and is subordinated to all the Bank's liabilities. It forms a part of the Bank's additional capital for the purpose of capital adequacy.

30. Issued capital and share premium

The issued capital (registered, subscribed and paid-up) as at 31 December 2008 and 31 December 2007 amounted to MCZK 5,125.

(a) Shareholder as at 31 December 2008 and 31 December 2007

Name	Registered office	Share nominal value (MCZK)	Share premium (MCZK)	Share in equity (%)
UniCredit Bank Austria AG, Vienna	Austria	5,125	3,473	100
Total		**5,125**	**3,473**	**100**

(b) Issued capital analysis

	31. 12. 2008 Number of shares	31. 12. 2008 MCZK	31. 12. 2007 Number of shares	31. 12. 2007 MCZK
Common share at CZK 16,320,000	100	1,632	100	1,632
Common share at CZK 13,375,000	200	2,675	200	2,675
Common share at CZK 10,000	74,000	740	74,000	740
Common share at CZK 7,771,600	10	78	10	78
Total of issued capital		**5,125**		**5,125**

Shares are transferable with the Supervisory Board's approval.
The Bank did not hold any of its own shares as at 31 December 2008 and 31 December 2007.

31. Bonuses tied to equity

The Bank has not implemented any incentive bonus schemes or motivation program for employees for the purchase of own shares or paid any remuneration in the form of options to purchase own shares.

32. Reserve funds and retained earnings

Reserve funds are as follows:

MCZK	31. 12. 2008	31. 12. 2007
Legal reserve fund	1,025	1,025
Other reserve funds	1,824	1,824
Reserve funds total	**2,849**	**2,849**
Retained earnings	15,912	12,001

The Bank creates, in accordance with the law, a legal reserve fund (part of the item "Reserve funds"). The legal reserve fund is created from net profit as at the date of preparation of the financial statements for the year in which a profit was achieved for the first time, in the amount of at least 20% of the net profit but not more than 10% of the registered capital. This reserve is added to annually by 5% of the net profit up to 20% of the registered capital. The legal reserve fund can only be used to cover incurred losses and use of the legal reserve fund is under the control of the Board of Directors.

The reserve fund is created at the level of 20% of the registered capital. In accordance with applicable legal provisions, the Board of Directors is entitled to create funds allocated from profit to cover the Bank's specific risks as well as to create other funds in excess of the legally required reserve fund. The Board of Directors likewise decides on the use of these funds.
The Bank intends to distribute the profit for 2008 of MCZK 4,911 as follows: dividend payment of MCZK 750 and transfer to retained earnings of MCZK 4,161.

33. Borrowing and lending of securities, repurchase and resale commitments

(a) Resale commitments

MCZK	31. 12. 2008	31. 12. 2007
Receivables from banks	22,704	12,688
Fair value of securities received	22,411	12,494
Receivables from clients	534	–
Fair value of securities received	672	–

(b) Repurchase commitments

MCZK	31. 12. 2008	31. 12. 2007
Deposits from banks	4,722	7,903
Fair value of given securities (Financial assets held for trading)	533	4,278
Fair value of given securities (Financial investments)	4,216	3,549
Deposits from clients	9,454	–
Fair value of given securities (Financial assets held for trading)	3,361	–
Fair value of given securities (Financial investments)	6,112	–

34. Contingent liabilities, contingent assets and derivatives

During regular business operations the Bank enters into various financial operations which are not recognized in the balance sheet. These operations are called off-balance sheet operations. Unless stated otherwise the following off-balance sheet operations are stated in nominal amounts.

(a) Contingent liabilities

Litigation and claims

The Bank reviewed all legal disputes affecting the Bank as at 31 December 2008 and created appropriate provisions for litigation and claims (see Note 26). In addition to these litigations there are other claims related to the Bank's business activities. However, the management does not expect the result of such claims to have any significant impact on the financial situation of the Bank.

Taxation

Czech tax legislation has changed significantly over the last few years. Many problematic parts remain unclear and it is also unclear which interpretation the tax authority will choose. The result of this situation can not be quantified and a solution will only be possible after release of official interpretation.

Liabilities from guarantees and credit commitments and other contingent liabilities

Unused credit commitments represent the most significant part of contingent liabilities. The credit commitments granted by the Bank include issued commitments for loans or guarantees and also unused credit lines and overdraft facilities. The Bank can revoke the revocable credit commitments anytime without stating reasons. On the other hand irrevocable credit commitments represent the Bank's liability to provide loans or guarantees and the fulfilment of this liability does not depend on the will of the Bank even though it depends on the client's fulfilment of the terms and conditions. Liabilities from financial guarantees represent irrevocable commitments that the Bank will realize payments when the conditions defined in guarantee certificates are fulfilled. These commitments bear similar risk as do loans, so the Bank creates reserves for these commitments using a similar algorithm as that used when creating loan loss provisions (see Note 37). Letters of credit represent the bank's written irrevocable liability to provide funds to a third party or to its order (beneficiary, commissioned) if the letter of credit's conditions were fulfilled in a defined period. It is issued on the basis of the customer's (applicant's) request. The Bank creates reserves for these financial instruments using a similar algorithm as that used when creating loan loss provisions (see note 37). The Bank has created provisions for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 31 December 2008 the total amount of these provisions amounted to MCZK 394 (as at 31 December 2007: MCZK 438) (see Note 26 (a)).

MCZK	31. 12. 2008	31. 12. 2007
Irrevocable letters of credit and financial guarantees	23,827	19,768
Other irrevocable contingent liabilities (unused credit commitments)	67,048	89,185
Total	**90,875**	**108,953**

Values taken into administration and management

MCZK	31. 12. 2008	31. 12. 2007
Bonds	158,482	279,926
Shares	187,870	259,239
Depository notes	12,377	15,174
Total values taken into administration and management	**358,729**	**554,339**

(b) Contingent assets

As at 31 December 2008 the Bank has the option to draw the following loans:

Credit line provided by UniCredit Bank Austria AG, Vienna in the maximum amount of MCZK 2,902 (MEUR 109) and maturing in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 2,693 (MEUR 100) with the latest maturity of 13 years from the drawing. This line is specifically for the refinancing of credits that fulfil the conditions of the EIB.

(c) Financial derivatives

Financial derivatives from OTC market (OTC derivatives)

MCZK	Contractual amounts 31. 12. 2008	Contractual amounts 31. 12. 2007	Fair value 31. 12. 2008	Fair value 31. 12. 2007
Hedging instruments				
Interest rate swap contracts	79,204	53,666	483	(23)
Cross currency swap contracts	10,341	9,147	(555)	(47)
Trading instruments				
Forward rate agreements (FRA)	3,000	3,500	1	2
Interest rate swap contracts	93,538	81,006	(140)	48
Forward foreign exchange contracts			520	(201)
Purchase	10,233	7,717		
Sale	9,650	7,900		
Option contracts			10	10
Purchase	75,690	63,129		
Sale	75,690	63,129		
Cross currency swap contracts	70,202	59,002	(1,696)	192

Listed financial derivatives

MCZK	Contractual amounts 31. 12. 2008	Contractual amounts 31. 12. 2007	Fair value 31. 12. 2008	Fair value 31. 12. 2007
Trading instruments				
Interest rate futures	2,329	956	45	60
Commodity instruments	625	10	4	1

Residual maturity of financial derivatives

The nominal values of individual types of derivatives can be divided based on their residual maturity as follows (basis 30/360):									
MCZK	Up to 1 month	1–3 months	3 months to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
As at 31 December 2008									
Hedging instruments									
Interest rate swap contracts	9,732	2,500	16,971	14,628	5,905	5,167	4,724	19,577	79,204
Cross currency swap contracts	–	–	3,908	–	1,794	–	1,974	2,665	10,341
Trading instruments									
Forward rate agreements (FRA)	2,000	1,000	–	–	–	–	–	–	3,000
Interest rate swap contracts	7,501	6,059	8,876	14,886	13,286	12,451	15,282	15,197	93,538
Foreign exchange contracts (Purchase)	1,115	1,679	3,891	3,214	297	37	–	–	10,233
Foreign exchange contracts (Sale)	1,111	1,653	3,764	2,830	259	33	–	–	9,650
Option contracts (Purchase)	3,593	4,102	24,478	14,226	16,104	10,525	2,568	94	75,690
Option contracts (Sale)	3,593	4,102	24,478	14,226	16,104	10,525	2,568	94	75,690
Interest rate futures	–	2,329	–	–	–	–	–	–	2,329
Commodity instruments	–	325	119	142	–	39	–	–	625
Cross currency swap contracts	31,890	12,139	14,306	3,699	4,763	2,985	298	122	70,202
As at 31 December 2007									
Hedging instruments									
Interest rate swap contracts	4,833	54	2,414	15,754	8,150	2,150	3,374	16,937	53,666
Cross currency swap contracts	–	–	3,681	3,592	–	1,874	–	–	9,147
Trading instruments									
Forward rate agreements (FRA)	–	–	3,500	–	–	–	–	–	3,500
Interest rate swap contracts	4,231	3,099	11,865	12,043	8,068	8,937	12,054	20,709	81,006
Foreign exchange contracts (Purchase)	495	1,588	3,831	1,658	144	1	–	–	7,717
Foreign exchange contracts (Sale)	496	1,616	3,942	1,702	143	1	–	–	7,900
Option contracts (Purchase)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Option contracts (Sale)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Interest rate futures	–	956	–	–	–	–	–	–	956
Commodity instruments	–	–	10	–	–	–	–	–	10
Cross currency swap contracts	33,290	5,162	10,964	2,052	4,102	–	2,985	447	59,002

35. Segment reporting

Primary segment reporting is based on the Bank's client segments.

(a) Business segments

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2008					
Net interest and dividend income	1,967	3,701	235	758	6,661
Other net income	993	2,458	445	(94)	3,802
Depreciation of property, plant and equipment					
and amortization of intangible assets	(74)	(3)	–	(55)	(132)
Impairment and provisions	(268)	(553)	–	–	(821)
Segment expenses	(1,235)	(1,160)	(117)	(1,289)	(3,801)
Profit before tax	1,383	4,443	563	(680)	5,709
Income tax	–	–	–	(798)	(798)
Result of segment	1,383	4,443	563	(1,478)	4,911
Segment assets	23,986	149,113	101,880	3,702	278,681
Segment liabilities	101,799	90,579	49,378	9,862	251,618
As at 31 December 2007					
Segment assets	22,005	131,531	104,318	11,160	269,014
Segment liabilities	105,216	73,613	49,966	17,150	245,945

b) Geographical segments

The Bank's accounting system does not allow full automatic allocation of revenues and expenses according to geographical area. In 2008 and in the period from 1 October 2006 to 31 December 2007 the Bank generated the main part of its revenues from activities in the Czech Republic and the EU.

36. Financial risk management

(a) Introduction

The Bank is exposed to the following types of risk:

- Credit risk
- Market risk
- Operational risk

The Bank's Board of Directors is responsible for, and approves, the overall strategy of risk management, which is reviewed on a regular basis. The Board has established an Assets and Liabilities Committee (ALCO), Credit Committee and Committee for the Management of Operational Risk in order to monitor and manage particular risks for its specific areas. These Committees report to the Bank's Board on a regular basis.

(b) Credit risk

The Bank is exposed to credit risks as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

Credit risk is managed at two levels: at the level of the individual client (transaction) and at the portfolio level.

The Credit Risk Underwriting Division, the Credit Models and Reporting Division and the Credit Risk Operations Division are directly responsible for credit risk management. Both are organizationally independent of the business divisions and are directly accountable to the member of the Board of Directors responsible for risk management, finance and controlling.

The Bank defines in its credit policy general principles, methods and instruments used for the purpose of identification, measurement and management of credit risk. The Credit Models and Reporting Division is responsible for loan policy, which is revised at least once a year.

The Bank defines in its internal guidelines approval competencies for credit deals, including definition of responsibilities and competencies of the Credit Committee.

(i) Credit risk management at individual client level

The credit risk at client level is managed by analyzing the client's financial standing and setting limits on the credit extended. The analysis is focused on the client's standing in the relevant market, rating of the client's financial statements, prediction of future liquidity etc. The result of this analysis is, among other things, to establish a rating that reflects the probability of the client's default and takes into account both quantitative and qualitative factors. The financial standing analysis is carried out, and a credit limit and rating set, before credit is granted as well as regularly during the course of the credit relationship with the client.

The internal rating system comprises 27 rating levels (1 to 10 with the use of "+" and "-" in several rating classes: 1+, 1, 1@, 2+, etc). This system assesses not only the client's possible delay in making loan payments, but also the client's financial ratios and indicators (such as the structure of, and relationships between, the balance sheet, income statement, and cash flows), quality of management, ownership structure, market position of the debtor, quality of client's reporting, production equipment, etc. Clients with receivables categorized as substandard, doubtful and loss are always assigned to a rating class for clients in default, i.e. one of 8-, 9 or 10.

If an external rating of the debtor prepared by a reputable rating agency is available, the rating results are also taken into account in the assessment of the debtor. However, this rating does not replace the Bank's internal rating system.

For receivables from individuals, the ability of the client to fulfil his obligation is determined using a standardized system of credit scoring based on risk-relevant characteristics (credit application scoring).

The Bank likewise sets and regularly updates the probability of client default for individuals using the behavioural scoring method.

As an additional source of information for assessing a client's financial standing, the Bank uses information from credit registries, mainly the CBCB–Czech Banking Credit Bureau, a.s., the CNB Central Credit Registry and the SOLUS association registry.

In accordance with its credit risk management strategy, the Bank requires collateral for all provided credit before the credit is granted (according to the client's financial standing and the nature of the transaction).

The Bank considers the following to be acceptable types of collateral: cash, first-class securities, a bank guarantee from a reputable bank, a guarantee from a highly reputable non-banking entity, real estate, and assignment of high quality receivables. The Bank's assessment of the net realizable value of the collateral is conservative and an expert appraisal, based in particular on the financial standing of the collateral provider as well as the nominal value of the collateral, is prepared by the Bank's specialist department. The net realizable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realize the collateral if and when necessary.

In November 2008, as a reaction to changes in the market, the collateral coefficients used to establish the collateral value for real estate were reassessed (tightened).

(ii) Credit risk management at portfolio level

Credit risk management at this level involves mainly loan portfolio reporting including analyses and monitoring of trends in certain credit sub-portfolios.

The Bank monitors its overall credit risk position by taking into account all on-balance and off-balance sheet exposures and quantifying the expected loss from its credit exposure. The Bank has created a system of internal limits for certain countries, branches and economically connected groups of debtors and regularly monitors its involvement in different segments.

The Bank assesses the concentration risk of a loan portfolio on a regular basis and determines concentration limits when necessary in relation to specific industries, countries, or economically connected groups of debtors.

(iii) Classification of receivables, impairment and provisions

The Bank is categorizes its receivables arising from financial activities on a monthly basis, in accordance with Decree No. 123/2007 Coll. of the CNB.

The Bank regularly assesses a possible permanent decrease of the balance sheet value of receivables; in case that Bank identifies such a decrease, the Bank creates provisions for each receivable or portfolio of receivables respectively in accordance with IFRS.

<u>Impairment of individual loans</u>

The Bank recognizes the impairment of an individual loan if the loan's carrying amount decreases and the Bank does not write off such amount; that is, part of the loan receivable corresponding to the loss from the loan's carrying amount. The Bank assesses impairment of the carrying amount for each watched loan receivable and for all loan receivables with debtors in default.

The Bank calculates the individual impairment in amount of loss resulting from decrease of the loan's carrying amount, i.e. impairment loss is equal to difference between carrying amount (reduced by the materially acceptable value of collateral) and discounted value of estimated future cash flows from the unsecured part of the loan.

Impairment of portfolio of loans

The Bank recognizes impairment losses of the standard loans portfolio if it identifies a decrease in the portfolio carrying amount as a result of events indicating a decrease of expected future cash flows from this portfolio.

Provisions are assigned to individual portfolios, not to individual loan cases. The Bank uses the concept of "incurred loss" when identifying portfolio impairment, considering time delay between the impairment event and the time when the Bank obtains information on the impairment event (i.e. when the receivable is excluded from the portfolio of standard receivables and the decrease in the value is considered in accordance with the common practice used for single receivables; that is, a provision for the concrete receivable is created).

In 2008 the parameters used for the calculation of the incurred loss of loans portfolio were reassessed; concretely the method of treating debtors failure probability was reassessed and calculated time delay between the time of incurred loss origination and its recognition by the Bank was changed. The method currently used is in accordance with the UniCredit Group methodology used for incurred loss determination.

Provisions for off balance sheet items

The Bank creates provisions for selected off balance sheet items, namely:

(i) Provisions for off balance sheet items at the Bank's clients for whom there is currently recorded a particular balance sheet receivable which fulfilled the conditions for ranking into watched loan or a loan with debtor's default category and the Bank creates the provisions for such loans.

Note: The Bank does not create such provisions for undrawn credit lines of issued credit cards.

(ii) Provisions for selected off balance sheet items at the Bank's clients for whom the Bank does not record any balance sheet receivable in a given period, however, in case of the existence of such receivable the conditions for ranking into watched loan or a loan with debtor's default category would be fulfilled.

(iii) Provisions for selected off balance sheet items that are ranked into portfolios. The Bank recognizes such provisions in the same way as used in creating impairment of loan portfolios.

(iv) Recovery of receivables

The Bank has established a department to deal with the recovery of loans in respect of receivables considered to be at risk. This department aims to achieve one or more of the following goals:

a) "Revitalization" of the credit relationship, restructuring and subsequent reclassification to standard receivables,
b) Full repayment of the loan,
c) Minimization of the loss from the loan (realization of collateral, sale of receivable with a discount etc.),
d) Prevention of further losses from the loan (comparison of future income and expenses).

(c) Market risk

(i) Trading

The Bank holds trading positions in certain financial instruments including financial derivatives. The majority of the Bank's business activities are conducted according to the requirements of the Bank's customers. Depending on the estimated demand of its customers the Bank holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Bank's business strategy is thus affected by speculation and market making and its goal is to maximize the net income from trading.

The Bank manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are limits on volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value; BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in the following section "Market risk management".

The majority of derivatives are contracted on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

(ii) Market risk management

Below are described selected risks to which the Bank is exposed through its trading activities, principles of managing positions resulting form these activities and also management of these risks. The procedures that the Bank uses to measure and manage these risks are described in detail in the following paragraphs.

The Bank is exposed to market risks which flow from its open positions in interest rate, equity and foreign currency instruments that are sensitive to changes in financial market conditions.

The Bank's risk management concentrates on management of the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by monitoring the sensitivity of particular assets or liabilities in individual time periods, which is expressed by change in the present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For hedge accounting purposes the Bank identifies specific assets/liabilities causing this incongruity in a way to meet the accounting criteria for the application of the hedge accounting.

Value at Risk

Value at Risk represents the main method for managing the market risks arising from the Bank's activities. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. The Bank determines the Value at Risk through the stochastic simulation of a wide range of potential scenarios on the financial markets. Value at Risk is measured based on a one-day holding period and a confidence level of 99%. The assumptions on which the Value at Risk model is based have the following limitations:

- The 1-day holding period supposes that all the positions can be closed during a single day. This assumption need not always apply on less liquid markets.
- The 99% confidence level does not reflect all possible losses that can occur at this confidence level.
- VaR is calculated from the positions at the end of the trading day and does not consider the positions which can be opened "intra-day".
- Using historical data as a basic determinant of possible future development does not necessarily cover all of the possible future scenarios, especially crisis scenarios.

The Bank uses VaR to measure interest rate risk, foreign currency risk, equity risk and other types of risk connected with negative movements in the prices of market factors (spread risk, option risk, etc.). The structure of VaR limits is approved by the Assets and Liabilities Committee (ALCO), and at least once a year the structure and the amount of limits are revised in accordance with the Bank's needs and developments on the financial markets. The results of VaR calculation are published daily for selected users (Board of Directors, plus selected employees of the Financial Markets Division, Market Risk Division, Assets and Liabilities Management Division and the parent bank's MARS).

Back testing – Value at Risk

The results of this model are back-tested and compared with the results of the actual changes in interest rates on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets.

The following are Values at Risk of the Bank.

MCZK	As at 31. 12. 2008	Average 1. 1. 2008 – 31. 12. 2008	As at 31. 12. 2007	Average 1. 10. 2006 – 31. 12. 2007
VaR of interest rate instruments	182.2	111.3	78.8	35.8
VaR of currency instruments	10.6	2.3	1.1	1.5
VaR of equity instruments	2.0	1.6	1.2	1.1

Interest rate risk

The Bank is exposed to interest rate risk as a result of the fact that interest-bearing assets and liabilities have different maturities or interest rate re-pricing periods and different volumes during these periods. In the event of a change in interest rates, the Bank is exposed to a risk as a result of the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest rates on deposits etc. The activities in the area of interest risk management section are focused on optimizing the Bank's net interest revenue in accordance with the strategy approved by the Board of Directors.

The Bank's overall interest rate position as at 31 December is characterized by a greater interest rate sensitivity on the liability side. This is seen in the positive overall basis point value (or "BPV"), whereby in the case of a simultaneous rise in interest rates for individual currencies there could occur a modest growth in market valuation. The Bank's interest rate position is diversified into several currencies, whereby the divergent interest rate risks of individual currencies are compensated with regard to the overall portfolio of assets and liabilities. The major sensitivity is connected to the CZK and EUR. The Bank's overall position is approximately balanced. Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for the management of assets and liabilities approved by the Board of Directors. Part of the Bank's income is generated by the intentional incongruity between the interest rate sensitive assets and liabilities.

The Bank applies a "Basis Point Value – BPV" approach for the measurement of interest sensitivity of assets and liabilities. BPV represents the change of present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. represents the sensitivity of instruments towards interest rate risks.

The Bank set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

Stress testing of interest rate

The Bank carries out a weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impact on the Bank's financial results.

Due to the fact that the Bank enters into derivatives transactions in order to hedge the interest rate risk for the whole credit-sensitive part of the balance sheet, the stress tests are not performed separately for trading and investment portfolios but on an aggregated basis.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basic points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve for major currencies (CZK, EUR, USD), with a maturity of up to 2 years, by 250 basic points.

The following table shows the impact of the parallel shift of the yield curve on the Bank's profit:

	Basic stress test		MM stress test
MEUR	–200bp	+200bp	+250bp
Value as at 31 December 2008	(1.31)	(0.75)	(5.25)
Average for the year	2.99	(2.79)	(3.32)
Maximum value	21.57	14.63	6.15
Minimum value	(14.40)	(12.35)	(8.78)
Value as at 31 December 2007	16.98	(13.91)	(1.88)
Average for the year	5.28	(4.46)	(1.68)
Maximum value	21.91	(18.59)	1.30
Minimum value	(0.72)	0.49	(7.06)

The following table includes interest rate sensitivity of the Bank's assets and liabilities on EIR:

MCZK	EIR	Up to 1 months	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2008											
Cash in hand and balances											
with central banks	0.00	116	–	–	–	–	–	–	–	1,689	1,805
Financial assets held for											
trading	3.91	7,068	493	5.869	34	–	300	32	320	–	14,116
Receivables from banks	3.18	44,884	4,235	2,763	–	–	–	–	–	–	51,882
Receivables from											
customers	4.35	51,963	63,123	24,907	10,015	6,846	7,238	3,837	5,927	–	173,856
Financial investments	4.79	3,873	2,978	5,457	4,269	1,920	105	1,759	12,263	124	32,748
Deposits from banks	2.63	18,476	7,103	1,469	–	–	–	–	–	–	27,048
Deposits from customers	1.37	156,604	7,548	5,780	321	415	94	6	2	–	170,770
Debt securities issued	3.59	4,113	8,541	11,999	4,601	–	1,435	89	6,482	10	37,270
Financial liabilities											
held for trading	0.00	6,256	–	–	412	–	–	–	–	–	6,668
Subordinated liabilities	4.24	–	1,000	–	–	–	–	–	–	–	1,000

MCZK	EIR	Up to 1 months	1-3 months	3 m. to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Unspe- cified	Total
As at 31 December 2007											
Cash in hand and balances with central banks	0.00	107	–	–	–	–	–	–	–	1,613	1,720
Financial assets held for trading	3.74	4,763	11,130	983	99	36	–	125	935	88	18,159
Receivables from banks	4.53	38,669	6,811	1,969	9	91	–	–	–	–	47,549
Receivables from customers	5.14	41,922	31,022	37,404	11,651	8,541	3,020	7,230	4,360	7,624	152,774
Financial investments	5.25	1,111	3,683	7,161	1,073	4,207	2,145	111	13,710	3,026	36,227
Deposits from banks	3.93	19,234	3,639	4,131	–	–	–	–	–	–	27,004
Deposits from customers	2.97	156,886	4,913	3,299	402	281	410	92	–	–	166,283
Debt securities issued	4.91	56	351	11,103	7,045	3,922	–	1,399	6,438	–	30,314
Financial liabilities held for trading	0.00	3,694	–	1,500	–	–	–	–	–	–	5,194
Subordinated liabilities	4.70	–	–	1,000	–	–	–	–	–	–	1,000

Hedge accounting
As part of its market risk management strategy, the Bank hedges against interest rate risk. The Bank's hedge strategy uses both fair value hedges and cash flow hedges.

Fair value hedging
Hedged instruments can be financial assets and liabilities recognized at their carrying amounts (except securities held-to-maturity) and available-for-sale securities recognized at their fair values, with changes in fair value recognized in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross-currency swaps).
The Bank performs a fair value hedge effectiveness test on the basis of future cash flows of hedged and hedging instruments and of expected interest rates movements (a so-called "prospective test"). On the basis of real interest rates development, the test of effectiveness is carried out at the last day of each month. The Bank has chosen the monthly frequency of effectiveness testing to be able to detect possible non-effectiveness of hedge relationships.
For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc.) the amount of cash flows and dates are determined from the beginning of a hedged relationship until the maturity of the hedged instrument, or until the end of the hedge relationship. The present values of particular cash flows for the relevant date (date of effectiveness measurement) are determined on the basis of discount factors for specific currencies. The fair value of the trade is the total of discounted cash flows from the relevant trade at the given time. The cumulative change of the fair value is determined by comparing the fair value in the given time with the first revaluation. These cumulative changes are further netted for realized cash flows by subtracting or adding them back. The hedge is considered as effective if the proportion of cumulative fair value changes of hedged and hedging instruments is between 80% and 125%.

The following table shows the contractual amounts and fair values of derivatives designated as fair value hedging instruments.

	Contractual amount		Fair value	
MCZK	31. 12. 2008	31. 12. 2007	31. 12. 2008	31. 12. 2007
Interest rate swaps	20,387	21,578	(2)	(12)
Cross currency swaps	–	–	–	–

Cash flow hedging

The Bank uses the concept of cash flow hedging to eliminate interest rate risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and interest expense sensitive to changes of market interest rates. The hedging instruments are derivatives (the most common are interest rate swaps and cross-currency swaps).

The effectiveness of the cash flow hedge is carried out in accordance with BA Group standards which are contained in approved methodology. Firstly, the nominal values (divided into assets and liabilities) of external trades for which the interest cash flow (set on a basis of refinancing the "funding" rate) may be considered as variable are identified for specific currencies (hedged cash flows). Secondly, for these same currencies the nominal interest cash flows of variable hedged parts are identified and are monitored on a net basis (i.e. net interest cash in- or out-flows – hedging flows – are monitored).

The Bank compares the absolute value of future variable interest cash flows from hedged deals for specific time periods with the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedge derivatives. The hedge is effective if the absolute volume of variable interest cash flows from hedged deals is greater than the "net" variable interest cash flows from (opposite sign) hedging deals.

The following table shows the contractual and fair values of derivatives designated as cash flow hedging instruments.

	Contractual amount		Fair value	
MCZK	31. 12. 2008	31. 12. 2007	31. 12. 2008	31. 12. 2007
Interest rate swaps	58,817	32,088	486	(11)
Cross currency swaps	10,341	9,147	(555)	(47)

	Fair value	
MCZK	31. 12. 2008	31. 12. 2007
Hedged instruments		
Available-for sale-securities	137	39
Receivables from clients	(248)	105
Debt securities issued	373	181
The remaining part of formerly hedged financial instruments		
Available-for sale-securities	–	3
Receivables from clients	(6)	41
Debt securities issued	(2)	21

In line with a change in group strategy in the area of hedge accounting, the Bank terminated fair value hedge accounting for selected financial instruments in December 2003. In connection with this change the Bank still reports the remaining fair value of those instruments, which is amortized till maturity.

Currency risk

Assets and liabilities denominated in foreign currency, including off-balance sheet exposures, represent the Bank's exposure to currency risks. Both realized and unrealized foreign exchange gains and losses are reported directly in the income statement.

The Bank has set the system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of MEUR 20 with respect to the total net currency exposure and to individual main currencies (CZK, EUR and USD).

For remaining currencies valid limits range from MEUR 0.2 to MEUR 5 according to the risk profile of a particular currency.

The position of the Bank in foreign currencies is as follows:								
MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 31 December 2008								
Cash in hand and balances with central banks	1,233	373	85	29	39	–	46	1,805
Financial assets held for trading	14,002	62	52	–	–	–	–	14,116
Receivables from banks	29,766	21,493	71	3	42	1	506	51,882
Receivables from customers	123,037	48,296	1,700	15	796	–	12	173,856
Financial investments	19,988	7,691	1,009	–	–	4,060	–	32,748
Property, plant and equipment	1,690	–	–	–	–	–	–	1,690
Intangible assets	3	–	–	–	–	–	–	3
Deferred tax asset	237	–	–	–	–	–	–	237
Other assets	2,017	214	110	–	1	–	2	2,344
Non-current assets held for sale	–	–	–	–	–	–	–	–
Deposits from banks	9,587	15,275	977	1,191	–	–	18	27,048
Deposits from customers	134,112	27,087	6,296	–	405	2,056	814	170,770
Debt securities issued	36,443	731	96	–	–	–	–	37,270
Financial liabilities held for trading	6,635	–	33	–	–	–	–	6,668
Provisions	516	6	–	–	–	–	–	522
Deferred tax liability	23	–	–	–	–	–	–	23
Other liabilities	6,468	1,511	248	–	19	–	71	8,317
Subordinated liabilities	1,000	–	–	–	–	–	–	1,000
Equity	27,351	(293)	1	–	4	–	–	27,063
As at 31 December 2007								
Cash in hand and balances with central banks	1,245	310	71	25	19	–	50	1,720
Financial assets held for trading	18,159	–	–	–	–	–	–	18,159
Receivables from banks	25,125	18,850	2,318	17	388	155	696	47,549
Receivables from customers	107,710	41,855	929	1,475	800	–	5	152,774
Financial investments	21,138	9,567	1,027	–	–	4,495	–	36,227
Property, plant and equipment	1,662	–	–	–	–	–	–	1,662
Intangible assets	6	–	–	–	–	–	–	6
Deferred tax asset	402	–	–	–	–	–	–	402
Other assets	9,559	488	99	1	2	–	9	10,158
Non-current assets held for sale	360	–	–	–	–	–	–	360
Deposits from banks	9,848	12,701	1,860	1,433	2	803	357	27,004
Deposits from customers	128,750	27,742	5,253	331	520	2,307	1,380	166,283
Debt securities issued	30,035	177	102	–	–	–	–	30,314
Financial liabilities held for trading	5,194	–	–	–	–	–	–	5,194
Provisions	631	–	–	–	–	–	–	631
Deferred tax liability	–	–	–	–	–	–	–	–
Other liabilities	13,358	1,865	245	17	6	–	28	15,519
Subordinated liabilities	1,000	–	–	–	–	–	–	1,000
Equity	23,072	–	–	–	–	–	–	23,072

Equity risk

The equity risk is the risk of a movement in the prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of this risk is trade with equity instruments, although some equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods used to manage these risks are described above.

Liquidity risk

Liquidity risk arises as a result of the type of financing of the Bank's activities and management of its positions. It includes both the risk that the Bank is unable to finance its assets using instruments with appropriate maturity and the risk that the Bank is unable to dispose of its assets for an appropriate price within the necessary time period.

The Bank has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans accepted including subordinated loans and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Bank's Board of Directors. The Bank also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Liquidity risk is evaluated regularly by the Bank using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach the Bank daily monitors in detail over the following weeks the difference between inflows and outflows of liquidity. Limits for cumulative inflows and outflows are set. If the limits are breached the Bank takes action to reduce the liquidity risk. In the long-term perspective the Bank monitors the difference between the maturity of assets and liabilities in periods longer than a year. For products with a non-specified maturity (i.e. current accounts) the Bank has developed a model for their expected residual maturity. The Bank again sets limits, and appropriate action is taken if they are breached, e.g. acquiring long-term sources of refinancing.

For the case of a liquidity crisis, a contingency plan has been drawn up by the Bank. This plan define roles, responsibilities and the process of managing a crisis. It also defines the possible measures which should be considered if there is a crisis situation.

Residual maturity of assets and liabilities of the Bank:

MCZK	Up to 1 month	1–3 months	3 months – 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspecified	Total
As at 31 December 2008										
Cash in hand and balances with central banks	116	–	–	–	–	–	–	–	1,689	1,805
Financial assets held for trading	2,707	762	6,592	912	572	940	490	1,020	121	14,116
Receivables from banks	39,478	4,232	2,786	–	5,386	–	–	–	–	51,882
Receivables from customers	78,804	72,334	14,892	1,889	137	1,615	1,736	2,449	–	173,856
Financial investments	374	859	844	4,841	3,015	453	2,276	17,269	2,817	32,748
Property, plant and equipment	–	–	–	–	–	–	–	–	1,690	1,690
Intangible assets	–	–	–	–	–	–	–	–	3	3
Deferred tax asset	–	–	–	–	–	–	–	–	237	237
Other assets	290	65	172	104	133	68	30	950	532	2,344
Non-current assets held for sale	–	–	–	–	–	–	–	–	–	–
Total	**121,769**	**78,252**	**25,286**	**7,746**	**9,243**	**3,076**	**4,532**	**21,688**	**7,089**	**278,681**
Deposits from banks	18,404	5,168	679	9	1,004	88	7	1,688	1	27,048
Deposits from customers	155,506	8,381	6,040	306	416	94	11	5	11	170,770
Debt securities issued	309	8,130	3,994	4,606	569	2,504	165	16,616	377	37,270
Financial liabilities held for trading	940	718	1,013	881	1,393	349	600	727	47	6,668
Provisions	–	–	–	–	–	–	–	–	522	522
Deferred tax liability	–	–	–	–	–	–	–	–	23	23
Other liabilities	22	–	205	209	220	120	361	715	6,465	8,317
Subordinated liabilities	–	–	–	–	–	–	–	1,000	–	1,000
Equity	–	–	–	–	–	–	–	–	27,063	27,063
Total	**175,181**	**22,397**	**11,931**	**6,011**	**3,602**	**3,155**	**1,144**	**20,751**	**34,509**	**278,681**
Gap	**(53,412)**	**55,855**	**13,355**	**1,735**	**5,641**	**(79)**	**3,388**	**937**	**(27,420)**	**–**
Cumulative gap	**(53,412)**	**2,443**	**15,798**	**17,533**	**23,174**	**23,095**	**26,483**	**27,420**	**–**	

MCZK	Up to 1 month	1–3 months	3 months – 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2007										
Cash in hand and balances with central banks	107	–	–	–	–	–	–	–	1,613	1,720
Financial assets held										
for trading	1,190	11,198	2,274	833	944	–	343	1,230	147	18,159
Receivables from banks	38,662	6,847	2,025	15	–	–	–	–	–	47,549
Receivables from customers	18,554	11,151	34,560	20,985	11,054	7,969	12,625	35,876	–	152,774
Financial investments	6	483	1,995	2,059	9,102	–	–	19,606	2,976	36,227
Property, plant and equipment	–	–	–	–	–	–	–	–	1,662	1,662
Intangible assets	–	–	–	–	–	–	–	–	6	6
Deferred tax asset	–	–	17	–	–	–	–	–	385	402
Other assets	155	–	19	178	225	34	–	118	9,426	10,155
Non-current assets										
held for sale	–	360	–	–	–	–	–	–	–	360
Total	**58,674**	**30,039**	**40,890**	**24,070**	**21,325**	**8,003**	**12,968**	**56,830**	**16,215**	**269,014**
Deposits from banks	19,234	155	4,152	2,288	1,078	–	–	–	97	27,004
Deposits from customers	149,704	8,394	3,604	409	291	410	92	–	3,379	166,283
Debt securities issued	–	–	1,628	8,919	6,883	–	1,422	11,462	–	30,314
Financial liabilities										
held for trading	367	123	1,157	854	713	339	–	1,421	220	5,194
Provisions	–	–	–	–	–	–	–	–	631	631
Deferred tax liability	–	–	–	–	–	–	–	–	–	–
Other liabilities	232	1	78	97	152	33	–	225	14,701	15,519
Subordinated liabilities	–	–	–	–	–	–	–	1,000	–	1,000
Equity	–	–	–	–	–	–	–	–	23,069	23,069
Total	**169,537**	**8,673**	**10,619**	**12,567**	**9,117**	**782**	**1,514**	**14,108**	**42,097**	**269,014**
Gap	**(110,863)**	**21,366**	**30,271**	**11,503**	**12,208**	**7,221**	**11,454**	**42,722**	**(25,882)**	**–**
Cumulative gap	**(110,863)**	**(89,497)**	**(59,226)**	**(47,723)**	**(35,515)**	**(28,294)**	**(16,840)**	**25,882**	**–**	

(d) Operational risk

Operational risk represents the risk of a loss due to the absence, violation, exceeding or failure to uphold rules and to damages caused by failure of internal processes, human or system error, or external events. Strategic risk, business risk and reputation risk differ from operational risk while legal risk and compliance risk are included into the definition of operational risk. The Bank's organizational structure and its internal rules fully respect the segregation of incompatible duties and prevent any conflict of interests. regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Division is an independent body, which directly reports to the Board of Directors' member responsible for finance and operational risk management. The Operational Risk Division is entrusted with securing unified and coordinated operational risk management, congruent with the applicable regulation and with the standards of the parent company. The operational risk management and monitoring itself is exercised by the designated employees of the particular departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives, and it assesses the control and management system's functionality.

In 2008, in connection with the transition to the AMA approach for calculating the capital requirement for operational risk, the Bank continued developing and setting up a comprehensive system for identification, monitoring and management of operational risk.

To ensure effective collection of operational risk events and data, the Bank uses an on-line information system developed by the UniCredit Bank Austria Group (formerly Bank Austria Creditanstalt). The system complies with the requirements for capital adequacy management, in accordance with the new regulation of the Basel Committee on Banking Supervision.

The data acquired through the system form one of the bases for the design of processes that will lead to a reduced number of particular events and the mitigation of their consequences (e.g. in preparing a strategic insurance plan for the Bank). The data are also used for rechecking the reliability of proposed measures for operational risk mitigation. Data is collected continuously, in cooperation with the Bank's departments. All significant events are reported and resolved immediately. Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Bank. The Bank's Board of Directors, Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or promptly, if needed. The data is regularly reconciled with the accounting and other sources in order to ensure its completeness and accuracy.

In 2008, the Bank also performed a scenario analysis and a risk indicators and risk limits configuration. The continuity of operations management (emergency planning, crisis management) forms another important part of operational risk management. In 2008, the Bank updated the recovery plans (for crisis situations such as the floods in 2002) in order to ensure their full usefulness and effectiveness in the current conditions of the merged Bank. Testing of the updated recovery plans is planned for 2009.

The Operational Risk Division is also increasing the overall awareness of operational risk in the Bank and trains the Bank's staff. An e-learning training "Basel II – operational risks" was launched in 2007.

The Bank started calculating the capital requirement for operational risk under the standardized approach (TSA) as at 1 January 2008, i.e. as at the Basel II implementation date. At the same time, the Bank was preparing for the planned sequential implementation of the AMA advanced approach for capital requirement calculation. The parent bank, UniCredit S.p.A, and Bank Austria Creditanstalt (part of the sub-consolidated UniCredit Bank Austria group) are sponsoring this project. The Bank met all the conditions necessary to calculate the capital requirement for operational risk under the AMA advanced approach, and in 2008 it successfully completed the validation process. The Bank can therefore use the Group model for the calculation of capital adequacy for operational risk, which is based on internal and external data, results of scenarios analysis and data of risk indicators.

(e) Capital management

The bank market regulator, the Czech National Bank (CNB), sets the rules for the calculation of capital requirements and monitors their development. Since 1 January 2008 the Bank has met its requirements in accordance with Basel II. They were implemented by CNB Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms. The Bank currently uses the standardized approach.

The Bank's regulatory capital consists of:

- Original capital (Tier 1), which comprises paid up registered capital, share premium, reserve funds, retained earnings, audited profit for the previous period after tax; minus intangible assets;
- Additional capital (Tier 2), which comprises subordinated debt;
- Deductible items, which comprise capital investments over 10% in banks and other financial institutions, and significant prudential adjustments as part of a market appraisal or an appraisal using a model.

(f) Market development in 2008

The following table shows the regulatory capital of the Bank:

MCZK	31. 12. 2008	31. 12. 2007
Tier 1 Capital		
Paid up registered capital	5,125	5,125
Share premium	3,473	3,473
Reserve funds	2,812	2,812
Retained earnings	15,912	12,001
Planned dividend outflows	(750)	(1,000)
Intangible assets	(3)	(6)
Total Tier 1	26,569	22,405
Tier 2 Capital		
Subordinated debt – received	1,000	1,000
Total Tier 2	1,000	1,000
Deductible items		
Subordinated debt – granted	(203)	(201)
Significant prudential adjustments	(40)	(63)
Total deductible items	(243)	(264)
Total regulatory capital	**27,326**	**23,141**

Capital funds amounting to MCZK 37 are not included in Tier 1.

The Bank's management monitors development of the Bank's capital adequacy and monitors the Bank's capital position. The Bank's capital adequacy fulfils the minimum requirement of 8% set by the CNB and Basel II.

As a reaction to significant changes in market conditions in the second half of 2008, which, together with the worsening economic performance, will probably lead to increased risks related to the Bank's entire portfolio, the Bank took the following action:

(i) Credit risk area
– One-time exceptional Liquidity Check of the Bank's largest exposures
– Tightening the loan policy for financing commercial real estate
– Implementation of concentration limits in relation to specific economically connected groups of debtors, depending on the annual probability of a specific group failure
– Making the loan review process more specific and more strict
– Tightening collateral coefficients used for setting the collateral value
– Tightening conditions for granting loans in several industries
– Modification of some product parameters for credit products in retail banking

(ii) Market risk area
– Tightening the control of market factors and prices used by the Bank for appraisal of financial instruments in its portfolios
– Tightening the mapping of securities for VaR calculation in NoRisk system control

(iii) Liquidity area
– Introduction of more accurate and more detailed monitoring of the short-term liquidity position of the Bank
– Introduction of daily monitoring of drawing, repayment of loans and of the inflow and outflow of deposits
– Implementation of a new approval process for new loan commitments
– Tightening conditions for loan commitments

37. Related parties transactions

Entities are considered to be related entities if one entity is able to control the activities of the other or is able to exercise significant influence over the financial or operational policy of the other entity. In its normal course of business, the Bank enters into transactions with related entities. These transactions represent mainly loans, deposits and other types of transactions and are concluded under normal trade conditions and at normal market prices so that there is no injury to any of the contracting parties.
As related parties there were identified namely affiliated companies within UCI/HVB/BACA Group, subsidiaries and associated companies, Board members and senior employees of the Bank.

MCZK	31. 12. 2008	31. 12. 2007
Assets		
Receivables from banks	16,644	15,862
Thereof:		
UniCredit Bank Austria AG	7,305	13,792
UniCredit CAIB AG Treasury, Vienna	8,231	–
Bayerische Hypo-und Vereinsbank AG	459	639
HVB Bank Serbia and Montenegro	203	201
UniCredit S.p.A, Milano	52	400
Receivables from customers	4,783	4,673
Thereof:		
BA/CA Leasing GmbH	4,783	4,623
UniCredit Factoring s.r.o.	465	–
Banking Transaction Services s.r.o.	2	–
Board of Directors	8	–
Management	25	13
Financial investments	1,585	1,695
UniCredit Bank Austria AG	347	348
HVB Jelzalogbank, Hungary	1,238	1,347
Total	**23,012**	**22,230**

MCZK	31. 12. 2008	31. 12. 2007
Liabilities		
Deposits from banks	18,421	16,820
Thereof:		
UniCredit Bank Austria AG	7,454	10,881
UniCredit CAIB AG Treasury, Vienna	5,391	–
Bayerische Hypo-und Vereinsbank AG	3,124	4,650
Unicredito Milano	21	54
Deposits from customers	958	749
Thereof:		
BA/CA Leasing GmbH	102	131
Pioneer Asset Management	479	413
CAE PRAHA a.s. in the process of liquidation	1	1
UniCredit Factoring, s.r.o.	150	–
Banking Transaction Services s.r.o.	24	–
Board of Directors	31	–
Management	34	6
Debt securities issued	–	17
Pioneer Asset Management	–	17
Subordinated liabilities	1,000	1,000
UniCredit S.p.A, Milano	1,000	1,000
Total	**20,379**	**18,586**

MCZK	1. 1. 2008 – 31. 12. 2008
Revenues	
Interest income and similar income	949
Thereof:	
UniCredit S.p.A, Milano	11
UniCredit Bank Austria AG	307
Bayerische Hypo-und Vereinsbank AG	20
UniCredit Leasing Vienna	183
BA/CA Leasing GmbH	9
Fee and commission expense	12
Thereof:	
Bayerische Hypo-und Vereinsbank AG	2
UniCredit Bank Austria AG	4
Total	**961**

MCZK	1. 1. 2008 – 31. 12. 2008
Expenses	
Interest expenses and similar charges	632
Thereof:	
UniCredit S.p.A, Milano	48
Bayerische Hypo-und Vereinsbank AG	147
Bank Austria Creditanstalt AG	214
UniCredit CAIB AG Treasury, Vienna	83
Fee and commission expense	17
Thereof:	
UniCredit Bank Austria AG	17
General administrative expenses	860
Thereof:	
Banking Transaction Services	224
UniCredit Servizi Informativi S.P.	627
Total	**1,509**

38. Fair value of financial assets and financial liabilities

The estimate of fair values (see Note 3 (b)) is made on the basis of actual market prices, if available. In many cases, however, the market prices of various financial instruments are not available. In such circumstances, the fair values are based on management estimates, discounted cash flow models or other commonly used valuation methods. The discount factors used for discounting cash flows are derived from yield curves quoted on the market using the standard mathematical approach for discounting. Many from the methods mentioned above are characterized by certain levels of uncertainty, and the fair value estimates cannot be always considered as market values, and, in many cases, these would not necessarily be achieved in selling a certain financial instrument. Changes of initial assumptions used for establishing fair value could have significant impact on this value determination.

The following table analyses the carrying values and fair values of financial assets and liabilities which are not presented in the consolidated balance sheet at their fair values:

MCZK	31. 12. 2008 Carrying amount	31. 12. 2008 Fair value	31. 12. 2007 Carrying amount	31. 12. 2007 Fair value
Financial assets				
Receivables from banks	51,882	53,087	47,549	47,549
Receivables from customers	173,856	183,656	152,774	166,063
Financial liabilities				
Deposits from banks	27,048	28,422	27,004	27,004
Deposits from customers	170,770	172,360	166,283	165,773
Debt securities issued	37,270	37,141	30,314	30,124
Subordinated liabilities	1,000	1,039	1,000	1,000

In 2008 the Bank implemented a system which permits determining fair values of financial instruments which are not presented at their fair values. Due to technical reasons the Bank is not able to determine fair values of receivables from banks, deposits from banks and subordinated liabilities for the comparable period.

39. Income statement for comparable periods

The following table presents income statement items relevant for the period from 1 January to 31 December 2008 and comparative information for the year 2007.

MCZK	2008	Total 2007	UCB 2007	HVB Reality 2007
Interest income and similar income	12,723	10,149	10,149	–
Interest expense and similar charges	(6,315)	(4,855)	(4,831)	(24)
Net interest income and similar income	**6,408**	**5,294**	**5,318**	**(24)**
Dividend income	253	252	252	–
Fee and commission income	3,240	3,455	3,453	2
Fee and commission expenses	(529)	(513)	(504)	(9)
Net fee and commission income	**2,711**	**2,942**	**2,949**	**(7)**
Net trading income	91	147	147	–
Net income from financial investments	1,143	(130)	(130)	–
Other operating income	163	356	278	78
General administrative expenses	(3,933)	(4,231)	(4,220)	(11)
Impairment of loans and receivables	(821)	(388)	(388)	–
Other operating expenses	(306)	(484)	(484)	–
Profit before tax	**5,709**	**3,758**	**3,722**	**36**
Current income tax	(755)	(766)	(766)	–
Deferred income tax	(43)	(27)	(18)	(9)
Profit for the period	**4,911**	**2,965**	**2,938**	**27**

40. Subsequent evevnts

The Bank's management is not aware of any events that have occurred since the balance sheet date that would have a significant impact on the Bank's financial statements as at 31 December 2008.

Date of approval: 11 March 2009	Stamp and signature of the Bank's statutory body:	Person responsible for the accounting: Ing. Jiří Kupec	Person responsible for the financial statements (name, signature): Mgr. Michaela Mrštíková

«We are the people who
determine our future.
There is no doubt that the
atmosphere of our Group
and beneficial relationships
with our clients depend on us.
To achieve this, we should
stand by our moral and
professional convictions
and also consider
our people's opinions.
When we commit ourselves
to that principle, then we will
succeed at everything we do.»

Julia Šagova
Russian Federation

Auditor's report on the non-consolidated annual report

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Auditor's report to the shareholders of UniCredit Bank Czech Republic, a.s.

Financial statements

On the basis of our audit, on 11 March 2009 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of UniCredit Bank Czech Republic, a.s. which comprise the balance sheet as of 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in point 1 of the notes to these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements of UniCredit Bank Czech Republic, a.s. in accordance with Czech accounting legislation and in accordance with International Financial Reporting Standards as adopted by the E.U. This responsibility includes: designing, implementing and maintaining internal controls 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 the Act on Auditors and International Standards on Auditing and the relevant 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 controls 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 controls. 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 present fairly in all material respects the assets, liabilities and the financial position of UniCredit Bank Czech Republic, a.s. as of 31 December 2008, and its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation and in accordance with International Financial Reporting Standards as adopted by the E.U."

Report on relations between related parties

We have also reviewed the factual accuracy of the information disclosed in the report on relations between related parties of UniCredit Bank Czech Republic, a.s. for the year ended 31 December 2008. This report on relations between the related parties is the responsibility of the Company's management. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with International Standard on Review Engagements and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance that the report on relations is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not conducted an audit of the report on relations and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information disclosed in the report on relations between related parties of UniCredit Bank Czech Republic, a.s. for the year ended 31 December 2008 contains material factual misstatements.

Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of Company's management. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that all also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.

Auditor's report on the non-consolidated annual report (CONTINUED)

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague, 30 April 2009

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Licence number 71

Vladimír Dvořáček
Partner

Pavel Závitkovský
Partner
Licence number 69

Resolution of the sole shareholder of UniCredit Bank Czech Republic, a.s.

UniCredit Bank Austria AG, with its registered office at Schottengasse 6-8, 1010 Vienna, Republic of Austria (Court File Number FN 150714 p), represented by Mag. Josef Duregger and Dr. Erhard Gehberger, as the sole shareholder of the commercial company UNICREDIT BANK CZECH REPUBLIC, A.S. (hereinafter referred to as the "Bank"), with its registered office at Prague 1, Na Příkopě 858/20, Postal Code 111 21, Czech Republic, ID No. 64948242,

in exercising the powers of the general meeting of the Bank pursuant to Section 190, para. 1 of Act No. 513/1991 Coll., as amended, **hereby adopts** the following

RESOLUTION

1. The Bank reported the following audited non-consolidated main financial results for 2008:

Total Assets:	CZK 278,681 million
Profit before Taxes:	CZK 5,709 million
Profit after Taxes:	CZK 4,911 million

2. The sole shareholder approves the final non-consolidated accounts stated under point 1) of this Resolution, which were audited by the company KPMG Česká republika Audit, s.r.o., Pobřežní 648/1a, Prague 8 (License number 71) and by the Auditor Pavel Závitkovský (Licence number 69).

In Vienna on 28 April 2009

UniCredit Bank Ausria AG

Mag. Josef Duregger

Dr. Erhard Gehberger

«Every day, my work requires the use of both brain and heart. Using your brain means creating value with each service delivered. And using your heart means letting the customer feel the commitment you put into your work.»

Lucia Rossi De Gasperis
Italy

«There is always a way to meet the customer's needs. Along this path, our experience serves as our compass and the customer's satisfaction is our final destination.
The work we do along the entire journey is our commitment. The certainty of the result is our strength.»

Niccolò Ceci
Italy

Supplementary information

Supplementary information published pursuant to Section 118 of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended

1. Information about UniCredit Bank as an issuer of registered securities

1.1 Basic data

Business name:	UniCredit Bank Czech Republic, a.s.
Company identification no.:	64948242
Registered office:	Prague 1, Na Příkopě 858/20
Telephone:	+420 221 112 111

UniCredit Bank Czech Republic, a.s. ("UniCredit Bank") was incorporated according to Czech law, and in particular pursuant to the Banking Act 21/1992 Coll., as amended.

UniCredit Bank was established for an indefinite period.

UniCredit Bank is duly entered in the Commercial Register administered by the Municipal Court in Prague, Section B, file 3608, from 1 January 1996 to 31 December 1998 as Vereinsbank (CZ) a.s. – merged with HYPO-BANK CZ a.s. on 31 December 1998; from 31 December 1998 to 1 October 2001 as HypoVereinsbank CZ a.s. – merged with Bank Austria Creditanstalt Czech Republic, a.s.; from 1 October 2001 to 5 November 2007 as HVB Bank Czech Republic a.s. – merged with Živnostenská banka, a.s.

A banking licence was granted to UniCredit Bank by the Czech National Bank with effect from 1 January 1996 based upon decision ref. no. V 40/9-95 dated 14 September 1995.

The issuer has been in business continually, with no interruptions.

The issuer fulfils all of its obligations in a due and timely manner. No changes have occurred that could be of material significance in evaluating the issuer's solvency.

In carrying out its activities, the issuer is governed by Czech legal regulations.

1.2 Persons responsible for the audit of the financial statements and authorised auditors

Responsible person:	Pavel Závitkovský
Licence no.:	69
Domicile:	Hyacintová 3266/9, Prague 10
Auditor:	KPMG Česká republika Audit, s.r.o.
Licence no.:	71
Registered office:	Pobřežní 648/1a, Prague 8

1.3 Administrative, managing and supervisory bodies

The Bank's bodies are the:
a) General Meeting,
b) Board of Directors, and
c) Supervisory Board.

The General Meeting of Shareholders is the supreme body of the Bank. It decides on all matters of the Bank falling within its competence by law or under the Bank's Articles of Association.

The following activities belong within the General Meeting's exclusive competence:

a) deciding on changes in the Articles of Association if these are not changes resulting from an increase in share capital by the Board of Directors pursuant to Section 210 of the Commercial Code or on changes occurring on the basis of other legal facts;
b) deciding on increase or decrease of the share capital, or on authorising the Board of Directors pursuant to Section 210 of the Commercial Code, or on the possibility of setting off financial claims due to the Bank against a claim for payment of an issuance price;
c) deciding about a decrease of the share capital and about issuing bonds pursuant to Section 160 of the Commercial Code;
d) electing and dismissing members of the Supervisory Board and other bodies established by the Articles of Association, with the exception of members of the Supervisory Board elected and dismissed pursuant to Section 200 of the Commercial Code;
e) approving the regular or extraordinary financial statements and consolidated financial statements, and, in cases established under law, interim financial statements; deciding on distributing profits or settling losses and setting of directors fees;
f) deciding on remunerating members of the Supervisory Board;
g) deciding on the listing of the Bank's participating securities under special legal regulations and about their withdrawal from trading on an official market;
h) deciding on winding up of the Bank with liquidation, appointing and dismissing a liquidator, including to establish the level of the liquidator's remuneration, and approving the proposal for distributing the liquidation balance;
i) deciding on a merger, transfer of the assets to a single shareholder, or on division or a change of legal form;
j) approving contracts cited in Section 67a of the Commercial Code;
k) approving negotiations carried out in the name of the Bank before its incorporation pursuant to Section 64 of the Commercial Code;
l) approving controlling contracts (Section 190b of the Commercial Code), contracts on the transfer of profit (Section 190a of the Banking Act), and contracts on silent partnerships and their changes;
m) decisions on the establishment of non-compulsory funds of the Bank and on procedures for their creation and utilisation; and

n) decisions on other issues that the Commercial Code or Articles of Association entrust to the competence of the General Meeting.

1.4 Board of Directors of UniCredit Bank

As of 31 December 2008, the Board of Directors has four members who exercise their functions personally. Members of the Board of Directors are elected by the Supervisory Board for the period of 3 years. The Supervisory Board may at any time dismiss any of the members of the Board of Directors, irrespective of their term of office. Only persons meeting the relevant legal requirements may be appointed members of the Board of Directors.

Ing. JIŘÍ KUNERT
Chairman of the Board of Directors and Chief Executive Officer
Work address: Na Příkopě 858/20, Prague 1
Domicile: Pod Kaštany 1107/19, Prague 6
Born: 31 January 1953

Ing. DAVID GRUND
Vice-Chairman of the Board of Directors and First Deputy to the Chief Executive Officer
Work address: Na Příkopě 858/20, Prague 1
Domicile: K lukám 702, Šestajovice
Born: 24 February 1955

Dr. PETER KOERNER
Member of the Board of Directors and Deputy to the Chief Executive Officer
Work address: nám. Republiky 3a/2090, Prague 1
Domicile: Pötzleinsdorfer Höhe 33, 1180 Vienna, Austria
Born: 18 May 1959
From 16 February 2005 also Statutory Executive of UniCredit Factoring, s.r.o.

Ing. ALEŠ BARABAS
Member of the Board of Directors and Deputy to the Chief Executive Officer
Work address: Na Příkopě 858/20, Prague 1
Domicile: U Dubu 1371, Prague 4
Born: 28 March 1959

No member of the Board of Directors is conducting any other business activity that might be relevant for the purpose of appraising the issuer other than his activities for the issuer as stated above.

1.5 Supervisory Board of UniCredit Bank

The Supervisory Board has nine members of which six are elected and dismissed by the General Meeting and three are elected and dismissed by the company's employees in accordance with the Commercial Code. Members of the Supervisory Board exercise their functions personally. Members of the Supervisory Board are elected for the period of 3 years and may be re-elected.

The Supervisory Board established the Remuneration Committee which consists of two members of the Supervisory Board (Carlo Vivaldi, Carmine Ferraro).

Each year, the Remuneration Committee approves the principles for remuneration to members of the Board of Directors and the respective amounts.

Carlo Vivaldi, Born: 2 December 1965
Chairman
Vienna, Köhlergasse 17, Postal Code A-1180, Austria
Date of appointment to the office: 5 December 2007
Date of appointment as member of the Supervisory Board: 5 November 2007

Carmine Ferraro, Born: 14 December 1944
Vice-chairman of the Supervisory Board
Monza (MI), Via Monviso 33, Postal Code 200 52, Italy
Date of appointment to the office: 28 March 2007
Date of appointment as member of the Supervisory Board: 28 March 2007

Carlo Marini, Born: 23 March 1968
Piacenza, Str. Ne Farnese 81, Postal Code 291 00, Italy
Date of appointment as member of the Supervisory Board: 5 November 2007

Graziano Cameli, Born: 18 August 1967
Trieste, Strada Costiera 31, 34136, Italy
Date of appointment as member of the Supervisory Board: 29 April 2008

Heinz Meidlinger, Born: 6 September 1955
Kalmusweg 46/Haus 107, 1220 Vienna, Austria
Date of appointment as member of the Supervisory Board: 30 July 2001

JUDr. Ivana Burešová, Birth No. 536011/301
Work address: Na Příkopě 858/20, Prague 1
Prague 1, Dlouhá 714/36, Postal Code 110 00
Date of appointment as member of the Supervisory Board: 18 June 2008

Eva Mikulková, Birth No. 575129/1425
Work address: nám. Republiky 3a/2090, Prague 1
Kladno, Kročehlavy, Dlouhá 512, Postal Code 272 01
Date of appointment as member of the Supervisory Board:
18 June 2008

Ing. Pavel Šlambor, Birth No. 720312/0903
Work address: Revoluční 7, Prague 1
Prague 5, Černošická 614, Postal Code 155 31
Date of appointment as member of the Supervisory Board:
18 June 2008

Gerhard Deschkan, Born: 20 February 1967
Matzingerstraße 11/11 A-1140 Vienna, Austria
Date of appointment as member of the Supervisory Board:
19 December 2008

No Member of the Supervisory Board is conducting either any other business activity in the Czech Republic or any business activity that might be relevant for the purpose of appraising the issuer other than his or her activities for the issuer as stated above.

The Members of the Supervisory Board are appointed by the General Meeting, with the sole shareholder of the issuer exercising the powers of the General Meeting.

The Members of the Board of Directors are appointed by the Supervisory Board, either at its meeting or on the basis of its decision per rollam outside its meeting. Managers are appointed to their positions in accordance with the Competence Rules depending on their functions (2nd management level, 3rd management level, etc.). Appointment of the Members of the Supervisory Board is regulated in the issuer's Articles of Association; appointment of managers is governed by the issuer's Competence Rules.

The Supervisory Board decides by a simple majority of those votes present.

Conflicts of interest at the level of administrative, management and supervisory bodies:
The issuer is not aware of any possible conflicts of interest between the duties to the issuer of the aforementioned persons and their private interests or other duties. UniCredit Bank has prepared an Ethics Code that stipulates how to proceed in case of a conflict of interest.

1.6 Dividends and directors fees

In 2008, the Bank paid out dividends to its shareholder totalling CZK 1 billion.

1.7 Scope of business activities according to the articles of association

The Bank's business activities include:
a) receiving deposits from the public,
b) granting loans,
c) investing in securities on its own behalf,
d) operating a system of payments and clearing,
e) issuing and administering payment products,
f) granting guarantees,
g) opening letters of credit,
h) administering cash collection,
i) providing investment services,
– main investment service pursuant to Section 8, para. 2a) of Act No. 591/1992 Coll., on Securities, as amended (hereinafter "the Securities Act"), taking receipt of and conveying instructions related to investment instruments on the customer's account, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 2b) of the Securities Act, executing instructions related to investment instruments on the account of another party, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 2c) of the Securities Act, trading in investment instruments on the trader's own account, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 2d) of the Securities Act, administration of individual portfolios at its own discretion within the terms of a contractual covenant with the client, if investment instruments form a part of such portfolio and with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act;
– main investment service pursuant to Section 8, para. 2e) of the Securities Act, underwriting or placing issues of investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1b) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 3a) of the Securities Act, custody and management of one or more investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1c) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 3c) of the Securities Act, provision of credits or loans to the customer for the purpose of executing a transaction with investment instruments, if the provider of the loan or credit is a participant in this transaction, with respect to investment instruments pursuant to Section 8a, para. 1a)–1d) and 1g) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 3d) of the Securities Act, consulting services related to the capital structure, industry strategy and related issues, and the provision

of advice and services related to mergers and acquisitions of companies;
– supplementary investment service pursuant to Section 8, para. 3e) of the Securities Act, services related to underwriting of issues pursuant to Section 8, para. 2e) of the Securities Act, with respect to investment instruments pursuant to Section 8a, para. 1a) and 1b) of the Securities Act;
– supplementary investment service pursuant to Section 8, para. 3f) of the Securities Act, consulting services related to investment into investment instruments, with respect to investment instruments pursuant to Section 8a, para. 1a)–1g) of the Securities Act; and
– supplementary investment service pursuant to Section 8, para. 3g) of the Securities Act, executing of foreign currency operations related to provision of investment services;

j) issuing mortgage bonds,
k) engaging in financial brokerage,
l) providing depository services,
m) providing foreign currency exchange services (purchase of foreign currencies),
n) providing banking information,
o) trading foreign currencies and gold on its own behalf or on behalf of clients,
p) renting safe-deposit boxes, and
q) other activities directly related to the activities specified above.

1.8 Other information

To transfer shares of UniCredit Bank Czech Republic, a.s., prior approval of the Supervisory Board is required. Voting rights pertaining to these shares are in no way limited.

In accordance with the Bank's Articles of Association, the Members of the Board of Directors are elected and dismissed by the Supervisory Board.

UniCredit Bank Czech Republic, a.s. has no special rules for changing the Articles of Association.

Currently there exist no authorisations or special powers of the Board of Directors in the sense of Section 118, para. 3n) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended.

UniCredit Bank Czech Republic, a.s. has concluded no agreements with members of the Board of Directors or its employees that would oblige the Bank to their fulfilment in the case of termination of their functions or employment in relation to a takeover bid.

There are no programmes in UniCredit Bank Czech Republic, a.s. that allow the Bank's employees or members of the Board of Directors to acquire participating securities of the Bank, options for such securities, or other rights thereto under advantageous conditions.

2. Share capital and shareholder's equity, securities and group

2.1 Share capital

The sole shareholder of UniCredit Bank Czech Republic, a.s. is UniCredit Bank Austria AG, having its registered office at Schottengasse 6-8, 1010 Vienna, Austria (hereinafter referred to as "Bank Austria").

Share capital: EUR 1,469,000,000

The ownership interest in UniCredit Bank's share capital is 100%.

UniCredit Bank has share capital of CZK 5,124,716,000, consisting of:

(a) 100 unlisted, registered book-entry common shares, each with a nominal value of CZK 16,320,000;

(b) 200 unlisted, registered book-entry common shares, each with a nominal value of CZK 13,375,000;

(c) 74,000 unlisted, registered book-entry common shares, each with a nominal value of CZK 10,000; and

(d) 10 unlisted, registered book-entry common shares, each with a nominal value of CZK 7,771,600.

All the aforementioned shares are registered with the Securities Centre.

UniCredit Bank's share capital has been fully paid up.

UniCredit Bank has issued no shares giving their holders the right to exchange such shares for other shares or the right to priority subscription of other shares.

UniCredit Bank has neither acquired nor holds any of its own shares.

Information about the main shareholder

Bank Austria, a member of the UniCredit Group, which is one of the leading European banking groups, is the clear number one in the Austrian Banking sector. As a modern and dynamic universal bank, Bank Austria provides its clients with access to international financial markets. Within the UniCredit Group, Bank Austria is responsible for the growth region that is Central and Eastern Europe (CEE). Bank Austria occupies the unequivocal leading position in this region.

In accordance with the Articles of Association, the main shareholder may only influence UniCredit Bank's activities using the weight of its votes. The company uses standard statutory mechanisms to prevent the shareholder's potential misuse of its position. UniCredit Bank is not a party to a controlling contract or a contract for transfer of profit. The character of the control by the controlling entity, which is Bank Austria AG, results from the directly owned portion of the issuer's shares. To prevent misuse of the control and controlling influence of the controlling entity, UniCredit Bank uses the statutory instrument of the report on relations between the controlling and controlled entities and the report on relations between the controlled entity and other entities controlled by the same controlling entity (report on relations between the related entities). No agreements that could lead to a change of control over the issuer are known.

Leader on the Austrian market

With total assets of EUR 222.2 billion and market shares from 20% to 65%, Bank Austria is far and away the largest Austrian bank. Its clients include:

- 88% of large companies,
- 68% of medium companies, and
- 45% of small companies.

In Austria, the Bank operates a network of about 330 branches with approximately 11,000 employees.

History

Bank Austria originated in a merger of several large and well-established Austrian banks. The history of these banks stretches back to 1855, when the first banking enterprise "k.k. privilegierte Oesterreichische Credit-Anstalt für Handel und Gewerbe" was founded by an imperial privilege; to 1880, when the "k.k. privilegirte Oesterreichische Laenderbank" was similarly created; and to 1905, the year in which the "Zentralsparkasse der Gemeinde Wien" was established. In 1991, merger of the "Zentralsparkasse und Kommerzialbank" and the "Oesterreichische Laenderbank" together created Bank Austria. In 1997, Bank Austria then took over what was at that time the second-largest bank in Austria, Creditanstalt. Since November 2005, Bank Austria has been a member bank of the UniCredit Group. Through this union there was created a new and truly European bank, in which Bank Austria plays a key role by virtue of its operations in the growth market of Central and Eastern Europe.

Recognised for its success

Through the years, Bank Austria's results of have been recognised by awards from renowned international financial journals on some 250 occasions. Journals such as Euromoney and The Banker have time and again rated Bank Austria as "Best bank" and "Bank of the Year". In addition, Bank Austria, as well as its subsidiary banks in Central and Eastern Europe, has also been awarded many prizes in the areas of custody, trade finance, project finance and foreign currency transactions.

2.2 Overview of changes in owner's equity

(All data as at 31 December, except for 2006, and in CZK 000)	2008	2007	1 October 2006
Issued capital	5,124,716	5,124,716	5,124,716
Share premium	3,474,490	3,357,330	3,357,330
Mandatory reserve funds and risk funds	1,024,943	1,024,943	1,024,943
Other reserve funds and other funds from profit	1,824,157	1,824,157	1,824,157
Revaluation gains (losses)	(295,736)	(379,350)	(3,390)
Retained earnings	15,912,334	12,000,679	9,409,626
Total shareholder's equity	**27,064,904**	**22,952,475**	**20,737,382**

2.3 List of bond issues outstanding

The total volume of outstanding bond issues, including EUR and USD bonds converted at the CNB's exchange rate valid as at 31 December 2008: CZK 37,269,929,148.

2.4 Group structure

On 17 November 2005, UniCredit S.p.A., Genoa (UniCredit) acquired 93.93% of the shares of Bayerische Hypo- und Vereinsbank AG, Munich (HVB) by increasing the share capital and exchanging shares. As a result of this transaction, the entire HVB Group, of which Bank Austria Creditanstalt AG, Vienna (BA-CA AG) is a member, became a new member of UniCredit Group. UniCredit's offer to HVB shareholders was accompanied by an offer and an alternative cash offer to the shareholders of BA-CA AG, and this was accepted by holders of 17.45% of the shares.

At the beginning of 2007, HVB expressed its consent to transfer its ownership interest in BA-CA AG totalling 77.53% to UniCredit S.p.A. Subsequently, UniCredit S.p.A. began the takeover of the remaining ownership interests in the company that it did not yet own.

The transaction was completed in July 2008.

With effect from 27 September 2008, the business name of Bank Austria Creditanstalt AG changes to **UniCredit Bank Austria AG**.

Supplementary information (Continued)

UniCredit S.p.A. currently holds a 100% share in UniCredit Bank Austria AG, which is a subholding of UniCredit Group for operations in Central and Eastern Europe (with the exception of Poland).

Main shareholders of UniCredit Bank Austria AG (holding more than 2%)

UniCredit Bank Austria AG shareholders	Common shares	Shares in %*
1. Mediobanca S.p.A	968,192,307	6.762%
(of which an usufruct in favour of UniCredit S.p.A.)	967,564,061	6.757%
2. Fondazione Cassa di Risparmio Verona, Vicenza, Belluno e Ancona	811,550,000	5.668%
3. Group Central Bank of Libya	615,718,218	4.300%
4. Fondazione Cassa di Risparmio di Torino	532,527,185	3.719%
5. Carimonte Holding S.p.A.	447,117,993	3.123%
6. Group Allianz	311,861,460	2.178%
7. Barclays Global Investors Funds UK Holdings Ltd	310,437,952	2.168%

* in share capital

A. UniCredit Bank Czech Republic shareholder

Shareholder	Share in CZK	Share in %
UniCredit Bank Austria AG, Vienna	5,124,716,000	100%

B. Affiliated companies

Company	Address	Partner/Shareholder (Share in %)
HVB Leasing Czech Republic s.r.o.	Prague 5, Radlická 14/3201	UniCredit Leasing SpA (Milan, Italy) (100%)
UniCredit Leasing CZ a.s.	Prague 5, Radlická 14/3201	UniCredit Leasing SpA (Milan, Italy) (100%)
Banking Transaction Services s.r.o.	Prague 1, Nové Město, Václavské náměstí 33/823,	UniCredit Business Partner SpA (Cologno Monzese (MI), (Italy) (100%)

C. Subsidiaries

Company	Address	Partner/Shareholder (Share in %)
CAE PRAHA, a.s. in liquidation	Prague 5, nám. Kinských 602	UniCredit Bank Czech Republic, a.s. (100%)
UniCredit Factoring, s.r.o.	Prague 2, Italská 24	UniCredit Bank Czech Republic, a.s. (100%)

2.5. Information on trends

Since the date of presenting the last financial statements, no substantial negative changes have occurred to the issuer's outlook.

2.6 Information on all monetary and in-kind incomes accepted by the managers and members of the supervisory board from the issuer

Members of the Board of Directors				
Total incomes	Remuneration as member of the Board of Directors	Remuneration for management positions		
		Salaries and remuneration	Variable annual bonuses	Non-monetary remuneration
53,541,891	11,037,500	24,675,067	14,120,850	3,708,474

Members of the Supervisory Board				
Total incomes	Remuneration as member of the Supervisory Board	Remuneration to members of the Supervisory Board who are employees of the Bank		
		Salaries and remuneration	Variable annual bonuses	Non-monetary remuneration
8,978,950	0	5,447,492	3,010,604	78,729

2.7 Information on the number of shares issued by the issuer and which are under the ownership of the issuer's managers

The number of shares issued by the issuer under the ownership of managers is zero, because all shares issued by the issuer are held by the sole shareholder, UniCredit Bank Austria AG, Vienna.

2.8 Principles of remunerating the issuer's managers

Remuneration policy

The remuneration policy for the Bank's managers is aimed to support in an optimal way the fulfilment of the company's business objectives and to ensure its long-term stability. The remuneration policy is established in accordance with UniCredit Group's general principles of remuneration and consists of the basic salaries policy, the "Management by Objectives (MBO)" variable remuneration system, and the benefits system.

Board of Directors

The Remuneration Committee of the Supervisory Board approves the remuneration policy for members of the Board of Directors on the basis of the supporting materials submitted by the Human Resources Division and prepared in co-operation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group.

The remuneration to members of the Board of Directors is set as a fixed amount that is paid monthly. In accordance with the Banking Act, the members of the Board of Directors are also executive managers of the Bank who manage particular divisions on the basis of an employment contract in accordance with the Labour Code. According to this contract, they are entitled to monthly payment of a basic contractual salary, salary compensations and an annual variable bonus. The remuneration to members of the Board of Directors amounted to 50% of the contractual salary established in the employment contract of the respective executive manager.

Contractual salaries

The contractual salaries are defined on the basis of the value of a job position within the classification system of top managing positions in UniCredit Group, the key abilities of the executive manager, and a market comparison with other entities on the financial and banking markets in the Czech Republic.

The particular amounts of the contractual salaries of the Bank's individual executive managers are approved by the Remuneration Committee of the Supervisory Board each year on the basis of the supporting materials submitted by the Human Resources Division and prepared in co-operation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group.

Remuneration to the Bank's foreign executive managers is provided by the parent company. The related remuneration costs are included in the remuneration summary.

Variable annual bonuses

The MBO variable annual remuneration system is based on the executive managers' individually established performance objectives and their regular evaluation each year. The performance objectives are closely related to the Bank's results for the given calendar year and, at the same time, are derived from UniCredit Group's goals. Their fulfilment is evaluated using measurable parameters, which include, for example:

- operating revenues of the Bank or the segment for which the executive manager is responsible,
- economic profit on the principle of the Economic Value Added (EVA) indicator,
- the Bank's costs of risk associated with Risk-Weighted Assets (RWA), or the costs of risk of the segment for which the executive manager is responsible,
- operating cost indicators.

The MBO component of the executive managers includes the so-called "team targets", which are defined by the Bank's net profit after tax or, as the case may be, by net profit of the Central and Eastern Europe division of the UniCredit Group in the given calendar year.

Each of the aforementioned parameters has a percentage weight in relation to the total MBO result of the respective executive manager. Furthermore, the minimum (80%), mean (100%) and maximum (120%) values of the expected fulfilment of MBO are established, where the mean value is a parameter of the Bank's budget approved by the shareholder for the given calendar year. The variable components of the executive managers' incomes calculated according to the MBO principles amounts to 45–70% of their contractual salaries, depending on the actual values of the final fulfilment. In a case that an executive manager does not fulfil the total minimum value of his or her MBO, no annual variable bonus is paid to him or her for the period of evaluation.

The Supervisory Board's Remuneration Committee approves individual variable annual bonuses of the Bank's executive managers on the basis of the supporting materials submitted by the Human Resources Division and prepared in co-operation with the Personnel Department of the Central and Eastern Europe division of UniCredit Group and after the control by the central controlling department of the Central and Eastern Europe division of UniCredit Group as to whether the MBO parameters have been fulfilled.

Benefits

Benefits are defined in accordance with the priorities of UniCredit Group's human resource strategy and the classification of the manager's position in a pre-defined employee benefits category.

- The following employee benefits are provided to executive managers by virtue of their employment with the Bank: employer's contribution to supplementary pension insurance, employer's contribution to capital life insurance, compensation for child's education costs.
- By virtue of their managerial position, executive managers are provided

a company car for business as well as private purposes, a contribution to fuel for private purposes and a contribution to purchasing employee shares in UniCredit Group.

- In accordance with the standards for relocating top managers in UniCredit Group to a foreign country, and by virtue of their temporary relocation to the Czech Republic from other companies within UniCredit Group, foreign executive managers draw contractual fulfilment associated with their long-term stays abroad.

The aforementioned benefits are provided in the form of non-monetary fulfilment, and their aggregate amount is included in the remuneration summary.

Supervisory Board

Members of the Supervisory Board are not entitled to remuneration for executing their offices. The remuneration to members of the Supervisory Board stated in the remuneration summary comprises the incomes received by three members of the Supervisory Board who are employed with the Bank and who received the payments by virtue of their employment contracts in accordance with the Labour Code. The remaining members of the Supervisory Board are not remunerated by the issuer.

The principles of remuneration to members of the Supervisory Board and the components of their remuneration, which are paid to them by virtue of their employment contracts, are identical to the principles of remuneration to members of the Board of Directors. Nevertheless, in this case the remuneration policy is approved by the Bank's Board of Directors at the proposal of the Bank's Human Resources Division and the benefits are provided in accordance with the valid Collective Agreement concluded between the Bank and its trade union.

2.9 Information on remuneration paid to auditors on behalf of the issuer and separately on behalf of the consolidated unit in the reporting period

	On behalf of the issuer		UniCredit Factoring, s.r.o.	On behalf of the consolidated unit		Total
(In CZK)	Tax advisory	Audit	Audit	Tax advisory	Audit	
KPMG	434,143	16,639,000	416,500	434,143	17,055,500	17,489,643
Deloitte Touche	826,253	0	0	826,253	0	826,253
Price Waterhouse	229,291	0	0	229,291	0	229,291
Ernst Young	480,463	0	0	480,463	0	480,463
Total	**1,970,150**	**16,639,000**	**416,500**	**1,970,150**	**17,055,500**	**19,025,650**

Detail of the item audit on behalf of the issuer for KPMG Česká republika Audit, s.r.o.

Payments made during 2008 for services concerning the following accounting periods:	**Audit**	**Other review services**	**Total**
Accounting period from 1 October 2006 to 31 December 2007	2,075	1,335	**3,410**
Accounting period from 1 January 2008 to 31 December 2008	11,324	1,905	**13,229**
Total			**16,639**

2.10 Major investments (in CZK 000)

Type of investment	2008	2007	1 October 2006
Securities	**41,863,751**	**50,599,085**	**38,212,524**
Thereof:			
Capital instruments for trading	20,501	87,472	553
Debt securities for trading	9,094,847	14,264,065	4,917,709
Capital instruments at fair value through profit or loss	2,821,644	2,902,643	2,561,460
Debt securities at fair value through profit or loss	4,660,313	6,459,616	3,631,035
Capital instruments available-for-sale	16,038	22,289	39,133
Debt securities available-for-sale	25,249,645	26,741,519	27,062,634
Interests in associated and controlled entities and in joint ventures	763	763	432,987
Debt securities held to maturity	0	0	0

All data, except for the year 2006, are as at 31 December of the relevant year and stated in CZK thousands. With the exception of financial investments, all of UCB's investments are of an operating nature. The investments are mostly made in the Czech Republic and are not therefore broken out geographically. Ownership interests that are not securities (i.e. interests in limited liability companies) are not included.

Investments into information technologies (IT) are not reported by the Bank directly. IT services are purchased on an outsourcing basis, and their extent and parameters are specified by contract and included into operating costs.

2.11 Major future investments other than financial investments (planned for 2009)

Other investments (other than financial investments) CZK 160,443,000

2.12 Guarantees provided by the issuer

(In CZK 000)	31 December 2008	31 December 2007	1 October 2006
Guarantees provided	23,156,545	18,823,027	14,664,257
Guarantees provided under L/Cs	670,364	944,944	1,871,900
Total	**23,826,909**	**19,767,970**	**16,536,157**

2.13 Revenues in the last two accounting periods

(In CZK 000)	31 Dec 2008	31 Dec 2007
Interest income and similar income	12,723,405	12,329,510
Income from shares and participation interests	252,651	251,709
Commission and fee income	3,240,004	4,274,630
Total gross income	**16,216,060**	**16,855,849**

There is no item known as "revenues" in the financial statements of banks. The issuer is of the opinion that the total gross income (i.e. "Interest income and similar income" + "Income from shares and participation interests" + "Commission and fee income") can be considered equivalent to this indicator. The data as at 31 December 2007 is for the period of fifteen months from 1 October 2006 to 31 December 2007.

2.14 Issuer's direct and indirect participation interests exceeding 10%

Company:	**CBCB-Czech Banking Credit Bureau, a.s.**
Registered office:	Na Příkopě 1096/21, Prague 1
Company identification no.:	26199696
Subject of business:	Provision of software, Consultancy regarding hardware and software, Automatic data processing, Database services, Administration of computer networks.
Subscribed share capital:	CZK 1,200,000
Amounts and types of provisions as at 31 December 2008:	The company does not publish financial statements.
Net profit for 2008:	The company does not publish financial statements.
UCB's ownership in the company's share capital:	20% (fully paid up)
Income in 2008 from the ownership interest:	CZK 508,380
Company:	**CAE PRAHA a.s. in liquidation**
Registered office:	nám. Kinských 602, Prague 5
Company identification no.:	43004580
Subject of business:	Lease of real estate, apartments and non-residential premises, without providing other than basic services; ensuring proper administration of real estate, apartments and non-residential premises
Subscribed share capital:	CZK 4,396,000
Amounts and types of provisions as at 31 Dec 2008:	CZK 0
Loss for 2008:	CZK -13,000
UCB's ownership in the company's share capital:	100%
Income in 2008 from the ownership interest:	CZK 0

Company:	**UniCredit Factoring, s.r.o.**
Registered office:	Italská 24/1583, Prague 2
Company identification no.:	27182827
Subject of business:	Business, financial and economic consultancy; Services in the area of administrative management and services of an organisational and economic nature with natural persons and legal entities.
Subscribed share capital:	CZK 150,000,000
Amounts and types of provisions as at 31 Dec 2008:	Mandatory reserve fund: CZK 27,868
Loss for 2008:	CZK -240,181,863.74
UCB's ownership in the company's share capital:	100% (fully paid up)
Income in 2008 from the ownership interest:	CZK 0

2.15 General outline of trends in the issuer's activity from 31 December 2008 onward

The Bank is maintaining its position as one of the leading banks delivering comprehensive services to corporate clients based on detailed knowledge of the clients' needs, tailored solutions and individualised client care. The Bank retains its traditionally strong position in the segment of financing foreign trade transactions and in project and structured financing. The Bank also maintains a significant market share in financing of commercial real estate, and it continues to develop its operations in the segment of small and medium-sized companies.

In the private and business clients segment, and in line with its strategy, the Bank offers high-quality services and products that meet the individual needs of the clients, including personal consultancy services. The principal targets of this segment are individuals from the so-called "Urban Money Class" (i.e. creditworthy urban clientele), as well as members of the so-called "freelance professions", other entrepreneurs and small companies. For these clients, the Bank has designated a coherent range of products: bank accounts and other transaction products, including direct banking, payment and credit cards, loans and other forms of financing, and a complete portfolio of investment products. Together with the branch network, for selected products and services there are also alternative possibilities for access to the Bank's services in cooperation with associated companies and a network of strategic partners.

3. Activities

3.1 Key activities

Corporate clients

- Credit transactions
- Financing commercial real estate
- Project financing and structured financing
- Trade and export financing
- Documentary transactions
- Treasury & custody services
- Asset management
- EU funds
- Maintaining accounts and deposits
- Payment systems
- Electronic banking
- Direct banking
- SWIFT services
- Cash pooling
- Payment cards
- Card acquiring
- Trading on the Prague Energy Exchange

Private clientele and business clientele

- Personal accounts and packages – Konto POHODA, Konto MOZAIKA, Konto KOMPLET, Konto EXKLUSIVE, and Student Konto
- Business accounts and packages – BUSINESS Konto, Konto DOMOV (an account for housing co-operatives and owners associations), and Konto PROFESE and Konto PROFESE – Aesculap (accounts for freelancers),
- Mortgages, personal loans and overdrafts for private clientele
- Operating capital, investment and mortgage loans for business clientele
- Payment cards including insurance (debit, credit and partnership)
- Deposit, savings and investment products (the Bank's own or in co-operation with Pioneer Investments)
- Internet, telephone and mobile banking
- Cash and money changing operations and supporting services
- Asset management and Art Banking

Launching new products or activities

Deposits and investments

In the securities area, clients were offered additional variants of their favourite structured bonds. These included GREEN TECHNOLOGIES

I./2011 and GREEN TECHNOLOGIES II./2011.
In the deposit products area, a new product was offered – the Maxim deposit guaranteed for 6 months at the rate of up to 4%.

Credit cards

Our co-operation with AXA insurance company, through a unique loyalty concept coupled with supplementary pension insurance, has proven very successful. Our co-operation with the Czech airline ČSA was renewed, and thus it is now possible to obtain a new Visa ČSA credit card together with select personal accounts. The Visa Classic credit card with CHARITY option, which offers the possibility to select a foundation that UniCredit Bank then supports from clients' payments, now can be offered not only to existing clients, but also to new clients.

Direct banking

From 1 April 2008, we began to offer to our clients a new method of internet banking security by means of a mobile security token. This constitutes another concrete step toward preventing any misuse of a client's sensitive information.

ATMs

Since July 2008, clients of UniCredit Bank have been able to withdraw cash from more than 15,000 ATMs in 16 European countries in UniCredit Group under the same conditions as in the Czech Republic. This means that the majority of clients – holders of personal or business accounts – pay no fee for their withdrawals.

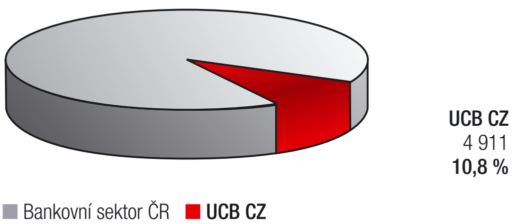
Branch network

At the close of 2008, the Bank opened new branches in Frýdek-Místek and Cheb and thus began to fulfil its strategy of gradually extending the branch network in the Czech Republic.

3.2 Competitive position of the issuer

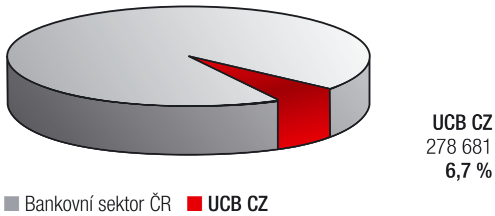
i. Profit after tax

Profit after tax (in CZK millions)	**For year ending 31 December 2008**
Czech banking sector	45,479
UCB CZ	4,911
	10.80%



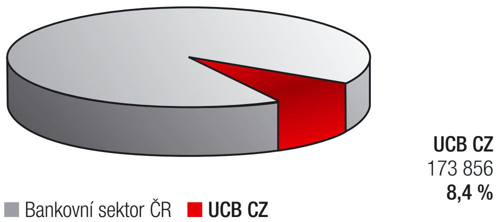
ii. Total assets

Total assets (in CZK millions)	**For year ending 31 December 2008**
Czech banking sector	4,156,603
UCB CZ	278,681
	6.70%



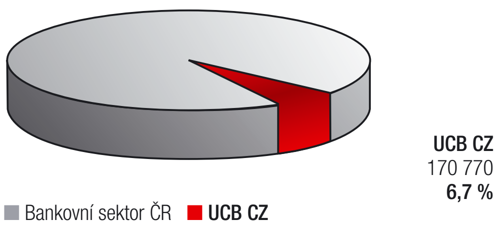
iii. Receivables from clients

Receivables from clients (in CZK millions)	**For year ending 31 December 2008**
Czech banking sector	2,075,690
UCB CZ	173,856
	8.38%



iv. Deposits from clients

Deposits from clients (in CZK millions)	**For year ending 31 December 2008**
Czech banking sector	2,566,786
UCB CZ	170,770
	6.65%



3.3 Risk factors

Risk factors are described in detail in the Notes to the non-consolidated and consolidated financial statements.

Development of credit risk in 2009

At the beginning of 2009, the Bank recorded an increase in the costs of credit risks, especially for debtors included in the segment of small and medium-sized enterprises. As a clear impact of the cooling of the economy and the manifestations of the economic recession, debtors' ratings have worsened for the majority of the credit portfolio. In several individual cases, even debtors' solvency has worsened quite rapidly, as expressed by reclassification of the respective credit exposures from the status "watch" to the category of receivables with repayment at risk (and including debtors in bankruptcy). To express the impact on the Bank's result in more concrete terms, impairment of loans and receivables for the first two months of 2009 totalled CZK 360 million, in comparison with CZK 123 million for the same period of the previous year. Considering the continuously worsening outlook for economic development in 2009 and the related worsening of the solvency of debtors, and in particular legal entities, a similar trend in the development of credit risk costs can be expected in the coming months. It is difficult, however, to quantify these expectations more specifically due to, among other reasons, the non-existence of a comparable situation in the past 19 years of the Czech economy's development. Nevertheless, the Bank's dependence on overall economic development is high due to its significant share in financing larger and medium-sized enterprises as well as revenue-generating real estates.

In response to the considerable change in market conditions in the second half of 2008, which together with the worsening of the real economy's performance is very likely to lead to an increase in the portfolio's credit risk, the Bank adopted numerous measures, including, for example:

- A one-time extraordinary check of all the Bank's largest credit exposures ("Liquidity Check");
- Tightening of the credit policy for financing commercial real estate;
- Introducing concentration limits in relation to individual economically connected groups of debtors, depending on the annual probability of failure of the respective group;
- Tightening and refining of the process for regular reviews of existing credit cases ("review");
- Tightening the correction coefficients used to determine the material value of select types of pledged real estate;
- Tightening the conditions for providing loans in certain industries; and
- Changes in certain product parameters for credit products in retail banking.

3.4 Registered office of the issuer's organisational unit and description of real estate owned by the issuer

UniCredit Bank Czech Republic a.s. has neither external operations nor separate organisational units.

UniCredit Bank owns eight real estate properties:

Brno
Lidická 59
Divadelní 545/2

Prague
Na Příkopě 858/20
Revoluční 17/764
nám. Republiky 3a/2090

Liberec
Široká 5/28

České Budějovice
Nám. Přemysla Otakara II 122/35

Cottage in Horní Malá Úpa, House No. 2, Postal Code 542 27

3.5 Licences and trademarks

UniCredit Bank makes use of several dozen trademarks for designating and protecting its products in the banking market. These have been registered as owned by the Bank at the Industrial Property Office of the Czech Republic. At present, the Bank has approximately an additional 10 trademark applications in process for entry to the register.

3.6 Judicial, administrative and arbitration proceedings

UniCredit Bank is not and, during the accounting period, was not involved in any government, judicial or arbitration proceedings that could have or recently had a significant impact on the financial situation or profitability of the issuer or its Group.

3.7 Loans outstanding and other liabilities

Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	HypoVereinsbank CZ a.s.
Loan amount:	CZK 940,000,000
Interest rate:	PRIBOR – 0.05%
Loan date:	15 Jun 1999
Maturity date:	15 Mar 2009
Collateral:	No collateral*
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	HypoVereinsbank CZ a.s.
Loan amount:	CZK 677,000,000
Interest rate:	PRIBOR – 0.05%
Loan date:	15 Dec 2000
Maturity date:	15 Mar 2009
Collateral:	No collateral*
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	Bank Austria Creditanstalt Czech Republic, a.s.
Loan amount:	EUR 25,000,000
Interest rate:	EIB POOL RATE**
Loan date:	15 Jun 2001
Maturity date:	15 Jun 2009
Collateral:	No collateral*
Creditor:	**Evropská investiční banka, Luxemburg**
Debtor:	HVB Bank Czech Republic a.s.
Loan amount:	USD 50,000,000 and EUR 54,392,046
Interest rate:	EIB POOL RATE**
Loan date:	17 Mar 2003
Maturity date:	15 Mar 2011
Collateral:	No collateral*

*) Bayerische Hypo- und Vereinsbank AG, Munich, originally issued a guarantee for EIB with regard to all loans to HypoVereinsbank Czech Republic a.s. However, this guarantee was transferred to UniCredit Bank Austria AG, Vienna. Bank Austria AG, Vienna, originally issued a guarantee for EIB regarding all loans to Bank Austria Creditanstalt Czech Republic, a.s. and to HVB Bank Czech Republic, a.s., and this guarantee was transferred to Bank Austria Creditanstalt AG, Vienna. Presently, all loans are guaranteed by UniCredit Bank Austria AG, Vienna.

**) EIB POOL RATE is an interest rate fixed by EIB on a quarterly basis.

Total amount of loans as at 31 December 2008 (converted at CNB's exchange rates valid as at 31 December 2008) CZK 4,722,327,799

3.8 Significant change in the issuer's financial situation

Since the date of presenting the audited financial statements for the year ended 31 December 2008, no significant change has occurred in the financial situation of the issuer or the Group.

3.9 Significant contracts

The Bank has concluded no contracts that could cause an obligation or a claim to arise to any member of the Group that would be material as to the issuer's ability to fulfil its obligations to securities holders on the basis of the securities issued.

3.10 Third parties' information and experts' declarations and declarations on any interests

The annual report does not include any declaration or report of an entity acting as an expert. Moreover, no information comes from a third party, unless expressly stated otherwise.

3.11 Documents presented

The full wording of the issuer's mandatory audited financial statements, including notes and auditor's reports, is available for inspection upon request during business hours at the issuer's registered office, as well as on the issuer's web site.

Also available at the same locations are other annual and semi-annual reports as well as quarterly mandatory information. Any other documents and materials mentioned in the prospectus related to the issuer, as well as in the issuer's Foundation Deed and Articles of Association, are also available for inspection at the issuer's registered office.

4. Statement on the accuracy of the data in the annual report

The Board of Directors hereby declares that the data included in the annual report reflect the actual situation and that no substantial circumstances that might affect the accurate and correct assessment of the Bank as an issuer of securities have been omitted or distorted.

Report on relations between the controlling and controlled entities

and on relations between the controlled entities and other entities controlled by the same controlling entity

In accordance with Section 66a, para. 9 of Act No. 513/1991 Coll., the Commercial Code, as subsequently amended, the Board of Directors of **UniCredit Bank Czech Republic, a.s.**, having its registered address at Prague 1, Na Příkopě 858/20, company identification no. 64948242, entered into the Commercial Register administered by the Municipal Court in Prague, Section B, file 3608 ("UniCredit Bank"), has compiled a **report on relations** for the **accounting period from 1 January 2008 to 31 December 2008** (hereinafter just the "period"). UniCredit Bank was, throughout the whole of the aforementioned accounting period, controlled by **UniCredit Bank Austria AG** (formerly Bank Austria Creditanstalt AG), having its registered address at Schottengasse 6-8, 1010 (formerly Vordere Zollamtsstrasse 13, 1030) Vienna, Austria.

Inasmuch as the controlling entity is the sole shareholder of the controlled entity, this report shall not be reviewed pursuant to Section 66a, para. 16 of the Commercial Code by the Supervisory Board of the Bank. During the period, UniCredit Bank controlled the companies UniCredit Factoring, s.r.o., company identification no. 27182827, having its registered address at Prague 2, Italská 24/1583, Postal Code 12000; CAE Praha a.s. in liquidation, company identification no. 43004580, having its registered address at Prague 5, Nám. Kinských 602, Postal Code 15000; and HYPO Stavební spořitelna a.s., company identification no. 61858251, Prague 1, Nové Město, Senovážné náměstí 27, Postal Code 11000.

1. Contracts concluded between UniCredit Bank and connected entities in the accounting period from 1 January 2008 to 31 December 2008:

1.1 The following contracts were concluded between UniCredit Bank and **UniCredit Bank Austria AG** in the accounting period from 1 January 2008 to 31 December 2008:

Contract title	Subject of contract	Date of conclusion
Service Level Agreement	Administration and risk evaluation of netting agreements	5 Sep 2008
Amendment No. 2 to the Unfunded Risk Participation Agreement	Increase in accepted participation risk from EUR 16 million to EUR 25 million, in relation to the increase in a loan by an amendment concluded between UCB CZ and the client	29 Apr 2008

1.2 The following contracts were concluded between UniCredit Bank and the **Pioneer** Group in the accounting period from 1 January 2008 to 31 December 2008:

Pioneer investiční společnost, a.s.

Contract title	Subject of contract	Date of conclusion
Contract on the performance of activities in connection with offering participation certificates	Distribution of participation certificates for Pioneer domestic mutual funds	1 Apr 2008

Pioneer Asset Management, a.s.

Contract title	Subject of contract	Date of conclusion
Contract on promoting the product RENTIER INVEST – Amendment No. 1	Amendment to the provisions implementing the European MiFID directive	27 Nov 2008

1.3 The following contracts were concluded between UniCredit Bank and **UniCredit Leasing CZ, a.s.** in the accounting period from 1 January 2008 to 31 December 2008:

Contract title	Subject of contract	Date of conclusion
Cooperation Agreement	Exchange of information about the interest of the clients of one party n the products of the other party	19 Dec 2008

Report on relations between the controlling and controlled entities (Continued)

and on relations between the controlled entities and other entities controlled by the same controlling entity

1.4 The following contracts were concluded between the companies UniCredit Bank and **UniCredit Factoring, s.r.o.** in the accounting period from 1 January 2008 to 31 December 2008:

Contract title	Subject of contract	Date of conclusion
Agreement on provision of services	Provision of UCF's specialised services	18 Feb 2008

1.5 The following contracts were concluded between UniCredit Bank and **Diners Club CEE Holding AG** in the accounting period from 1 January 2008 to 31 December 2008:

Contract title	Subject of contract	Date of conclusion
Contract on establishing a right of lien on a receivable from a term deposit maintained at the Bank, no. 1165/08-883/08-120	Establishing a right of lien in favour of the Bank to secure its receivables from the Debtor	18 Dec 2008

1.6 The following contracts were concluded between UniCredit Bank and **Diners Club Czech, s.r.o** in the accounting period from 1 January 2008 to 31 December 2008:

Contract title	Subject of contract	Date of conclusion
Loan Agreement reg. no. 883/08-120	Credit line in the maximum amount of CZK 50,000,000	18 Dec 2008
Contract on establishing a right of lien on a receivable from a term deposit maintained at the Bank, no. 1164/08-883/08-120	Establishing a right of lien in favour of the Bank to secure its receivables from the Debtor	18 Dec 2008
Loan agreement reg. no. 812/08-120	Credit line in the maximum amount of CZK 25,000,000	13 Nov 2008
Contract on establishing a right of lien on a receivable from a term deposit maintained at the Bank, no. 1069/08-812/08-120	Establishing a right of lien in favour of the Bank to secure its receivables from the Debtor	13 Nov 2008
Amendment No. 2 to Loan Agreement reg. no. R1 07 02 05 dated 11 Apr 2007	Revolving multi-purpose line	18 Apr 2008
Amendment No. 3 to Loan Agreement reg. no. R1 07 02 05 dated 11 Apr 2007	Revolving multi-purpose line	5 Jun 2008
Amendment No. 4 to Loan Agreement reg. no. R1 07 02 05 dated 11 Apr 2007	Revolving multi-purpose line	25 Sep 2008
Amendment No. 5 to Loan Agreement reg. no. R1 07 02 05 dated 11 Apr 2007	Revolving multi-purpose line	17 Dec 2008

and on relations between the controlled entities and other entities controlled by the same controlling entity

1.7 In addition to the aforementioned contracts, in the accounting period from 1 January 2008 to 31 December 2008 UniCredit Bank concluded inter-bank, derivative and other transactions with related entities under usual trading terms and conditions.

1.8 No contracts were concluded between UniCredit Bank and other related entities in the accounting period from 1 January 2008 to 31 December 2008.

2. Performance provided in the accounting period from 1 January 2008 to 31 December 2008 by UniCredit Bank with related entities and their **consideration:**
The Board of Directors of UniCredit Bank declares that, in the accounting period from 1 January 2008 to 31 December 2008, all performance and consideration between UniCredit Bank and its related entities were provided through usual business relationships or under usual trading terms and conditions.

3. Other legal acts that were undertaken by UniCredit Bank in the interest of related entities:
The Board of Directors of UniCredit Bank declares that UniCredit Bank did not, in the accounting period from 1 January 2008 to 31 December 2008, undertake in the interest of related entities other legal acts, apart from those within the scope of usual legal acts in connection with usual business relationships or, as the case may be, of usual legal acts effected by UniCredit Bank within the usual exercise of the rights of UniCredit Bank Austria AG as the sole shareholder of UniCredit Bank.

4. Other measures that were adopted or taken by UniCredit Bank in the interest of, or at the instigation of, related entities, and their benefits and disadvantages:
The Board of Directors of UniCredit Bank declares that UniCredit Bank did not, in the accounting period from 1 January 2008 to 31 December 2008, adopt or execute any measure in the interest of, or at the instigation of, related entities outside of those within the scope of usual business relationships or, as the case may be, of the usual exercise of the rights of UniCredit Bank Austria AG as the sole shareholder of UniCredit Bank.

5. Detriment to UniCredit Bank from contracts concluded and measures:
The Board of Directors of UniCredit Bank declares that no detriment resulted for UniCredit Bank from the contracts concluded and other measures.

In Prague on 29 April 2009

On behalf of the Board of Directors of UniCredit Bank Czech Republic, a.s.

Ing. Jiří Kunert
Chairman of the Board of Directors

Ing. Aleš Barabas
Member of the Board of Directors

Board of Directors, Supervisory Board

MEMBERS OF THE BOARD OF DIRECTORS AS AT 31 DECEMBER 2008:

Chairman of the Board of Directors:	**Ing. Jiří Kunert** Born: 31 January 1953 Prague 6, Bubeneč, Pod Kaštany 1107/19, Postal Code 160 00 Date of appointment to the office: 5 November 2007 Date of appointment to the Board of Directors: 1 April 2007
Vice-chairman of the Board of Directors:	**Ing. David Grund** Born: 24 February 1955 Šestajovice, K lukám 702 Date of appointment to the office: 5 November 2007 Date of appointment to the Board of Directors: 1 October 2001
Member of the Board of Directors:	**Dr. Peter Koerner** Born: 18 May 1959 A-1180 Vienna, Pötzleinsdorf Höhe 33 Austria Date of appointment to the Board of Directors: 1 December 2004
Member of the Board of Directors:	**Ing. Aleš Barabas** Born: 28 March 1959 Prague 4, U Dubu 1371, Postal Code 140 00 Date of appointment to the Board of Directors: 1 April 2007

MEMBERS OF THE SUPERVISORY BOARD AS AT 31 DECEMBER 2008:

Chairman of the Supervisory Board:	**Carlo Vivaldi**, Born: 2 December 1965 Vienna, Köhlergasse 17, Postal Code A-1180 Austria Date of appointment to the office: 5 December 2007 Date of appointment as member of the Supervisory Board: 5 November 2007
Vice-chairman of the Supervisory Board:	**Carmine Ferraro**, Born: 14 December 1944 Monza (MI), Via Monviso 33, Postal Code 200 52 Italy Date of appointment to the office: 28 March 2007 Date of appointment as member of the Supervisory Board: 28 March 2007
Member of the Supervisory Board:	**Heinz Meidlinger**, Born: 6 September 1955 Kalmusweg 46/Haus 107, 1220 Vienna Austria Date of appointment as member of the Supervisory Board: 30 July 2001
Member of the Supervisory Board:	**JUDr. Ivana Burešová**, Birth No.: 536011/301 Prague 1, Dlouhá 714/36, Postal Code 110 00 Date of appointment as member of the Supervisory Board: 18 June 2008
Member of the Supervisory Board:	**Eva Mikulková**, Birth No.: 575129/1425 Kladno, Kročehlavy, Dlouhá 512, Postal Code 272 01 Date of appointment as member of the Supervisory Board: 18 June 2008
Member of the Supervisory Board:	**Ing. Pavel Šlambor**, Birth No.: 720312/0903 Prague 5, Černošická 614, Postal Code 155 31 Date of appointment as member of the Supervisory Board: 18 June 2008

Member of the Supervisory Board:	**Carlo Marini**, Born: 23 March 1968 Piacenza, Str. Ne Farnese 81, Postal Code 291 00 Italy Date of appointment as member of the Supervisory Board: 5 November 2007
Member of the Supervisory Board:	**Graziano Cameli**, Born: 18 August 1967 Trieste, Strada Costiera 31, 34136 Italy Date of appointment as member of the Supervisory Board: 29 April 2008
Member of the Supervisory Board:	**Gerhard Deschkan**, Born: 20 February 1967 Matzingerstraße 11/11 A-1140 Vienna, Austria Date of appointment as member of the Supervisory Board: 19 December 2008

MEMBERS OF THE BOARD OF DIRECTORS WHO RESIGNED FROM THEIR OFFICES BETWEEN 1 JANUARY 2008 AND 31 DECEMBER 2008:

Member of the Board of Directors:	**Massimiliano Fossati** Born: 30 January 1968 Bussero, Via J.Kennedy 11/B, 200 60 Italy Date of appointment to the Board of Directors: 1 February 2008 Date of resignation from the Board of Directors: 5 September 2008

MEMBERS OF THE SUPERVISORY BOARD WHO RESIGNED FROM THEIR OFFICES BETWEEN 1 JANUARY 2008 AND 31 DECEMBER 2008:

Member of the Supervisory Board:	**Thomas Gross**, Born: 17 August 1965 Starnberg-Söcking, Bründlwiese 1, Postal Code 823 19 Germany Date of appointment as member of the Supervisory Board: 28 March 2007 Date of resignation from the office: 18 December 2008
Member of the Supervisory Board:	**JUDr. Jaroslava Laurová**, Birth No.: 595902/1068 Prague 5, Amforová 1886, Postal Code 155 00 Date of appointment as member of the Supervisory Board: 3 June 2003 Date of resignation from the office: 3 June 2008
Member of the Supervisory Board:	**Ing. Pavel Šlambor**, Birth No.: 720312/0903 Prague 5, Černošická 614, Postal Code 155 31 Date of appointment as member of the Supervisory Board: 21 April 2004 Date of resignation from the office: 30 May 2008
Member of the Supervisory Board:	**Ing. Jakub Stárek**, Birth No.: 720918/0165 Prague 4, Kamýk, Otradovická 731/11, Postal Code 140 00 Date of appointment as member of the Supervisory Board: 15 November 2006 Date of resignation from the office: 30 May 2008
Member of the Supervisory Board:	**Elena Patrizia Goitini**, Born: 15 June 1969 Milan, Via Fiori Chiari 14, Postal Code 201 25 Italy Date of appointment as member of the Supervisory Board: 5 November 2007 Date of resignation from the office: 28 April 2008

Branches

Unicredit Bank Czech Republic, a.s.
Na Příkopě 858/20
111 21 Prague 1
Tel.: +420 224 121 111
Fax: +420 224 122 282

PRAGUE – NA PŘÍKOPĚ
Na Příkopě 858/20
111 21 Prague 1
Tel.: 224 121 111
Fax: 224 122 282

PRAGUE – VÁCLAVSKÉ NÁMĚSTÍ
Václavské náměstí 815/53
110 00 Prague 1
Tel.: 221 015 323
Fax: 221 015 320

PRAGUE – NÁM. REPUBLIKY
nám. Republiky 3a
110 00 Prague 1
Tel.: 221 119 611
Fax: 221 119 622

PRAGUE – NA POŘÍČÍ
Na Poříčí 1933/36
110 00 Prague 1
Tel.: 224 809 023–4
Fax: 234 809 020

PRAGUE – KARLÍN
Thámova 84/23
180 00 Prague 8
Tel.: 222 335 012
Fax: 222 335 020

PRAGUE – REVOLUČNÍ
Revoluční 7
110 05 Prague 1
Tel.: 221 119 768
Fax: 221 119 796

PRAGUE – HOLEŠOVICE
Komunardů 883/24
170 00 Prague 7
Tel.: 266 199 123
Fax: 266 199 120

PRAGUE – STROSSMAYEROVO NÁM.
Pplk. Sochora 693/23
170 00 Prague 7
Tel.: 224 300 111
Fax: 224 300 120

PRAGUE – KOBYLISKÉ NÁMĚSTÍ
Horňátecká 447/1
180 00 Prague 8
Tel.: 286 028 114
Fax: 286 028 120

PRAGUE – PALÁC ADRIA
Jungmannova 31
110 00 Prague 1
Tel.: 221 113 100
Fax: 221 113 101

PRAGUE – LAZARSKÁ
Spálená 82/4
110 00 Prague 1
Tel.: 224 900 311
Fax: 224 900 320

PRAGUE – HAVELSKÁ
Havelská 19
110 00 Prague 1
Tel.: 221 113 511
Fax: 221 153 501

PRAGUE – PANKRÁC
Na Pankráci 58
140 00 Prague 4
Tel.: 224 011 910
Fax: 224 011 920

PRAGUE – BUDĚJOVICKÁ
Olbrachtova 1946/64
140 00 Prague 4
Tel.: 261 393 011
Fax: 261 393 020

PRAGUE – VALDEK
Jugoslávská 29
120 00 Prague 2
Tel.: 221 119 721
Fax: 221 159 722

PRAGUE – TYLOVO NÁMĚSTÍ
Jugoslávská 479/10
120 00 Prague 2
Tel.: 224 900 413
Fax: 224 900 420

PRAGUE – VINOHRADY
Vinohradská 115
130 00 Prague 3
Tel.: 222 710 510
Fax: 222 710 517

PRAGUE – PALÁC FLÓRA
Vinohradská 151
130 00 Prague 3
Tel.: 221 113 207
Fax: 221 153 205

PRAGUE – EDEN
Vršovická 1398/70
101 00 Prague 10
Tel.: 272 099 310
Fax: 272 099 320

PRAGUE – DEJVICE
Vítězné náměstí 10
160 00 Prague 6
Tel.: 221 113 311–312
Fax: 221 153 301

PRAGUE – DEJVICKÁ
Dejvická 30
160 00 Prague 6
Tel.: 233 113 814
Fax: 233 113 819

PRAGUE – ARBES
Štefánikova 32
150 00 Prague 5
Tel.: 221 113 000
Fax: 221 153 001

PRAGUE – ANDĚL
Štefánkova 281/4
150 00 Prague 5
Tel.: 251 091 014
Fax: 251 091 020

PRAGUE – VINOHRADY
Italská 24, P.O. BOX 48
121 49 Prague 2
Tel.: 221 119 687
Tel.: 221 119 130 (corporate banking)
Fax: 221 119 672

ÚSTÍ NAD LABEM
Mírové nám. 35A
400 01 Ústí nad Labem
Tel.: 474 445 559
Tel.: 221 117 416 (corporate banking)
Fax: 221 157 401

TEPLICE
Nám. Svobody 40/1
415 01 Teplice
Tel.: 417 590 314
Fax: 417 590 320

KARLOVY VARY – TGM
Zeyerova 892/7
360 01 Karlovy Vary
Tel.: 353 108 111
Fax: 353 108 108

KARLOVY VARY
Moskevská 10
360 01 Karlovy Vary
Tel.: 353 221 521
Tel.: 221 117 217 (corporate banking)
Fax: 353 228 208

CHOMUTOV
Revoluční 36/Husovo nám.
430 01 Chomutov
Tel.: 474 611 411–413
Tel.: 221 117 311 (corporate banking)
Fax: 474 611 420

CHEB
Svobody 520/3
350 02 Cheb
Tel.: 221 117 900
Fax: 221 157 900

LIBEREC – MOSKEVSKÁ
Moskevská 638/8
460 01 Liberec 1
Tel.: 485 105 267
Fax: 485 252 720

LIBEREC – ŠIROKÁ
Široká 5/28
460 01 Liberec 1
Tel.: 485 395 111
Fax: 485 395 421

MLADÁ BOLESLAV
Českobratrské nám. 1321
293 01 Mladá Boleslav
Tel.: 326 721 837–842
Fax: 326 721 845

PILSEN – NÁMĚSTÍ REPUBLIKY
nám. Republiky/Riegrova 1
301 01 Pilsen
Tel.: 377 196 111
Tel.: 221 117 029 (corporate banking)
Fax: 221 159 600

PILSEN – AMERICKÁ
Americká 72
301 50 Pilsen
Tel.: 377 194 210
Fax: 377 194 220

HRADEC KRÁLOVÉ – ULRICHOVO NÁMĚSTÍ
Ulrichovo náměstí 854
500 02 Hradec Králové
Tel.: 221 117 706
Tel.: 495 000 135 (corporate banking)
Fax: 495 512 550

HRADEC KRÁLOVÉ – KARLA IV.
Karla IV. 522
500 03 Hradec Králové
Tel.: 495 540 414
Fax: 495 540 420

PARDUBICE – GRAND
Třída Míru 1400
530 01 Pardubice
Tel.: 466 861 314
Fax: 466 861 102

ČESKÉ BUDĚJOVICE – U ZIMNÍHO STADIONU
U Zimního stadionu 3
370 21 České Budějovice
Tel.: 386 100 506
Tel.: 386 100 536 (corporate banking)
Fax: 221 157 101

ČESKÉ BUDĚJOVICE – NÁMĚSTÍ PŘEMYSLA OTAKARA
Nám. Přemysla Otakara II 122/35
370 21 České Budějovice
Tel.: 387 711 111
Fax: 387 711 778

TÁBOR
Třída 9. května 2886
390 02 Tábor
Tel.: 381 201 413
Fax: 381 201 420

PÍSEK
Pražská 286
397 01 Písek
Tel.: 382 780 210
Fax: 382 780 220

BRNO – DIVADELNÍ
Divadelní 2
601 57 Brno
Tel.: 542 515 111
Fax: 542 515 151

JIHLAVA
Masarykovo nám. 54
586 01 Jihlava
Tel.: 221 114 513
Tel.: 221 114 515 (corporate banking)
Fax: 221 154 511

BRNO – KOBLIŽNÁ
Kobližná 2
601 80 Brno
Tel.: 221 114 110
Fax: 221 114 101

Branches (Continued)

BRNO – SPIELBERK OFFICE CENTRE
Holandská 2
639 00 Brno
Tel.: 542 426 111
Fax: 542 426 120

BRNO – LIDICKÁ
Lidická 59
602 00 Brno
Tel.: 221 114 071
Tel.: 221 114 052
Fax: 221 154 002

ZLÍN – BARTOŠOVA
Bartošova 5532
760 01 Zlín
Tel.: 221 114 300
Tel.: 221 114 313 (corporate banking)
Fax: 221 154 301

KROMĚŘÍŽ
Farní 95
767 01 Kroměříž
Tel.: 573 502 512–514
Fax: 573 502 520

OLOMOUC
28. října 15
772 00 Olomouc
Tel.: 221 114 416
Tel.: 221 114 410 (corporate banking)
Fax: 585 223 269

PROSTĚJOV
Náměstí T.G.Masaryka 8
796 01 Prostějov
Tel.: 582 302 077
Fax: 582 302 078

OSTRAVA – SMETANOVO NÁMĚSTÍ
Smetanovo náměstí 1
702 00 Ostrava
Tel.: 596 101 411
Tel.: 596 101 432 (corporate banking)
Fax: 596 112 004

OSTRAVA – 28. ŘÍJNA
28. října 51
702 00 Ostrava
Tel.: 596 207 211–214
Fax: 596 207 220

OSTRAVA – PORUBA
Hlavní tř. 583/99
708 00 Ostrava
Tel.: 596 945 111–113
Fax: 596 945 120

OPAVA
Náměstí Republiky 8
746 01 Opava 1
Tel.: 553 777 612
Fax: 553 777 620

FRÝDEK – MÍSTEK
Pivovarská 2340
738 01 Frýdek-Místek
Tel.: 221 114 600
Fax: 221 154 600

Financial Group UniCredit Bank Czech Republic, a.s.

Structure of the Financial Group UniCredit Bank Czech Republic, a.s. and its consolidation unit

Apart from the parent bank, the financial group UniCredit Bank Czech Republic, a.s. is comprised of UniCredit Factoring, s.r.o. Through this subsidiary, the Group's range of financial services is extended to include, among others, factoring services.

UniCredit Factoring, s.r.o.

UniCredit Bank owns a 100% share of this company. The company offers services in purchasing, financing, administering and collecting accounts receivable.

Key financial characteristics of the company (CZK 000):	31 Dec 2008	31 Dec 2007
Share capital	250,000	100,000
Equity	8,222	98,404
Total assets	1,220,996	1,659,271
Net profit/loss	(240,182)	(2,129)

«Any offering or proposal I prepare for customers or colleagues is always checked by my conscience. I ask myself, “Have I considered all options? Is this the best solution?” I can only commit to my customers and colleagues if the proposal would satisfy me were I standing in their shoes.»

Urska Kolar Stuklek
Slovenia

Consolidated financial statements Key financial indicators on a consolidated basis

(IFRS audited)

(The results are for the year 2008. Certain data for the preceding period of fifteen months from 1 October 2006 to 31 December 2007 are not comparable.)

UniCredit Bank Czech Republic, a.s.		
	1 Jan–31 Dec 2008 **In CZK millions**	**1 Oct 2006–31 Dec 2007** **In CZK millions**
Information about capital		
Tier 1	22,407	20,445
Tier 2	1,000	1,000
Tier 3	–	–
Deductible items	(243)	(264)
Total consolidated capital	23,164	21,181
Information about capital requirements		
Capital requirement for credit risk	16,815	17,038
Capital requirement for settlement risk	–	–
Capital requirement for position, foreign exchange and commodity risk	791	592
Capital requirement for operational risk	852	–
Capital requirement for other trading portfolio instruments	69	–
Key ratios		
Capital adequacy ratio	10.03%	9.61%
Return on average assets	1.7%	1.2%
Return on average equity	19.6%	15.4%
Assets per employee	169.7	191.0
Administrative expenses per employee	2.4	3.5
Profit after tax per employee	3.0	2.1

«I help our customers even if I cannot sell them one of our products.
A woman who had to help pay a debt for her son could not qualify for credit from us at the time.
So I helped her through asking her son's creditor for a repayment extension and I was able to make her a very happy and satisfied customer!»

Rosmarie Reiter
Austria

«Our commitment =
understanding +
innovation =
financial solutions =
customer satisfaction.»

Efren Maldonado
Slovenia

Consolidated financial statements

Consolidated income statement

	Note	1. 1. – 31. 12. 2008	1. 10. 2006-31. 12. 2007
		MCZK	MCZK
Interest income and similar income	7	12 737	12 339
Interest expense and similar charges	7	(6 315)	(5 737)
Net interest income and similar income		**6 422**	**6 602**
Dividend income	8	253	173
Fee and commission income	9	3 260	4 292
Fee and commission expense	9	(529)	(637)
Net fee and commission income		**2 731**	**3 655**
Net trading income	10	91	140
Net income from financial investments	13	1 243	(62)
Other operating income	12	164	415
General administrative expenses	11	(3 950)	(5 558)
Impairment of loans and receivables	17	(821)	(561)
Other operating expenses	12	(407)	(606)
Profit before income tax		**5 726**	**4 198**
Current income tax	29	(761)	(884)
Deferred income tax	29	(44)	(23)
Profit for the period excluding discontinued operations		**4 921**	**3 291**
Profit from discontinued operations for the period	5	–	90
Profit for the period		**4 921**	**3 381**
Majority interest		4 921	3 317
Minority interest			64

Consolidated balance sheet

As at 31 December 2008	Note	31. 12. 2008 MCZK	31. 12. 2007 MCZK
ASSETS			
Cash in hand and balances with central banks	14	1 805	1 720
Financial assets held for trading	15	14 116	18 159
Receivables from banks	16	51 882	47 189
Receivables from customers	17	173 391	152 163
Financial investments	18	32 748	36 127
Property, plant and equipment	19	1 690	1 662
Intangible assets	20	4	6
Deferred tax assets	29	237	403
Other assets	21	3 414	11 813
Non-current assets held for sale	5	–	31 211
Total assets		**279 287**	**300 453**
LIABILITIES			
Deposits from banks	23	27 048	26 983
Deposits from customers	24	170 620	166 283
Debt securities issued	25	37 270	28 653
Financial liabilities held for trading	26	6 668	5 194
Provisions	27	522	631
Deferred tax liability	29	23	–
Other liabilities	28	9 065	16 467
Subordinated liabilities	30	1 000	1 000
Liabilities directly associated with non-current assets held for sale	5	–	32 007
Total liabilities		**252 216**	**277 218**
SHAREHOLDER'S EQUITY			
Issued capital	31	5 125	5 125
Share premium	31	3 473	3 473
Reserve funds	32	2 849	2 849
Reserves from revaluation of financial instruments – continued operations	33	(296)	(379)
Reserves from revaluation of financial instruments – discontinued operations		–	(194)
Retained earnings	33	15 920	12 151
Total shareholder's equity		**27 071**	**23 025**
Minority interest		–	210
Total shareholder's equity and minority interest		**27 071**	**23 235**
Total liabilities, shareholder's equity and minority interest		**279 287**	**300 453**

Consolidated statement of changes in equity

for 2008											MCZK
	Issued capital	Share premium	Reserve funds	Reserve funds	Reserves from revaluation of			Retained earnings	Shareholder's equity without minority interest	Minority interest	Shareholder's equity and minority interest
			Statutory	Other	hedging instruments	available-for-sale securities (contin. operations)	available-for-sale securities (discontin. operations)				
Balance at 1 October 2006	**5 125**	**3 357**	**1 025**	**1 824**	**(198)**	**190**	**–**	**9 600**	**20 923**	**325**	**21 248**
Transfer of capital items regarding the merger with HVB Reality CZ, s.r.o.		52						(52)	–	–	–
Change in revaluation of available-for-sale securities stated in equity						(390)	(189)		(579)	(126)	(705)
Change in revaluation of available-for-sale securities transferred to income statement						(13)			(13)	–	(13)
Net amount of cash flow hedge derivatives stated in equity					7				7	–	7
Net amount of cash flow hedge derivatives transferred to income statement					20				20	–	20
Unrealized gains/losses booked into equity					**27**	**(403)**	**(189)**		**(565)**	**(126)**	**(691)**
Dividends paid								(650)	(650)	(53)	(703)
Others						5	(5)		–	–	–
Net profit for the period 1 October 2006 – 31 December 2007 (continued operations)								3 227	3 227	–	3 227
Net profit for the period 1 October 2006 – 31 December 2007 (discontinued operations)								90	90	64	154
Additional transfer of HVB Reality CZ, s.r.o. profit to share premium		64						(64)	–	–	–
Balance at 31 December 2007	**5 125**	**3 473**	**1 025**	**1 824**	**(171)**	**(208)**	**(194)**	**12 151**	**23 025**	**210**	**23 235**
Change in revaluation of available-for-sale securities stated in equity						506			506	–	506
Change in revaluation of available-for-sale securities transferred to income statement						(170)			(170)	–	(170)
Net amount of cash flow hedge derivatives stated in equity					(327)				(327)	–	(327)
Net amount of cash flow hedge derivatives transferred to income statement					74				74	–	74
Unrealized gains/losses booked into equity					**(253)**	**336**	**–**		**83**	**–**	**83**
Dividends paid								(1 000)	(1 000)	–	(1 000)
Others							194	(152)	42	(210)	(168)
Net profit/loss for 2008								4 921	4 921	–	4 921
Balance at 31 December 2008	**5 125**	**3 473**	**1 025**	**1 824**	**(424)**	**128**	**–**	**15 920**	**27 071**	**–**	**27 071**

Consolidated cash flow statement

for 2008	1. 1. – 31. 12. 2008 MCZK	1. 10. 2006 – 31. 12. 2007 MCZK
Net profit for the period	**4 921**	**3 291**
Adjustments for non-cash items		
Impairment of loans and receivables	821	561
Impairment of property, plant and equipment and intangible assets	(16)	(27)
Impairment of other assets	248	9
Impairment of participation interests	-	1
Creation and release of other provisions	(109)	136
Depreciation of property, plant and equipment and intangible fixed assets	149	367
Deferred tax	44	23
Operating profit before change in operating assets and liabilities	**6 058**	**4 361**
Financial assets held for trading	3 943	(10 112)
Loans and receivables from banks	(4 693)	(4 728)
Loans and receivables from customers	(22 085)	(9 385)
Other assets	7 255	(8 737)
Deposits from banks	65	(5 932)
Deposits from customers	4 237	(1 810)
Financial liabilities held for trading	1 446	1 722
Other liabilities	(7 402)	10 770
Net cash flows from operating activities	**(11 176)**	**(23 851)**
Change in financial investments	2 720	21 482
Proceeds from financial investments	1 550	-
Proceeds from sale of property, plant and equipment and intangible fixed assets	-	225
Acquisition of property, plant and equipment and intangible fixed assets	(626)	(309)
Net cash flows from investing activities	**3 644**	**21 398**
Dividends paid	(1 000)	(650)
Dividends paid to minority shareholders	-	(53)
Debt securities issued	8 617	4 045
Subordinated liabilities repaid	-	(663)
Net cash flows from financing activities	**7 617**	**2 679**
Cash and cash equivalents at 1 January 2008	**1 720**	**1 494**
Net cash flows from operating activities	(11 176)	(23 851)
Net cash flows from investing activities	3 644	21 398
Net cash flows from financing activities	7 617	2 679
Cash and cash equivalents at 31 December 2008	**1 805**	**1 720**
Income tax paid	681	1 111
Interest received	12 668	12 668
Interest paid	(5 639)	(6 783)
Dividends received	253	173

Notes to the consolidated financial statements

1. Background

UniCredit Bank Czech Republic, a.s. ("the Bank") was established through the merger of HVB Bank Czech Republic a.s. and Živnostenská banka, a.s. on 1 October 2006. All rights and obligations of the dissolved company Živnostenská banka, a.s. were assumed by the continuing company, HVB Bank Czech Republic a.s. In 2008 the Bank acquired HVB Reality CZ, s.r.o. The change of name and other changes connected with the acquisition were recorded on 10 December 2008 in the Commercial Register maintained by the District Court of Prague, in part B, file 3608. The sole shareholder of the Bank is UniCredit Bank Austria AG, Vienna. Ultimate parent of the whole UniCredit Group is Unicredit S.p.A, Milano.

Registered office of the Bank:
Na Příkopě 858/20
111 21 Prague 1

The Bank provides retail, commercial and investment banking services, in Czech and foreign currencies for domestic and foreign clients, mainly in the Czech Republic but also in other European Union countries.

The main activities of the Bank are as follows:
- receiving deposits from the public;
- granting loans;
- investing in securities on its own behalf;
- system of payments and clearing;
- issuing payment products;
- granting guarantees;
- opening letters of credit (export financing);
- administration of cash collection;
- trading on own behalf or on behalf of clients:
  1. with foreign exchange currency products,
  2. with forward and option contracts including foreign currency and interest rate contracts,
  3. with transferable securities;
- participation in share subscriptions and other related services;
- issuing of mortgage bonds in accordance with legislation;
- financial brokerage;
- managing securities including portfolio management on behalf of clients;
- depository services and administration of securities;
- depository services for investment funds;
- foreign currency exchange services;
- providing banking information;
- rent of safe-deposit boxes;
- activities directly connected with the activities mentioned above.

The bank also provides the following additional services through its subsidiaries and associated companies:
factoring (purchasing, financing and management of receivables);
operating a bank register.

2. Basis for preparation

With effect from 1 January 2008 the Bank acquired the assets of HVB Reality CZ, s.r.o. The opening balance sheet of the Bank was issued as at this date for statutory purposes.
These consolidated financial statements have been prepared for the accounting period from 1 January 2008 to 31 December 2008. Even though the above mentioned acquisition was taken into consideration in preparation of the opening balance sheet as at 1 January 2008 the Group decided to adjust also comparative information and adjusted it as the acquisition had occurred as at 1 October 2006. The aggregated data, which is based on the statutory financial statements of both companies for the 15-month period from 1 October 2006 to 31 December 2007 is used as comparative information. This period was determined taking into account the merger of HVB Czech Republic a.s. and Živnostenská banka a.s., which was effective as of 1 October 2006.
The Group has also prepared comparable income statements for the twelve-month period of years 2008 and 2007, which are presented in Note 39.
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.
All presented amounts are in millions of Czech crowns (MCZK), unless stated otherwise. Numbers in brackets represent negative amounts.
These financial statements are consolidated and include the parent company and its subsidiaries ("the Group") and participation interests in associated companies.
The financial statements have been prepared based on the fair value principle including financial derivatives, financial assets and liabilities measured at fair value through profit and loss and available-for-sale financial assets, except those whose fair value cannot be reliably determined. The methods for determining fair value are presented in Note 3(b), part (iv). Recognized assets and liabilities that are hedged against the risk of changes in fair value are stated at fair value by virtue of hedged risk. Other financial assets and liabilities and non-financial assets and liabilities are valued at amortized cost or historical cost.

3. Significant accounting policies

(a) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Bank. An entity is controlled if the Bank is able to directly or indirectly influence the management or operation of the entity in order to obtain economic benefits.
The financial statements of subsidiaries are included in the consolidated financial statements from the date that the control commences until the date that the control ceases.

Associated companies

Associated companies are entities in which the Bank has significant influence, but not control, over the financial and operating policies (i.e. the Bank is able to participate in the managements of the entity's financial and operating policies without being able to exercise a controlling influence). The consolidated financial statements include the Bank's shares in total recognized gains and losses of associated companies on an equity accounted basis from the date that the significant influence commences until the date that the significant influence ceases.
Non-consolidated subsidiaries and associated companies
Non-consolidated subsidiaries and associated companies are reported in the balance sheet at their purchase price less impairment losses.

Intragroup transactions

Transactions between the companies in the Group and mutual balances and unrealized profits from relations in the Group are eliminated in the consolidated financial statements. The unrealized profits from transactions with associated companies are eliminated in the amount of the Group's participation interest in the entity against investments into associated companies.

(b) Foreign currency

Transactions in foreign currencies are stated in the domestic currency and translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are not stated at fair value, are translated at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement as "Net trading income".

(c) Financial instruments

(i) Classification

Financial assets and financial liabilities at fair value through profit and loss include instruments classified as held for trading and instruments designated by the Group as at fair value through profit and loss upon initial recognition.
Trading instruments are those held by the Group principally for the purpose of short-term profit taking. These include investments in debt instruments and shares, certain purchased loans and derivative contracts that are not designated hedging instruments. These instruments are reported as "Financial assets held for trading" or as "Financial liabilities held for trading".
Financial assets designated by the Group upon initial recognition as at fair value through profit and loss are included within "Financial investments".
Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on the markets. Loans and receivables are mainly those created by the Group providing money to a debtor other than those created for the purpose of short-term profit taking. Loans and receivables comprise loans and advances to banks and customers and unquoted bonds purchased upon primary issue.
Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain quoted bonds purchased upon primary issue and purchased debt securities. Held-to-maturity assets are presented as "Financial investments".
Available-for-sale assets are financial assets that are not classified as financial assets recognized at fair value through profit and loss, loans and receivables, or held to maturity. Available-for-sale instruments include debt and equity investments and certain quoted bonds purchased upon primary issue. Available-for-sale assets are presented as "Financial investments".
On 13 October 2008 an amendment to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 Financial Instruments Disclosures was issued by the International Accounting Standards Board ("IASB"). This amendment permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. In specific situations the amendment also permits an entity to transfer a financial asset from the available-for-sale category to loans and receivables. The Group evaluated both possibilities and decided not to change the classification of its financial assets.

(ii) Recognition

Financial assets at fair value through profit and loss are recognized on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognized in the Bank's income statement on the trade date. Available-for-sale financial assets are recognized on the settlement date. Any gains or losses arising from changes in the fair value of the assets are recognized in equity on the trade date. Held-to-maturity assets are recognized on the settlement date.
The Bank initially recognizes loans and receivables on their origination dates.

(iii) Measurement

Financial instruments are measured initially at fair value, including (in the case of financial assets not at fair value through profit and loss) transaction costs.

Subsequent to initial recognition all financial assets and liabilities at fair value through profit and loss and all available-for-sale assets are measured at fair value, with the exception of any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses.

All loans and receivables and held-to-maturity assets are measured at amortized cost including the aliquot part of discount or share premiums less impairment losses. Share premiums and discounts, including relevant initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is based on the market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market rates at the balance sheet date. The fair value of unquoted equity instruments is determined as the share in the issuer's equity.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Group would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current creditworthiness of the counterparties.

In connection with the situation on the financial markets during the second half of 2008, the Group paid increased attention to monitoring the development of market factors and prices having an impact on the valuations of all the instruments in the Group's portfolio. In the light of the growing credit crisis, the Group made it a priority to determine bond issuers' creditworthiness.

The valuation of bonds in the Group's portfolio is carried out on a daily basis using available market rates. The market rate is compared with the price calculated using a risk-free interest rate (based on interest rate swaps), on a daily basis. By comparing the two prices, the Group estimates the value of the credit spread between the current and risk-free investment.

The calculated spread is then compared to the previous day's revaluation to verify that there was no misquote to the market price and that the price used for revaluation is appropriate. If there is a significant spread change, the input market factors and spread changes are verified for correctness so that the source of the quotation used for the valuation could be changed, or to confirm the change in the spread as being justified (i.e. a change in the credit status of the issuer or in the liquidity of the particular bond).

If there is no market price available as a source of valuation, the Group will carry out the valuation on the basis of a risk-free swap rate, to which the last verified credit spread is applied. The Group continues to apply this method until:

- Market quotations are again available
- The Group receives other information about a change of spread applied
- The issuer's credit rating changes (change of internal/external rating; evidence from the market that credit is worsening)
- The liquidity of the specific securities has worsened significantly (e.g. a bid price is not available).

Subsequently the Group will carry out the valuation comprising new aspects of the market price including assessment of possible impairment losses (see Note 3g(ii)).

Another model is used for Value at Risk (VaR) calculation (see Note 36) in the system for market risk management which assists to determine the volatility of the credit interest spread between given securities and the risk-free interest rate of an interest rate swap.

This model divides the calculated risk into credit (Spread VaR) and interest (VaR IR) portions. This spread VaR is calculated based on the volatility of the credit spread between securities and the risk-free interest rate. For this purpose the yield curves of particular issuers, industries, or groups of issuers with an identical rating are downloaded into the system for market risk management. Specific securities are matched with these yield curves, and the volatility of the credit spread is calculated. In connection with the situation on the financial markets and the development of the credit spreads of securities that the Group holds in its portfolio, the securities were rematched in the system for market risk management during the year so that the calculated Spread VaR reflects more accurately the behaviour of the specific securities. This does not, however, have any impact on the method used for the securities portfolio valuation.

The Bank's management believes that the fair value of the assets and liabilities presented within the financial statements can be measured reliably.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets held for trading are recognized directly in the income statement as "Net trading income".

Gains and losses arising from a change in the fair value of other financial assets and liabilities at fair value through profit and loss are recognized directly in the income statement as "Net income from financial investments".

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity as "Change in revaluation of available-for-sale securities". When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement as "Net income from financial investments". Interest income from available-for-sale debt securities is recognized in the income statement as "Interest income and similar income". The accounting for impairment of available-for-sale assets is described in Note 3 (g).
Gains and losses arising from financial assets and liabilities carried at amortized cost are recognized in the income statement when the financial asset or liability is derecognized or impaired (see Note 3(g)), and through the amortization process.

(vi) Derecognition

A financial asset is derecognized when the Group loses the contractual rights to the cash flow from an asset or the Group transfers the financial asset and the transfer qualifies for derecognition. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is settled.
Available-for-sale assets and assets recognized at fair value through profit and loss that are sold are derecognized and the corresponding receivables from the buyer are recognized as at the settlement date. The Group uses accounting methods to determine the gain or loss on derecognition.
Held-to-maturity instruments and loans and receivables are derecognized on the maturity date or on the day they are transferred to another portfolio.

(d) Derivatives

(i) Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognition of fair value depends on the model of hedge accounting applied.
Hedge accounting can be applied if:

- the hedge is in line with the Group's risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- it is expected that the hedge relationship will be highly effective throughout its life,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is highly effective throughout the accounting period,
- in the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of recorded assets and liabilities or unrecognized commitments, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) on re-measurement of the interest-bearing hedged item and hedging derivative are recognized in the income statement in "Interest income and similar income" or "Interest expense and similar charges".

If the derivative hedges the exposure to the variability of cash flows related to recognized assets and liabilities or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is recognized in equity in "Reserve from revaluation of hedging instruments".
The ineffective part of the hedge is recognized in the income statement.
If the hedging of expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative recognized in equity are transferred to the income statement at the same moment as the hedged item affects the net profit or loss.
When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognized in equity remains in equity and is recognized in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is recognized in the income statement immediately.

(ii) Embedded derivatives

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative must be separated from the host contract and accounted for as a separate derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the host instrument is not measured at fair value with changes in fair value recognized in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognized in the balance sheet.

(e) Borrowing and lending of securities and repurchase agreements

Investments lent under securities lending arrangements or sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for such financial assets as appropriate.
As a result of the cash collateral received in respect of securities lent/sold under repurchase agreements, the Group recognizes a liability to either banks or customers.
Investments borrowed under securities borrowing agreements or purchased subject to commitments to resell them at future dates are not recognized in the balance sheet.
As a result of the cash collateral placements in respect of securities borrowed/purchased under resale agreements, the Group recognizes loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security.

Income and expenses arising from the borrowing and lending of securities, as well as the difference between the sale and repurchase considerations are recognized on an accrual basis over the period of the transactions and are included in "Interest income and similar income" or "Interest expense and similar charges".

(f) Offsetting
Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled in the balance sheet on a net basis.

(g) Impairment
Assets are assessed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated and the impairment of the asset is recognized in the income statement.

(i) Loans and receivables and held-to-maturity assets

Loans and receivables and held-to-maturity assets are presented net of impairment losses for uncollectibility.

Specific impairment losses are made against the carrying amount of loans and receivables and held-to-maturity assets that are identified as being individually impaired based on regular reviews of the outstanding balances in order to reduce these assets to their recoverable amounts.

The recoverable amount of loans and receivables and held-to-maturity assets is calculated as the present value of the estimated future cash flows, discounted at the instrument's original effective interest rate.

Collective impairment losses of portfolios of standard loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on historical loss experience and considering the credit rating of the underlying customers, late payments of interest or penalties and other qualitative factors.

Historical loss experience is the basis for the calculation of the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio as at the balance sheet date.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly and any previously unrecognized loss is recognized in the income statement under "Impairment of loans and receivables". Any consideration received in respect of a written off loan is recognized in the income statement under "Other operating income".

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the income statement in "Impairment of loans and receivables".

(ii) Available-for-sale financial assets

Where an available-for-sale asset is impaired, and a decline in the fair value was previously recognized directly in equity, the cumulative loss is transferred to the income statement and recognized in "Net income from financial investments". Where a debt instrument classified as an available-for-sale asset is impaired, and an increase in the fair value of the asset was previously recognized in equity, the increase in fair value of the asset recognized in equity is reversed to the extent of the impairment. Any additional impairment loss is recognized in the income statement. Impairment losses recognized in the income statement arising from investment in equity instruments classified as available-for-sale are not reversed through profit and loss.

(h) Property, plant, equipment and intangible fixed assets
Property, plant, equipment and intangible assets are assets which are held in order to pursue banking activities and which may be used for a period over 1 year.

Property, plant, equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The depreciation periods (over estimated useful lives) for individual categories of property, plant, equipment and intangible assets are as follows:

• Buildings	30–50 years
• Technical improvement of buildings protected as a cultural heritage	15 years
• Technical improvement of rented premises	10 years
• Air-conditioning equipment	5 years
• Machinery and equipment	4–5 years
• Bank vaults	20 years
• Fixtures and fittings	6 years
• Motor vehicles	4 years
• IT equipment	4 years
• Software and intangible assets	2–6 years
• Low value tangible assets	2 years

Both tangible and intangible assets are assessed for potential impairment or a reduction in useful life. The gains and losses on disposal are determined based on the net book value and are included in "Other operating income". The costs of repair, maintenance and technical improvement are expensed as they are incurred. Technical improvements exceeding the legal limits are capitalized.

(i) Provisions

Provisions relate to a probable outflow of an uncertain amount over an uncertain period of time. Provisions are recognized when:
– there is an obligation (legal or constructive) as a result of a past event,
– it is probable that an outflow of resources will be required to settle the obligation (probable means the probability exceeds 50%),
– the amount of the obligation can be reliably estimated.

(j) Interest income and expense

Interest income and expenses are recognized in the income statement in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued linearly on a daily basis. Interest income and expenses include the amortization of any discount or premium, relevant transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
Unless a management decision to the contrary is made, accrued interest income is also recognized in the income statement for impaired loans and receivables (except for loans and receivables in bankruptcy proceedings). In such cases, the interest income represents a part of the amortized cost which forms a basis for the impairment calculation.

(k) Fee and commission income and expense

Fee and commission income and expense represents fees and commissions received/paid by the Group for providing financial services other than those related to the origination of a financial asset or liability, which form a part of the effective interest income/expense. Fees and commissions arise on financial services provided by the Group, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognized when the corresponding service is provided.

(l) Dividend income

Dividend income is recognized in the income statement in “Dividend income” on the date that the dividend is declared.

(m) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits.
Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the period of the asset recovery or liability settlement. A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

(n) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments.
The Group’s primary segment reporting relates to its business segments, which correspond to the Group’s various operations: retail banking, corporate banking, investment banking and other.
As regards geographical segments, the Group operates principally in the Czech Republic and in other member states of the EU.
Retail banking includes providing consumer loans, mortgages, payment services (including payment cards for consumers), term and saving deposits.
Corporate banking includes providing loans, credit commitments and guarantees to corporate clients, cash management, payment services (including documentary letters of credit), term deposits, operations with derivatives and foreign currencies with corporate clients, government institutions etc.
Investment banking includes capital market activities including underwriting of investments for clients, investment consultancy, mergers and acquisition consultancy.
Other includes banking activities that are not included in retail, corporate or investment banking.

(o) Impact of standards that are not yet effective

The Group has evaluated the impact of standards, interpretations and amendments to valid standards mentioned below, which are not yet in force, but which are already approved and will have an impact in the future on the Group’s financial statements.
Amendment to IFRS 3 Business Combinations – effective from 1 July 2009, incorporates several changes related to accounting for business combinations having impact on the amount of recognized goodwill and on the profit in the acquisition period as well as in the subsequent periods.
IFRS 8 Operating Segments – effective from 1 January 2009, will replace IAS 14. This new standard introduces different approach to segment reporting and introduces a new term “operating segment”, which is a segment for which the accounting entity prepares internal reports. Those are controlled on a regular basis by a person responsible for operating decisions.
Amendment to IAS 1 Presentation of Financial Statements – effective from 1 January 2009, newly distinguishes between changes in owners’ equity arising from transactions with a company’s owners and other changes. In the statement of changes in owners’ equity there ought to be shown detailed information only regarding transactions with owners, while all other changes in owners’ equity therein will be presented in a single line. The amendment further introduces the so-called statement of comprehensive income, whereby the accounting unit may choose

to present all revenue and cost items charged to the income statement as well as all other items charged to revenues and costs in either a single statement of comprehensive income or to divide these between an income statement and an interdependent statement of comprehensive income.
Amendment to IAS 27 Consolidated and Separate Financial Statements – effective from 1 July 2009, requires accounting for changes in ownership interests in a subsidiary that occur without loss of control to be recognized as an equity transaction.
Amendment to IAS 32 Financial Investments: Disclosures and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, effective from 1 January 2009, if certain conditions are met, requires puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity and to disclose certain information in relation to these instruments.
Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective from 1 July 2009, clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.
The Group's management regards the effect of these standards to be immaterial.

4. Critical accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (see Note 36).

(a) Key sources of estimation uncertainty

(i) Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 3(b)(iii).
The specific counterparty component of the impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.
Collectively assessed impairment cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective impairment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required impairment, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy in quantifying the impairment depends upon how well the Group is able to estimate these future cash flows for specific counterparties and the quality in establishing the models' parameters.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(b)(iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgments depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Critical accounting judgments in applying the Group's accounting policies

Critical accounting judgments made in applying the Group's accounting policies include:

(i) Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:
In classifying financial assets or liabilities as "trading", the Group has determined that these meet the description of trading assets and liabilities set out in accounting policy 3(b)(i).
In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that these have met at least one of the criteria for this designation set out in accounting policy 3(b)(i).
Details of the Group's classification of financial assets and liabilities are given in Note 3 (b) (i).

(ii) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument.
In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

(iii) Change in accounting policy

The Group decided to change the accounting policy for reimbursement of litigation costs ("přísudky"). These are litigation costs ordered by the court to be paid in favour of the Bank or third parties (e.g. a law firm), which the Group had previously booked as a receivable ("Other assets") and revenue ("Other operating revenues") based on a legitimate court

ruling. As the actual collection rate for these payments is significantly below 50% of the costs ordered by the court and a significant proportion are not due to the Group but to third parties, the Group decided to change the accounting method in accordance with IAS 18 and IAS 37. Therefore, the revenue arising from the reimbursement of litigation costs is only recognized in revenues when cash is collected from the debtor rather than at the time of court approval.
As a result of this change, an existing receivable of CZK 44 million has been written off to expenses ("Other operating expenses") and impairment charges have been released. The change has been applied retrospectively as of 31 December 2007.

The impacts of the accounting policy change on the balance sheet and the income statement are as follows: MCZK

	Original balance 2007	Impact of the. policy change	New balance 2007
Assets			
Other assets (gross)	11,883	(44)	11,839
Adjustment to other assets	(49)	23	(26)
Liabilities			
Provisions	652	(21)	631
Income statement			
Other operating income	371	44	415
Other operating expenses	(562)	(44)	(606)
Total impact on profit		–	

5. Discontinued operations

The Group decided to withdraw from the building savings segment and sell its 60% participation interest in HYPO stavební spořitelna, a.s. The sale was concluded on 19 November 2007. Contractual conditions were satisfied on 7 March 2008, which was the date of effectively handing over control to the acquiring party – the group Raiffeisen Bausparkassen Holding.
Profit from the discontinued building savings segment is shown in "Profit from discontinued operations" for the period from 1 October 2006 to 31 December 2007.

Income and expenses related to discontinued operations, continued operations and total income and expenses are as follow:			MCZK
	1. 10. 2006 – 31. 12. 2007		
	Discontinued operations	Continued operations	Total
Interest income and similar income	1,456	12,339	13,795
Interest expense and similar charges	(1,243)	(5,737)	(6,980)
Net interest income and similar income	**213**	**6,602**	**6,815**
Dividend income	–	173	173
Fee and commission income	391	4,292	4,683
Fee and commission expense	(190)	(637)	(827)
Net fee and commission income	**201**	**3,655**	**3,856**
Net trading income	–	140	140
Net income (loss) from financial investments	–	(62)	(62)
Other operating income	15	315	430
General administrative expenses	(319)	(5,558)	(5,877)
Impairment of loans and receivables	9	(561)	(552)
Other operating expenses	(22)	(606)	(628)
Profit from discontinued operations before income tax	**97**	**4,198**	**4,295**
Current income tax	(8)	(884)	(892)
Deferred income tax	1	(23)	(22)
Profit from discontinued operations for the period	**90**	**3,291**	**3,381**

Assets and liabilities related to discontinued operations are the following:	MCZK
	31. 12. 2007
Cash in hand and balances with central banks	263
Receivables from banks	1,471
Receivables from customers	2,537
Financial investments	25,664
Property, plant and equipment	80
Intangible assets	83
Deferred tax assets	69
Other assets	1,044
Total assets	**31,211**
Deposits from customers	30,441
Provisions	2
Other liabilities	1,564
Total liabilities	**32,007**

Cash flows related to discontinued operations are the following:	MCZK
	1. 10. 2006 – 31. 12. 2007
Net cash flows from operating activities	25,956
Net cash flows from investing activities	(25,693)
Net cash flows form financing activities	–
Net cash flows from discontinued operations	**263**

6. Consolidated companies

The consolidated financial statements include the following subsidiaries included in the consolidated Group:						
	Registered	Business	Date of	Acquisition	Share of the Group	
Name	office	activity	acquisition	price	31. 12. 2008	31. 12. 2007
UniCredit Factoring s.r.o.	Prague	factoring	26.10.2004	100	100%	100%

UniCredit Factoring s.r.o. increased its issued capital by MCZK 50 as of 13 November 2007 and then by MCZK 150 as of 17 December 2008. The increase of issued capital was registered on 19 January 2009. The total of issued capital is MCZK 250.

7. Net interest income and similar income

MCZK		
	31. 12. 2008	1. 10. 2006 – 31. 12. 2007
Interest income and similar income		
Balances with central bank	698	1,104
Receivables from banks	1,578	295
Loans and receivables from customers	8,883	9,105
Financial investments	1,539	1,800
Other	39	23
Net income from fair value hedges	–	12
Interest income and similar income	**12,737**	**12,339**
Interest expense and similar charges		
Repos with the central bank	(149)	–
Deposits from banks	(814)	(1,011)
Deposits from customers	(3,895)	(3,577)
Debt securities issued	(1,395)	(1,104)
Net loss from fair value hedges	(15)	–
Subordinated liabilities	(47)	(45)
Interest expense and similar charges	**(6,315)**	**(5,737)**
Net interest income and similar income	**6,422**	**6,602**

8. Dividend income

MCZK	31. 12. 2008	1. 10. 2006 - 31. 12. 2007
Dividend income		
From subsidiary companies	–	4
From investment certificates classified as securities at fair value through profit and loss note held for trading	253	169
Total dividend income	253	173

9. Net interest and similar income

MCZK	31. 12. 2008	1. 10. 2006 – 31. 12. 2007
Fee and commissions income from		
Securities transactions	29	208
Management, administration, deposit and custody services	249	222
Loans	376	529
Payment services	832	1,022
Foreign exchange (FX) transactions	1,282	1,646
Payment cards	457	627
Other	35	38
Fee and commission income	**3,260**	**4,292**
Fee and commission expense from		
Securities transactions	(84)	(128)
Management, administration, deposit and custody services	(48)	(1)
Loans	(15)	(37)
Payment services	(21)	(27)
Payment cards	(279)	(394)
Other	(82)	(50)
Fee and commission expense	**(529)**	**(637)**
Net fee and commission income	**2,731**	**3,655**

Net fee and commission income from clearing services includes FX commissions from flat and documentary payments and from cash transactions and currency exchange transactions with customers of the Group. The FX commission represents the difference between the buy/sell FX rate set by the Group and the official CNB FX rate, which is required by the Accounting Act when valuing transactions denominated in foreign currency. FX commission is included in "Net fee and commission income" as this income represents significant continuous income from cash transactions and currency exchange transactions with customers of the Group.

10. Net trading income

MCZK	31. 12. 2008	1. 10. 2006 – 31. 12. 2007
Net realized and unrealized gain/(loss) from securities held for trading	22	(5)
Net realized and unrealized gain/(loss) from derivatives held for trading	(1,070)	(291)
Net realized and unrealized gain/(loss) from spot transactions with FX and from revaluation of receivables and liabilities denominated in FX	1,139	436
Net trading income	**91**	**140**

11. General administrative expenses

MCZK	31. 12. 2008	1. 10. 2006 – 31. 12. 2007
Personnel expenses		
Wages and salaries paid to employees	(1,237)	(1,641)
Social and health insurance	(507)	(699)
	(1,744)	**(2,340)**
Including wages and salaries paid to:		
Members of the Board of Directors	(39)	(26)
Other executives	(98)	(106)
	(137)	**(132)**
Other administrative expenses		
Rent and building maintenance	(366)	(549)
Information technologies	(702)	(990)
Promotion and marketing	(295)	(481)
Consumables used	(39)	(77)
Audit, legal and advisory services	(68)	(95)
Payments services	(216)	(277)
Services	(358)	(358)
Other	(29)	(51)
	(2,073)	**(2,878)**
Depreciation of property, plant and equipment	(146)	(282)
Depreciation of intangible fixed assets	(3)	(85)
Impairment loss from tangible and intangible assets	–	(5)
Release of impairment loss from tangible and intangible assets	16	32
	(133)	**(340)**
Total general administrative expenses	**(3,950)**	**(5,558)**

Social and health insurance includes employees’ pension supplementary insurance paid by the Group in the amount of MCZK 13 (for the period from 1 October 2006 to 31 December 2007: MCZK 13). Information about bonuses tied to equity is included in Note 31.

The average number of employees of the Group (including UCI Group expatriates) was as follows:		
	31. 12. 2008	1. 10. 2006 – 31. 12. 2007
Employees	1,646	1,573
Members of the Board of Directors	5	5
Members of the Supervisory Board	3	6
Other executives	28	24

12. Other operating income and expenses

MCZK		
	31. 12. 2008	1. 10. 2006 – 31. 12. 2007
Income from written-off and ceded receivables	24	13
Income from rent	12	151
Release of other provisions	11	93
Release of provisions for off-balance sheet items	44	70
Release of other adjustments	3	23
Use of other provisions	60	5
Income from litigations settlement	3	24
Other	7	36
Total other operating income	**164**	**415**
Deposits and transactions insurance	(128)	(146)
Creation of other provisions	(8)	(184)
Impairment of other assets	(255)	(19)
Creation of provisions for off-balance sheet items	–	(161)
Loss on disposal of fixed assets	–	(20)
Write-off of other assets	(6)	(53)
Other	(10)	(23)
Total other operating expenses	**(407)**	**(606)**

13. Net income from financial investments

MCZK	31. 12. 2008	1. 10. 2006 – 31. 12. 2007
Net gain/(loss) from available-for-sale and held-to-maturity securities	396	(118)
Net gain/(loss) from hedging against risk of changes in fair value of available-for-sale securities	11	(1)
Net gain/(loss) from securities at fair value through profit and loss	43	58
Impairment of participation interest	–	(1)
Gain from sale of participation interest	793	–
Net income from financial investments	**1,243**	**(62)**

The net income from financial investments in 2008 was influenced by the gain from the sale of a subsidiary, HYPO stavební spořitelna a.s., and of the Bank's share in Burza cenných papírů Praha, a.s.

14. Cash in hand and balances with central banks

(a) Continued operations

MCZK	31. 12. 2008	31. 12. 2007
Cash in hand	1,689	1,612
Obligatory minimum reserves	80	92
Other balances at central banks	36	16
Total	**1,805**	**1,720**

(b) Discontinued operations

MCZK	31. 12. 2008	31. 12. 2007
Cash in hand	–	6
Obligatory minimum reserves	–	257
Total	**–**	**263**

The obligatory minimum reserves represent deposits made in accordance with Czech National Bank (CNB) regulations and which are not available for ordinary operations. CNB provides interest on these mandatory deposits based on the official CNB two week repo rate. Cash in hand and balances with central bank are defined as cash and cash equivalents for the purpose of the cash flow statement.

15. Financial assets held for trading

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return held for trading	9,096	14,263
Shares and other securities with a variable rate of return held for trading	20	88
Fair value of financial derivatives held for trading	5,000	3,808
Total financial assets held for trading	**14,116**	**18,159**

(a) Analysis of bonds and other securities with a fixed rate of return held for trading

MCZK	31. 12. 2008	31. 12. 2007
Issued by financial institutions	1	–
Issued by government sector	9,095	14,263
Total	**9,096**	**14,263**

All the bonds held for trading are listed on public markets.

(b) Analysis of shares and other securities with a variable rate of return held for trading

MCZK	31. 12. 2008	31. 12. 2007
Shares issued by financial institutions	7	15
Shares issued by non-financial institutions	13	73
Total	**20**	**88**

All shares held for trading are listed on public markets.

(c) Analysis of financial derivatives held for trading

MCZK	31. 12. 2008	31. 12. 2007
Interest rate contracts	2,051	994
Currency contracts	2,685	853
Equity contracts	96	1,957
Commodity contracts	168	4
Total	**5,000**	**3,808**

See Note 37 for the Group's business strategy related to financial assets held for trading.

16. Receivables from banks

(a) Continued operations

(i) Analysis of receivables from banks by type

MCZK	31. 12. 2008	31. 12. 2007
Current accounts at other banks	643	1,725
Loans provided to banks	23,307	12,736
Term deposits	27,932	32,728
Total receivables from banks	**51,882**	**47,189**
Impairment losses of receivables from banks	–	–
Net receivables from banks	**51,882**	**47,189**

(ii) Subordinated loans due from banks

The Group granted a subordinated loan to another bank, totalling TEUR 7,500 in 2004. The subordinated loan balance as at 31 December 2008 was MCZK 203 (as at 31 December 2007: MCZK 200). The loan has a contractual maturity of 10 years. The interest period can be selected within the range from 1 to 6 months, the interest rate is based on the relevant EURIBOR rate.

(iii) Analysis of receivables from banks by geographical sector

MCZK	31. 12. 2008	31. 12. 2007
Czech Republic	26,738	18,965
European Union	22,715	27,051
Others	2,429	1,173
Total receivables from banks	**51,882**	**47,189**

(b) Discontinued operations

(i) Analysis of receivables from banks by type

MCZK	31. 12. 2008	31. 12. 2007
Current accounts at other banks	–	1,471
Total receivables from banks	**–**	**1,471**
Impairment losses of receivables from banks	–	–
Net receivables from banks	**–**	**1,471**

(ii) Analysis of receivables from banks by geographical sector

MCZK	31. 12. 2008	31. 12. 2007
Czech Republic	–	1,471
Total receivables from banks	**–**	**1,471**

17. Receivables from customers

(a) Continued operations

(i) Analysis of receivables from customers by type

MCZK	31. 12. 2008	31. 12. 2007
Loans to clients	176,463	154,478
Receivables from promissory notes	–	–
Total receivables from customers	**176,463**	**154,478**
Impairment losses of receivables from customers	(3,072)	(2,315)
Net receivables from customers	**173,391**	**152,163**

The above gross amounts include unpaid interest from low rated loans which are more than 90 days overdue in the amount of MCZK 61 (as at 31 December 2007: MCZK 26) and loans that have not been adjusted for interest accruals in the amount of MCZK 237 (as at 31 December 2007: MCZK 158). Had the accrual principle been applied for interest income on these loans the Group would have recognized MCZK 10 as interest income for the year 2008 (for the period from 1 October 2006 to 31 December 2007: MCZK 8).

(ii) Classification of receivables from customers

MCZK	31. 12. 2008	31. 12. 2007
Receivables not impaired		
Standard	*168,664*	*145,552*
Internal grade 1	*5,994*	*2,651*
Internal grade 2	*14,751*	*14,961*
Internal grade 3	*22,879*	*21,030*
Internal grade 4	*47,251*	*30,380*
Internal grade 5	*44,995*	*34,961*
Internal grade 6	*21,504*	*18,932*
Other internal grades	*2,766*	*946*
Receivables without internal grading	*8,524*	*21,691*
Receivables impaired		
Watched	2,850	6,256
Substandard	1,847	1,053
Doubtful	1,150	489
Loss	1,952	1,128
Total receivables from customers	**176,463**	**154,478**

The group regularly classifies its receivables from customers. The categories used for classification consider the Group's analysis of the probability of repayment and analysis of the debtor's behaviour (number of days payments are past due) financial performance, payment discipline, etc. The Group assesses whether there is evidence of impairment of loans and receivables. If such evidence has been identified, the amount of the loss is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows (including cash flows from realized collateral).

(iii) Analysis of receivables from customers by sector

MCZK	31. 12. 2008	31. 12. 2007
Financial institutions	25,761	22,121
Non-financial institutions	120,484	105,804
Government sector	453	188
Non-profit organizations	423	467
Self-employed	1,471	1,238
Resident individuals	17,729	16,064
Non-resident	10,142	8,596
Total receivables from customers	**176,463**	**154,478**

(iv) Analysis of receivables from customers by type of security received

MCZK	31. 12. 2008	31. 12. 2007
Personal guarantee	118	439
Bank and similar guarantee	17,797	11,288
Mortgage	52,687	48,905
Corporate guarantee	1,324	8,790
Bill of exchange	478	538
Other security	2,703	5,018
Unsecured	101,356	79,500
Total receivables from customers	**176,463**	**154,478**

(v) Analysis of receivables from customers by business activity

MCZK	31. 12. 2008	31. 12. 2007
Real estate services	57,993	46,556
Financial services	25,883	22,396
Wholesale	11,991	14,269
Household services	18,602	16,745
Retail	3,080	4,914
Leasing	357	1,018
Others	58,557	48,580
Total receivables from customers	**176,463**	**154,478**

(vi) Analysis of receivables from customers by region

MCZK	31. 12. 2008	31. 12. 2007
Czech Republic	166,322	145,880
Other countries of European Union	7,695	6,143
Other	2,446	2,455
Total receivables from customers	**176,463**	**154,478**

(vii) Impairment of receivables from customers

MCZK	31. 12. 2008	31. 12. 2007
Impairment of individual loans and receivables from customers	(2,141)	(1,301)
Impairment of portfolios of standard loans and receivables from customers	(931)	(1,014)
Total impairment of receivables from customers	**(3,072)**	**(2,315)**

MCZK		
Balance as at 1 October 2006		(1,925)
Creation during the current year	(1,784)	
Release during the current year	1,223	
Net effect on income statement		(561)
Receivables written off – use		143
FX differences		28
Balance of impairment of receivables from customers as at 31 December 2007		**(2,315)**
Balance as at 1 January 2008		(2,315)
Creation during the current year	(1,242)	
Release during the current year	421	
Net effect on income statement		(821)
Receivables written off – use		70
FX differences		(6)
Balance of impairment of receivables from customers as at 31 December 2008		**(3,072)**

(b) Discontinued operations

(i) Analysis of receivables from customers by type

MCZK	31. 12. 2008	31. 12. 2007
Loans to clients	–	2,547
Other	–	18
Total receivables from customers	–	2,565
Impairment of receivables from customers	–	(28)
Net receivables from customers	**–**	**2,537**

(ii) Classification of receivables from customers

MCZK	31. 12. 2008	31. 12. 2007
Standard	–	2,498
Watch	–	36
Substandard	–	8
Doubtful	–	2
Loss	–	21
Total receivables from customers	**–**	**2,565**

(iii) Analysis of receivables from customers by sector

MCZK	31. 12. 2008	31. 12. 2007
Non-financial institutions	–	5
Government sector	–	4
Resident individuals	–	2,556
Total loans and receivables from customers	**–**	**2,565**

(iv) Analysis of receivables from customers by type of security received

MCZK	31. 12. 2008	31. 12. 2007
Mortgage	–	466
Bill of exchange	–	1,205
Security held by the Bank	–	417
Unsecured	–	477
Total receivables from customers	**–**	**2,565**

(v) Analysis of receivables from customers by business activity

MCZK	31. 12. 2008	31. 12. 2007
Others	–	2,565
Total receivables from customers	**–**	**2,565**

(vi) Analysis of receivables from customers by region

MCZK	31. 12. 2008	31. 12. 2007
Czech Republic	–	2 565
Total receivables from customers	**–**	**2 565**

(vii) Impairment of receivables from customers

MCZK	31. 12. 2008	31. 12. 2007
Impairment of individual receivables from customers	–	(24)
Impairment of portfolios of standard receivables from customers	–	(4)
Total impairment of receivables from customers	**–**	**(28)**

18. Financial investments

(a) Continued operations

(i) Classification of financial investments into portfolios based on the Group's intention

MCZK	31. 12. 2008	31. 12. 2007
Available-for-sale securities	25,266	26,763
Financial assets at fair value through profit and loss	7,481	9,363
Non-consolidated subsidiaries and associated companies	1	1
Total financial investments	**32,748**	**36,127**

(ii) Analysis of available-for-sale securities

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	14,696	14,771
Issued by government sector	7,798	8,758
Power industry	1,057	1,048
Leasing	–	151
Other	1,698	2,013
Total	**25,249**	**26,741**
Shares and other securities with a variable rate of return		
Issued by financial institutions	17	22
Total	**17**	**22**
Total available-for-sale securities	**25,266**	**26,763**
Thereof:		
Listed	25,214	25,715
Unlisted	52	1,048

Financial investments include bonds that were provided as collateral with the market value of MCZK 5,815 (as at 31 December 2007: MCZK 0).

In 2008 the Group assessed its financial investments for impairment. Based on the results, the Group did not recognize any impairment loss for available-for-sale securities. The management of the Group believes that the issuers of the securities held in the Group's portfolio are of a high credit rating and will be able to settle their obligations arising from the debts owed to the Group. Nevertheless, the Group continues to carefully monitor development in their credit standing and is prepared to take appropriate actions in case of any negative development to minimize losses arising from potential defaults.

(iii) Analysis of securities at fair value through profit and loss

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	3,806	5,168
Issued by government sector	125	328
Power industry	–	269
Other	728	695
Total	**4,659**	**6,460**
Shares and investment certificates with a variable rate of return		
Issued by financial institutions	2,822	2,903
Total	**2,822**	**2,903**
Total of securities at fair value through profit and loss	**7,481**	**9,363**
Thereof:		
Listed	4,627	6,426
Unlisted	2,854	2,937

(iv) Non-consolidated subsidiaries and associated companies

Name	Registered office	Business activity	Date of Acquisition	Acquisition price	Net book value	Share of the Bank 31. 12. 2008	Share of the Bank 31. 12. 2007
CAE PRAHA a.s. in the process of liquidation	Prague	lease of real estate	27.6.2003	78	1	100%	100%
CBCB – Czech Banking Credit Bureau, a.s.	Prague	bank register	10.10.2001	0.24	0.24	20%	20%

As at 31 December 2008 the amount of impairment of associated companies totalled MCZK 7 (31 December 2007: 7 MCZK). According to group management, consolidation of the final accounts of CAE PRAHA a.s. in the process of liquidation should have no significant impact for the consolidated final accounts and therefore the decision was made not to include this company into the consolidation group. Liquidation of the company is expected in 2009. CBCB – Czech Banking Credit Bureau, a.s. operates a banking client information register and enables banks to inform each other about bank connections, identification data regarding owners of accounts, and matters concerning their clients' payment prospects and creditworthiness.

(b) Discontinued operations

(i) Classification of financial investments into portfolios based on the Group's intention

MCZK	31. 12. 2008	31. 12. 2007
Available-for-sale securities	–	14,835
Held-to-maturity securities	–	10,829
Total	**–**	**25,664**

(ii) Analysis of available-for-sale securities

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	–	201
Issued by government sector	–	14,634
Total	**–**	**14,835**
Total available-for-sale securities	**–**	**14,835**

All available for sale securities are listed on public markets.

(iii) Analysis of held-to-maturity securities

MCZK	31. 12. 2008	31. 12. 2007
Bonds and other securities with a fixed rate of return		
Issued by financial institutions	–	1,504
Issued by government sector	–	9,074
Issued by non-financial institutions	–	251
Total held-to-maturity securities	**–**	**10,829**

All securities held to maturity are listed on public markets.

19. Property, plant and equipment

Movements in property, plant and equipment	Land and buildings	Machinery and Equipment	Fixtures and fittings	Other non-oper. property	Fixed assets not yet in use	Total (MCZK)
Cost						
At 1 October 2006	3,607	1,230	440	3	13	5,293
Additions	39	74	4	–	64	181
Disposals	(150)	(379)	(57)	–	(11)	(597)
Other	76	(72)	33	–	–	(115)
At 31 December 2007	3,420	853	420	3	66	4,762
At 1 January 2008	3,420	853	420	3	66	4,762
Additions	66	92	24	–	442	624
Disposals	(288)	(154)	(86)	(1)	(435)	(964)
Other	–	–	–	–	–	–
At 31 December 2008	3,198	791	358	2	73	4,422
Depreciation						
At 1 October 2006	(1,537)	(1,030)	(355)	(3)	–	(2,925)
Charge for the year	(165)	(96)	(21)	–	–	(282)
Disposals	71	355	31	–	–	457
Other	6	49	(21)	–	–	34
At 31 December 2007	(1,625)	(722)	(366)	(3)	–	(2,716)
At 1 January 2008	(1,625)	(722)	(366)	(3)	–	(2,716)
Charge for the year	(81)	(55)	(10)	–	–	(146)
Disposals	286	128	83	1	–	498
Other	–	–	–	–	–	–
At 31 December 2008	(1,420)	(649)	(293)	(2)	–	(2,364)
Impairment						
At 1 October 2006	(457)	–	–	–	–	(457)
Creation	(5)	–	–	–	–	(5)
Release	32	–	–	–	–	32
Use	46	–	–	–	–	46
At 31 December 2007	(384)	–	–	–	–	(384)
At 1 January 2008	(384)	–	–	–	–	(384)
Creation	–	–	–	–	–	–
Release	16	–	–	–	–	16
Use	–	–	–	–	–	–
At 31 December 2008	(368)	–	–	–	–	(368)
Net book value						
At 1 October 2006	**1,613**	**200**	**85**	**–**	**13**	**1,911**
At 31 December 2007	**1,411**	**131**	**54**	**–**	**66**	**1,662**
At 31 December 2008	**1,410**	**142**	**65**	**–**	**73**	**1,690**

Movements in item “Others” relate to the property, plant and equipment transferred into “Non-current assets held for sale” (see Note 5).
The release of impairment losses is included in the income statement in “General Administrative Expenses”.

20. Intangible assets

Movements in intangible fixed assets				MCZK
	Software	Software acquisition	Other	Total
Cost				
At 1 October 2006	865	26	42	933
Additions	70	57	2	129
Disposals	(705)	(82)	(23)	(810)
Other	(226)	–	(1)	(227)
At 31 December 2007	4	1	20	25
At 1 January 2008	4	1	20	25
Additions	2	–	–	2
Disposals	–	(1)	–	(1)
Other	–	–	–	–
At 31 December 2008	6	–	20	26
Amortization				
At 1 October 2006	(537)	–	(25)	(562)
Charge for the year	(80)	–	(5)	(85)
Disposals	460	–	15	475
Other	153	–	–	153
At 31 December 2007	(4)	–	(15)	(19)
At 1 January 2008	(4)	–	(15)	(19)
Charge for the year	(1)	–	(2)	(3)
Disposals	–	–	–	–
Other	–	–	–	–
At 31 December 2008	(5)	–	(17)	(22)
Impairment				
At 1 October 2006	(79)	–	–	(79)
Creation	–	–	–	–
Use	79	–	–	79
At 31 December 2007	–	–	–	–
At 1 January 2008	–	–	–	–
Creation	–	–	–	–
Use	–	–	–	–
At 31 December 2008	–	–	–	–
Net book value				
At 1 October 2006	249	26	17	292
At 31 December 2007	–	1	5	6
At 31 December 2008	1	–	3	4

Movements in item “Others” relate to intangible assets transferred into “Non-current assets held for sale” (see Note 5).

21. Other assets

(a) Continued operations

MCZK	31. 12. 2008	31. 12. 2007
Prepaid expense and accrued income	113	148
Trade receivables	156	301
Factoring receivables	1,337	1,674
Fair value of hedging derivatives	1,747	455
Receivables from securities	27	8,304
Suspense accounts	305	805
Taxes	–	99
Other	3	53
Total other assets	**3,688**	**11,839**
Impairment of other assets	(274)	(26)
Net other assets	**3,414**	**11,813**

The increased balance of "Receivables from securities" is mainly caused by two unsettled over-the-counter trades which were performed shortly before the year end. These trades were settled at the beginning of January 2008.

(i) Impairment of other assets

MCZK	
Balance as at 1 October 2006	(17)
Creation during the current year	(34)
Use during the current year	–
Release during the current year	23
Other	2
Balance of impairment of other assets as at 31 December 2007	**(26)**
Balance as at 1 January 2008	(26)
Creation during the current year	(255)
Use during the current year	5
Release during the current year	3
Other	(1)
Balance of impairment of other assets as at 31 December 2008	**(274)**

The impairment is presented in the income statement under "Other operating expenses".

(b) Discontinued operations

MCZK	31. 12. 2008	31. 12. 2007
Trade receivables	–	6
Expected state subsidy	–	1,034
Other	–	7
Total other assets	**–**	**1,047**
Impairment of other assets	–	(3)
Net other assets	**–**	**1,044**

The expected claim by the subsidiary for a state subsidy for building society savings from the Ministry of Finance was calculated based on the volume of individual clients' deposits with a valid claim for state subsidy and it is limited to CZK 4,500 (or CZK 3,000) per individual. The calculated amount is presented in the balance sheet as "Deposits from customers" (see Note 24). The expected value of the subsidiary's claims for a state subsidy as at 1 October 2006 is significantly lower compared to that for 31 December 2007 as the subsidiary (building society) applies for this state subsidy once at the end of the calendar year for the entire year.

22. Impairment of assets total

MCZK	Receivables from clients (Note 15)	Financial investments (Note 16)	Tangible and intangible assets (Note 18,19)	Other assets (Note 20)	Total
Balance as at 1 October 2006	(1,925)	(7)	(536)	(17)	(2,485)
Creation during the current year	(1,784)	(1)	(5)	(34)	(1,824)
Release during the current year	1,223	–	32	23	1,278
Write-offs and others	171	1	125	2	299
Impairment loss as at 31 December 2007	**(2,315)**	**(7)**	**(384)**	**(26)**	**(2,732)**
Balance as at 1 January 2008	(2,315)	(7)	(384)	(26)	(2,732)
Creation during the current year	(1,242)	–	–	(255)	(1,497)
Release during the current year	421	–	16	3	440
Write-offs and others	64	–	–	4	68
Impairment loss as at 31 December 2008	**(3,072)**	**(7)**	**(368)**	**(274)**	**(3,721)**

23. Deposits from banks

Analysis of deposits from banks by type

MCZK	31. 12. 2008	31. 12. 2007
Current accounts	2,886	5,641
Bank loans	9,821	7,090
Term deposits	14,341	14,252
Total deposits from banks	**27,048**	**26,983**

24. Deposits from customers

(a) Continued operations

(i) Analysis of deposits from customers by type

MCZK	31. 12. 2008	31. 12. 2007
Current accounts	73,495	85,905
Loans	9,454	4,282
Term deposits	72,682	58,046
Issued depository notes	12,377	15,174
Saving deposits	2,612	2,876
Total deposits from customers	**170,620**	**166,283**

Issued depository notes are short-term securities and represent an alternative form of financing from clients. Therefore the Bank decided to include them in “Deposits from clients” rather than “Debt securities issued”.

(ii) Analysis of deposits from customers by sector

MCZK	31. 12. 2008	31. 12. 2007
Financial institutions	12,671	13,938
Non-financial institutions	65,830	73,433
Government sector	29,326	11,056
Non-profit organizations	1,391	1,485
Self-employed	10,003	14,407
Resident individuals	42,625	43,833
Non-residents	8,774	8,131
Total deposits from customers	**170,620**	**166,283**

(b) Discontinued operations

(i) Analysis of deposits from customers by type

MCZK	31. 12. 2008	31. 12. 2007
Payables from building savings scheme	–	29,407
Payables from expected state subsidy	–	1,034
Total deposits from customers	**–**	**30,441**

(ii) Analysis of deposits from customers by sector

MCZK	31. 12. 2008	31. 12. 2007
Non-financial institutions	–	66
Government sector	–	34
Non-profit organizations	–	12
Resident individuals	–	30,329
Total deposits from customers	**–**	**30,441**

25. Debt securities issued

(a) Analysis of payables in respect of debt securities issued

MCZK	31. 12. 2008	31. 12. 2007
Mortgage bonds	31,097	24,946
Structured bonds	4,110	3,182
Zero coupon bonds	1,892	511
Other issued bonds	171	14
Net book value	**37,270**	**28,653**

(b) Analysis of mortgage bonds issued

Issue date	Maturity Date	Currency	Interest rate	31. 12. 2008 MCZK	31. 12. 2007 MCZK
4 February 2002	4 February 2009	CZK	6.00%	6,913	6,706
9 October 2003	9 October 2008	CZK	4.50%	–	509
19 August 2004	19 August 2012	CZK	6.00%	1,401	–
29 September 2005	29 September 2015	CZK	4.00%	1,060	1,068
5 October 2005	5 October 2015	CZK	4.50%	5,312	5,316
15 November 2005	15 November 2010	CZK	3.50%	3,981	3,937
23 November 2005	15 November 2025	CZK	5.00%	168	116
15 June 2007	16 September 2008	CZK	–*	–	225
15 June 2007	16 June 2008	CZK	–*	–	371
15 June 2007	15 June 2012	CZK	5.00%	63	5
12 December 2007	21 December 2037	CZK	2.00%	6,658	6,693
12 December 2007	16 March 2009	CZK	–*	962	–
12 December 2007	15 June 2009	CZK	–*	980	–
12 December 2007	15 September 2009	CZK	–*	456	–
12 December 2007	15 December 2009	CZK	–*	73	–
12 December 2007	15 March 2010	CZK	–*	29	–
12 December 2007	15 June 2010	CZK	–*	12	–
12 December 2007	15 September 2010	CZK	–*	2	–
12 December 2007	15 December 2010	CZK	–*	1	–
12 December 2007	15 March 2011	CZK	–*	19	–
27 December 2007	28 December 2017	CZK	2.84%	3,001	–
17 October 2008	19 October 2009	CZK	2.39%	1	–
24 October 2008	29 October 2009	CZK	2.08%	5	–
Total of mortgage bonds issued				**31,097**	**24,946**

* discounted mortgage bonds

26. Financial liabilities held for trading

For the Group's business strategy, see Note 36.

MCZK	31. 12. 2008	31. 12. 2007
Interest rate contracts	2,145	885
Currency contracts	3,861	861
Equity contracts	86	1,947
Commodity contracts	164	3
Liabilities from short sales of securities	412	1,498
Total financial liabilities held for trading	**6,668**	**5,194**

27. Provisions

Provisions include the following items:

MCZK	31. 12. 2008	31. 12. 2007
Provisions for off-balance sheet credit items	394	438
Other provisions		
Claims and litigations	60	62
Unclaimed vacation	58	60
Other	10	71
Total provisions	**522**	**631**

(a) Provisions for off-balance sheet credit items

MCZK	
Balance at 1 October 2006	347
Creation during the current year	161
Release during the current year	(70)
Balance of provisions for off-balance sheet credit items at 31 December 2007	**438**
Balance at 1 January 2008	438
Creation during the current year	–
Release during the current year	(44)
Balance of provisions for off-balance sheet credit items at 31 December 2008	**394**

(b) Other provisions

MCZK	Claims and litigations	Unclaimed vacation	Other	Total
Balance at 1 October 2006	47	30	–	77
Creation during the current year	37	30	126	193
Use during the current year	–	–	(5)	(5)
Release of provisions	(22)	–	(50)	(72)
Balance of provisions at 31 December 2007	**62**	**60**	**71**	**193**
Balance at 1 January 2008	62	60	71	193
Creation during the current year	2	–	6	8
Use during the current year	(3)	–	(57)	(60)
Release of provisions	–	(2)	(11)	(13)
Other	(1)	–	1	–
Balance of provisions at 31 December 2008	**60**	**58**	**10**	**128**

The use of MCZK 2 in provisions for unclaimed vacation payments is presented as a part of general operating costs, under “Wages and salaries”.

28. Other liabilities

(a) Continued operations

MCZK	31. 12. 2008	31. 12. 2007
Deferred income and accrued expenses	217	222
Trade payables	969	1,281
Fair value of hedging derivatives	1,819	525
Income taxes payable	27	–
Other taxes payable	31	16
Estimated payables	531	742
Unsettled securities dealing	–	108
Suspense accounts	5,457	13,558
Other	14	15
Total other liabilities	9,065	16,467

The decrease in "Suspense accounts" balances was caused by two unsettled over-the-counter trades which were performed shortly before year end 2007. These trades were settled at the beginning of January 2008.

(b) Discontinued operations

MCZK	31. 12. 2008	31. 12. 2007
Deferred income and accrued expenses	–	33
Trade payables	–	41
Income taxes payable	–	6
Estimated payables	–	1,457
Other	–	27
Total other liabilities	**–**	**1,564**

29. Income tax

(a) Tax in Profit and loss

MCZK	31. 12. 2008	31. 12. 2007
Current year income tax	(784)	(886)
Income tax for previous period	23	2
Deferred tax	(44)	(23)
Total income tax	**(805)**	**(907)**

In 2008 the income tax rate for legal entities was changed from the 24% used in 2007 to 21% according to the Income Tax Act No. 586/1992 Coll.
The Group's income tax is different from the theoretical income tax, which would be calculated using the tax rate applicable in the Czech Republic, as follows:

MCZK	31. 12. 2008
Current year profit (loss) before tax	5,726
Income tax calculated using tax rate 21%	1,202
Effect of the difference between Czech Accounting Standards used for calculating the tax base and IFRS	(57)
Effect of previous years	(100)
Foreign income tax effect	(32)
Non-taxable income	(402)
Tax non-deductible expenses	152
Change in deferred tax by reason of the tax rate change	12
Change in deferred tax	32
Other	(2)
Total income tax	**805**

The effective tax rate of the Group is 14% (for the period from 1 October to 31 December 2007: 21.6%).

(b) Tax in Balance sheet

The Group made advance payments for income tax of MCZK 784 (for the period from 1 October 2006 to 31 December 2007: MCZK 985). When offsetting with the income tax payable, the Group presents for the accounting period net tax payable of MCZK 27 in the item "Other liabilities" (as at 31 December 2007: net tax receivable of MCZK 99 included in "Other assets").

(c) Deferred tax asset and liability

Deferred income tax is calculated on all temporary differences using the balance sheet liability method and applying the appropriate tax rate. Deferred income tax assets and liabilities are attributable to the following:

MCZK	31. 12. 2008		31. 12. 2007	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Tax non-deductible reserves	13	–	16	–
Social and health insurance from bonuses	22	–	25	–
Impairment of loans	186	–	213	–
Fixed assets net of book value differences	2	–	11	–
Other	14	–	16	–
Net deferred tax liability/asset recognized in income statement	**237**	**–**	**281**	**–**
Revaluation reserve for available-for-sale assets	–	23	122	–
Net deferred tax liability/asset recognized in equity	**–**	**23**	**122**	**–**
Total deferred tax asset	**214**	**–**	**403**	**–**

When calculating the net tax liability/asset the Group offset deferred tax liabilities and deferred tax assets arising from income tax payable to the tax authority within the same tax category. Deferred tax liabilities and assets recognized in equity are not offset against deferred tax liabilities and assets recognized in the income statement account.
The Group's management believes that it is highly probable that the Group will fully realize its deferred tax asset as at 31 December 2008 based on the Group's current and expected future level of taxable profits.

30. Subordinated liabilities

MCZK	31. 12. 2008	31. 12. 2007
Subordinated loan, UniCredit S.p.A.	1,000	1,000
Total of subordinated liabilities	**1,000**	**1,000**

On 29 December 2004, the Bank drew subordinated debt of MCZK 1,000 from the parent company UCI. The interest charged on the subordinated debt is PRIBOR + 0.6% until 29 December 2009 and PRIBOR + 1.2% thereafter. The interest is payable quarterly in arrears, and the principal is repayable on 29 December 2014. The principal may not be repaid before 29 December 2009 and without the Czech National Bank's consent. The subordinated debt is not collateralized, and is subordinated to all the Bank's liabilities. It forms a part of the Bank's additional capital for the purpose of capital adequacy.

31. Issued capital and share premium

The issued capital (registered, subscribed and paid-up) as at 31 December 2008 and 31 December 2007 amounted to MCZK 5,125.

a) The shareholders as at 31 December 2008 and 31 December 2007

Name	Share nominal value Registered office	Share premium (MCZK)	Share in equity (MCZK)	(%)
UniCredit Bank Austria AG, Vienna	Austria	5,125	3,473	100
Total		**5,125**	**3,473**	**100**

(b) Issued capital analysis

	31. 12. 2008 Number of shares	31. 12. 2008 MCZK	31. 12. 2007 Number of shares	31. 12. 2007 MCZK
Common share at CZK 16,320,000	100	1,632	100	1,632
Common share at CZK 13,375,000	200	2,675	200	2,675
Common share at CZK 10,000	74,000	740	74,000	740
Common share at CZK 7,771,600	10	78	10	78
Total of issued capital		**5,125**		**5,125**

Shares are transferable with the Supervisory Board's approval.
The Bank did not hold any of its own shares as at 31 December 2008 and 31 December 2007.

32. Bonuses tied to equity

The Bank has not implemented any incentive bonus schemes or motivation program for employees for the purchase of own shares or paid any remuneration in the form of options to purchase own shares.

33. Reserve funds and retained earnings

The split of reserve funds is as follows:

MCZK	31. 12. 2008	31. 12. 2007
Legal reserve fund	1,025	1,025
Other reserve funds	1,824	1,824
Reserve funds total	**2,849**	**2,849**
Retained earnings	**15,912**	**12,151**

The Bank creates, in accordance with the law, a legal reserve fund (part of the item "Reserve funds"). The legal reserve fund is created from net profit as at the date of preparation of the financial statements for the year in which a profit was achieved for the first time, in the amount of at least 20% of the net profit but not more than 10% of the registered capital. This reserve is added to annually by 5% of the net profit up to 20% of the registered capital. The legal reserve fund can only be used to cover incurred losses and use of the legal reserve fund is under the control of the Board of Directors. The reserve fund is created at the level of 20% of the registered capital.

In accordance with applicable legal provisions, the Board of Directors is entitled to create funds allocated from profit to cover the Bank's specific risks as well as to create other funds in excess of the legally required reserve fund. The Board of Directors likewise decides on the use of these funds.
The Bank intends to distribute the profit for 2008 of MCZK 4,921 as follows: dividend payment of MCZK 750 and transfer to retained earnings of MCZK 4,171.

34. Borrowing and lending of securities, repurchase and resale commitments

(a) Resale commitments

MCZK	31. 12. 2008	31. 12. 2007
Receivables from banks	22,704	12,328
Fair value of securities received	22,411	12,134
Receivables from clients	534	–
Fair value of securities received	672	–

(b) Repurchase commitments

MCZK	31. 12. 2008	31. 12. 2007
Deposits from banks	4,722	7,903
Fair value of given securities (Financial assets held for trading)	533	4,278
Fair value of given securities (Financial investments)	4,216	3,549
Deposits from clients	9,454	–
Fair value of given securities (Financial assets held for trading)	3,361	–
Fair value of given securities (Financial investments)	6,112	–

35. Contingent liabilities, contingent assets and derivatives

During regular business operations the Group enters into various financial operations which are not recognized in the balance sheet. These operations are called off-balance sheet operations. Unless stated otherwise the following off-balance sheet operations are stated in nominal amounts.

Contingent liabilities

Litigation and claims

The group reviewed all legal disputes affecting the Group as at 31 December 2008 and created appropriate provisions for litigation and claims (see Note 26). In addition to these litigations there are other claims related to the Group's business activities. However, the management does not expect the result of such claims to have any significant impact on the financial situation of the Group.

Taxation

Czech tax legislation has changed significantly over the last few years. Many problematic parts remain unclear and it is also unclear which interpretation the tax authority will choose. The result of this situation can not be quantified and a solution will only be possible after release of official interpretation.

Liabilities from guarantees and credit commitments and other contingent liabilities

Unused credit commitments represent the most significant part of contingent liabilities. The credit commitments granted by the Group include issued commitments for loans or guarantees and also unused credit lines and overdraft facilities. The group can revoke the revocable credit commitments anytime without stating reasons. On the other hand irrevocable credit commitments represent the Group's liability to provide loans or guarantees and the fulfilment of this liability does not depend on the will of the Group even though it depends on the client's fulfilment of the terms and conditions. Liabilities from financial guarantees represent irrevocable commitments that the Group will realize payments when the conditions defined in guarantee certificates are fulfilled.
These commitments bear similar risk as do loans, so the Group creates reserves for these commitments using a similar algorithm as that used when creating loan loss provisions (see Note 38).
Letters of credit represent the group's written irrevocable liability to provide funds to a third party or to its order (beneficiary, commissioned) if the letter of credit's conditions were fulfilled in a defined period. It is issued on the basis of the customer's (applicant's) request. The group creates reserves for these financial instruments using a similar algorithm as that used when creating loan loss provisions (see note 37).
The group has created provisions for off-balance sheet items to cover incurred losses arising from decrease in their value due to credit risk. As at 31 December 2008 the total amount of these provisions amounted to MCZK 394 (as at 31 December 2007: MCZK 438) (see Note 27 (a)).

MCZK	31. 12. 2008	31. 12. 2007
Irrevocable letters of credit and financial guarantees	23,827	19,768
Other irrevocable contingent liabilities (unused credit commitments)	67,048	89,185
Total	**90,875**	**108,953**

Values taken into administration and management

MCZK	31. 12. 2008	31. 12. 2007
Bonds	158,482	252,596
Shares	187,870	259,239
Depository notes	12,377	15,174
Total values taken into administration and management	**358,729**	**527,009**

(b) Contingent assets

As at 31 December 2008 the Group has the option to draw the following loans:
Credit line provided by UniCredit Bank Austria AG, Vienna in the maximum amount of MCZK 2,902 (MEUR 109) and maturing in March 2010.

Credit line provided by the European Investment Bank (EIB) in the maximum amount of MCZK 2,693 (MEUR 100) with the latest maturity of 13 years from the drawing. This line is specifically for the refinancing of credits that fulfil the conditions of the EIB.

(c) Financial derivatives

Financial derivatives from OTC market (OTC derivatives)				
	Contractual amounts		Fair value	
MCZK	31. 12. 2008	31. 12. 2007	31. 12. 2008	31. 12. 2007
Hedging instruments				
Interest rate swap contracts	79,204	53,666	483	(23)
Cross currency swap contracts	10,341	9,147	(555)	(47)
Trading instruments				
Forward rate agreements (FRA)	3,000	3,500	1	2
Interest rate swap contracts	93,538	81,006	(140)	48
Forward foreign exchange contracts			520	(201)
Purchase	10,233	7,717		
Sale	9,650	7,900		
Option contracts			10	10
Purchase	75,690	63,129		
Sale	75,690	63,129		
Cross currency swap contracts	70,202	59,002	(1,696)	192

Listed financial derivatives				
	Contractual amounts		Fair value	
MCZK	31. 12. 2008	31. 12. 2007	31. 12. 2008	31. 12. 2007
Trading instruments				
Interest rate futures	2,329	956	45	60
Commodity instruments	625	10	4	1

Residual maturity of financial derivatives

The nominal values of individual types of derivatives can be divided based on their residual maturity as follows (basis 30/360):									
MCZK	Up to 1 month	1–3 months	3 months to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
As at 31 December 2008									
Hedging instruments									
Interest rate swap contracts	9,732	2,500	16,971	14,628	5,905	5,167	4,724	19,577	79,204
Cross currency swap contracts	–	–	3,908	–	1,794	–	1,974	2,665	10,341
Trading instruments									
Forward rate agreements (FRA)	2,000	1,000	–	–	–	–	–	–	3,000
Interest rate swap contracts	7,501	6,059	8,876	14,886	13,286	12,451	15,282	15,197	93,538
Foreign exchange contracts (Purchase)	1,115	1,679	3,891	3,214	297	37	–	–	10,233
Foreign exchange contracts (Sale)	1,111	1,653	3,764	2,830	259	33	–	–	9,650
Option contracts (Purchase)	3,593	4,102	24,478	14,226	16,104	10,525	2,568	94	75,690
Option contracts (Sale)	3,593	4,102	24,478	14,226	16,104	10,525	2,568	94	75,690
Interest rate futures	–	2,329	–	–	–	–	–	–	2,329
Commodity instruments	–	325	119	142	–	39	–	–	625
Cross currency swap contracts	31,890	12,139	14,306	3,699	4,763	2,985	298	122	70,202
As at 31 December 2007									
Hedging instruments									
Interest rate swap contracts	4,833	54	2,414	15,754	8,150	2,150	3,374	16,937	53,666
Cross currency swap contracts	–	–	3,681	3,592	–	1,874	–	–	9,147
Trading instruments									
Forward rate agreements (FRA)	–	–	3,500	–	–	–	–	–	3,500
Interest rate swap contracts	4,231	3,099	11,865	12,043	8,068	8,937	12,054	20,709	81,006
Foreign exchange contracts (Purchase)	495	1,588	3,831	1,658	144	1	–	–	7,717
Foreign exchange contracts (Sale)	496	1,616	3,942	1,702	143	1	–	–	7,900
Option contracts (Purchase)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Option contracts (Sale)	1,122	1,669	21,523	10,986	6,704	9,429	8,920	2,776	63,129
Interest rate futures	–	956	–	–	–	–	–	–	956
Commodity instruments	–	–	10	–	–	–	–	–	10
Cross currency swap contracts	33,290	5,162	10,964	2,052	4,102	–	2,985	447	59,002

36. Segment reporting

Primary segment reporting is based on the Group's client business segments.

(a) Business segments

MCZK	Retail banking/ Small and medium companies	Corporate banking	Investment banking	Other	Total
As at 31 December 2008					
Net interest and dividend income	1,967	3,701	235	772	6,675
Other net income	993	2,458	445	(73)	3,823
Depreciation of property, plant and equipment					
and amortization of intangible assets	(74)	(3)	–	(56)	(133)
Impairment and provisions	(268)	(553)	–	–	(821)
Segment expenses	(1,235)	(1,160)	(117)	(1,306)	(3,818)
Profit before tax	1,383	4,443	563	(663)	5,726
Income tax	–	–	–	(805)	(805)
Result of segment	1,383	4,443	563	(1,468)	4,921
Segment assets	23,986	148,648	101,880	4,773	279,287
Segment liabilities	101,799	90,429	49,378	10,610	252,216
As at 31 December 2007					
Segment assets	25,576	131,531	130,740	12,606	300,453
Segment liabilities	135,657	73,613	48,284	19,664	277,218

(b) Geographical segments

The Group's accounting system does not allow full automatic allocation of revenues and expenses according to geographical area. In 2008 and in the period from 1 October 2006 to 31 December 2007 the Group generated the main part of its revenues from activities in the Czech Republic and the EU.

37. Financial risk management

(a) Introduction

The Group is exposed to the following types of risk:

- Credit risk
- Market risk
- Operational risk

The Bank's Board of Directors is responsible for, and approves, the overall strategy of risk management, which is reviewed on a regular basis. The Board has established an Assets and Liabilities Committee (ALCO), Credit Committee and Committee for the Management of Operational Risk in order to monitor and manage particular risks for its specific areas. These Committees report to the Bank's Board on a regular basis.

(b) Credit risk

The Group is exposed to credit risks as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

Credit risk is managed at two levels: at the level of the individual client (transaction) and at the portfolio level.

The Credit Risk Underwriting Division, the Credit Models and Reporting Division and the Credit Risk Operations Division are directly responsible for credit risk management. Both are organizationally independent of the business divisions and are directly accountable to the member of the Board of Directors responsible for risk management, finance and controlling.

The Bank defines in its credit policy general principles, methods and instruments used for the purpose of identification, measurement and management of credit risk. The Credit Models and Reporting Division is responsible for loan policy, which is revised at least once a year. The Bank defines in its internal guidelines approval competencies for credit deals, including definition of responsibilities and competencies of the Credit Committee.

(i) Credit risk management at individual client level

The credit risk at client level is managed by analyzing the client's financial standing and setting limits on the credit extended. The analysis is focused on the client's standing in the relevant market, rating of the client's financial statements, prediction of future liquidity etc. The result of this analysis is, among other things, to establish a rating that reflects the probability of the client's default and takes into account both quantitative and qualitative factors. The financial standing analysis is carried out, and a credit limit and rating set, before credit is granted as well as regularly during the course of the credit relationship with the client. The internal rating system comprises 27 rating levels (1 to 10 with the use of "+" and "–" in several rating classes: 1+, 1, 1@, 2+, etc). This system assesses not only the client's possible delay in making loan payments, but also the client's financial ratios and indicators (such as the structure of, and relationships between, the balance sheet, income statement, and cash flows), quality of management, ownership structure, market position of the debtor, quality of client's reporting, production equipment, etc. Clients with receivables categorized as substandard, doubtful and loss are always assigned to a rating class for clients in default, i.e. one of 8-, 9 or 10.
If an external rating of the debtor prepared by a reputable rating agency is available, the rating results are also taken into account in the assessment of the debtor. However, this rating does not replace the Bank's internal rating system.
For receivables from individuals, the ability of the client to fulfil his obligation is determined using a standardized system of credit scoring based on risk-relevant characteristics (credit application scoring). The Bank likewise sets and regularly updates the probability of client default for individuals using the behavioural scoring method.
As an additional source of information for assessing a client's financial standing, the Bank uses information from credit registries, mainly the CBCB–Czech Banking Credit Bureau, a.s., the CNB Central Credit Registry and the SOLUS association registry.
In accordance with its credit risk management strategy, the Bank requires collateral for all provided credit before the credit is granted (according to the client's financial standing and the nature of the transaction). The Bank considers the following to be acceptable types of collateral: cash, first-class securities, a bank guarantee from a reputable bank, a guarantee from a highly reputable non-banking entity, real estate, and assignment of high quality receivables. The Bank's assessment of the net realizable value of the collateral is conservative and an expert appraisal, based in particular on the financial standing of the collateral provider as well as the nominal value of the collateral, is prepared by the Bank's specialist department. The net realizable value of the collateral is determined using this value and a correction coefficient, which reflects the Bank's ability to realize the collateral if and when necessary.
In November 2008, as a reaction to changes in the market, the collateral coefficients used to establish the collateral value for real estate were reassessed (tightened).

(ii) Credit risk management at portfolio level

Credit risk management at this level involves mainly loan portfolio reporting including analyses and monitoring of trends in certain credit sub-portfolios. The Bank monitors its overall credit risk position by taking into account all on-balance and off-balance sheet exposures and quantifying the expected loss from its credit exposure. The Bank has created a system of internal limits for certain countries, branches and economically connected groups of debtors and regularly monitors its involvement in different segments. The Bank assesses the concentration risk of a loan portfolio on a regular basis and determines concentration limits when necessary in relation to specific industries, countries, or economically connected groups of debtors.

(iii) Classification of receivables, impairment and provisions

The Bank is categorizes its receivables arising from financial activities on a monthly basis, in accordance with Decree No. 123/2007 Coll. of the CNB.
The Bank regularly assesses a possible permanent decrease of the balance sheet value of receivables; in case that Bank identifies such a decrease, the Bank creates provisions for each receivable or portfolio of receivables respectively in accordance with IFRS.

Impairment of individual loans

The Bank recognizes the impairment of an individual loan if the loan's carrying amount decreases and the Bank does not write off such amount; that is, part of the loan receivable corresponding to the loss from the loan's carrying amount. The Bank assesses impairment of the carrying amount for each watched loan receivable and for all loan receivables with debtors in default.
The Bank calculates the individual impairment in amount of loss resulting from decrease of the loan's carrying amount, i.e. impairment loss is equal to difference between carrying amount (reduced by the materially acceptable value of collateral) and discounted value of estimated future cash flows from the unsecured part of the loan.

Impairment of portfolio of loans

The Bank recognizes impairment losses of the standard loans portfolio if it identifies a decrease in the portfolio carrying amount as a result of events indicating a decrease of expected future cash flows from this portfolio.

Provisions are assigned to individual portfolios, not to individual loan cases.

The Bank uses the concept of "incurred loss" when identifying portfolio impairment, considering time delay between the impairment event and the time when the Bank obtains information on the impairment event (i.e. when the receivable is excluded from the portfolio of standard receivables and the decrease in the value is considered in accordance with the common practice used for single receivables; that is, a provision for the concrete receivable is created).

In 2008 the parameters used for the calculation of the incurred loss of loans portfolio were reassessed; concretely the method of treating debtors failure probability was reassessed and calculated time delay between the time of incurred loss origination and its recognition by the Bank was changed. The method currently used is in accordance with the UniCredit Group methodology used for incurred loss determination.

<u>Provisions for off balance sheet items</u>

The Bank creates provisions for selected off balance sheet items, namely:

(i) Provisions for off balance sheet items at the Bank's clients for whom there is currently recorded a particular balance sheet receivable which fulfilled the conditions for ranking into watched loan or a loan with debtor's default category and the Bank creates the provisions for such loans.

Note: The Bank does not create such provisions for undrawn credit lines of issued credit cards.

(ii) Provisions for selected off balance sheet items at the Bank's clients for whom the Bank does not record any balance sheet receivable in a given period, however, in case of the existence of such receivable the conditions for ranking into watched loan or a loan with debtor's default category would be fulfilled.

(iii) Provisions for selected off balance sheet items that are ranked into portfolios. The Bank recognizes such provisions in the same way as used in creating impairment of loan portfolios.

(iv) Recovery of receivables

The Bank has established a department to deal with the recovery of loans in respect of receivables considered to be at risk. This department aims to achieve one or more of the following goals:

a) "Revitalization" of the credit relationship, restructuring and subsequent reclassification to standard receivables,

b) Full repayment of the loan,

c) Minimization of the loss from the loan (realization of collateral, sale of receivable with a discount etc.),

d) Prevention of further losses from the loan (comparison of future income and expenses).

(c) Market risk

(i) Trading

The Group holds trading positions in certain financial instruments including financial derivatives. The majority of the Group's business activities are conducted according to the requirements of the Group's customers. Depending on the estimated demand of its customers the Group holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Group's business strategy is thus affected by speculation and market making and its goal is to maximize the net income from trading.

The Group manages the risks associated with its trading activities at the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are limits on volumes applicable to individual transactions, limits for portfolio sensitivity (basis point value; BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in the following section "Market risk management".

The majority of derivatives are contracted on the OTC market due to the non-existence of a public market for financial derivatives in the Czech Republic.

(ii) Market risk management

Below are described selected risks to which the Group is exposed through its trading activities, principles of managing positions resulting form these activities and also management of these risks.

The procedures that the Group uses to measure and manage these risks are described in detail in the following paragraphs.

The Group is exposed to market risks which flow from its open positions in interest rate, equity and foreign currency instruments that are sensitive to changes in financial market conditions.

The Group's risk management concentrates on management of the total net exposure resulting from the Group's structure of assets and liabilities. The Group monitors interest rate risks by monitoring the sensitivity of particular assets or liabilities in individual time periods, which is expressed by change in the present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For hedge accounting purposes the Group identifies specific assets/liabilities causing this incongruity in a way to meet the accounting criteria for the application of the hedge accounting.

Value at Risk
Value at Risk represents the main method for managing the market risks arising from the Group's activities. Value at Risk represents the potential loss from an unfavourable movement on the market within a certain time period at a certain confidence level. The Group determines the Value at Risk through the stochastic simulation of a wide range of potential scenarios on the financial markets. Value at Risk is measured based on a one-day holding period and a confidence level of 99%. The assumptions on which the Value at Risk model is based have the following limitations:

– The 1-day holding period supposes that all the positions can be closed during a single day. This assumption need not always apply on less liquid markets.
– The 99% confidence level does not reflect all possible losses that can occur at this confidence level.
– VaR is calculated from the positions at the end of the trading day and does not consider the positions which can be opened "intra-day".
– Using historical data as a basic determinant of possible future development does not necessarily cover all of the possible future scenarios, especially crisis scenarios.

The Group uses VaR to measure interest rate risk, foreign currency risk, equity risk and other types of risk connected with negative movements in the prices of market factors (spread risk, option risk, etc.). The structure of VaR limits is approved by the Assets and Liabilities Committee (ALCO), and at least once a year the structure and the amount of limits are revised in accordance with the Group's needs and developments on the financial markets. The results of VaR calculation are published daily for selected users (Board of Directors, plus selected employees of the Financial Markets Division, Market Risk Division, Assets and Liabilities Management Division and the parent bank's MARS).

Back testing – Value at Risk
The results of this model are back-tested and compared with the results of the actual changes in interest rates on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets.
The following Values at Risk of the consolidated entity relating to individual types of risks are calculated under the assumption that there is no correlation between the risks of the Bank and its subsidiaries.

MCZK	As at 31. 12. 2008	Average 1. 1. 2008 – 31. 12. 2008	As at 31. 12. 2007	Average 1. 10. 2006 – 31. 12. 2007
VaR of interest rate instruments	182.2	111.3	78.8	35.8
VaR of currency instruments	10.6	2.3	1.1	1.5
VaR of equity instruments	2.0	1.6	1.2	1.1

Interest rate risk
The Group is exposed to interest risk as a result of interest bearing assets and liabilities with different maturity or interest rate re-pricing periods and different volumes during these periods. In the event of a change in interest rates, the Group is exposed to a risk, as a result of the different mechanism or timing of adjustments to particular types of interest rates (such as PRIBOR), declared interest on deposits etc. The activities of the interest risk management section are focused on optimizing the Group's net interest revenue in accordance with the strategy approved by the Board of Directors.
The Group's overall interest rate position as at 31 December is characterized by a greater interest rate sensitivity on the liability side. This is seen in the positive overall basis point value (or "BPV"), whereby in the case of a simultaneous rise in interest rates for individual currencies there could occur a modest growth in market valuation. The Group's interest rate position is diversified into several currencies, whereby the divergent interest rate risks of individual currencies are compensated with regard to the overall portfolio of assets and liabilities. The major sensitivity is connected to the CZK and EUR. The Group's overall position is approximately balanced.

Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for the management of assets and liabilities approved by the Board of Directors. Part of the Bank's income is generated by the intentional incongruity between the interest rate sensitive assets and liabilities. The Group applies a "Basis Point Value – BPV" approach for the measurement of interest sensitivity of assets and liabilities. BPV represents the change of present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. represents the sensitivity of instruments towards interest rate risks. The Group set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

Stress testing of interest rate
The Group carries out a weekly stress testing of interest rate sensitivity by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impact on the Group's financial results.

Due to the fact that the Group enters into derivatives transactions in order to hedge the interest rate risk for the whole credit-sensitive part of the balance sheet, the stress tests are not performed separately for trading and investment portfolios but on an aggregated basis.

The standard stress scenario corresponds to a parallel shift in the yield curve by 200 basic points for major currencies (CZK, EUR, USD), and the main alternative scenario (money market stress test) corresponds to a parallel shift in the short tail of the yield curve for major currencies (CZK, EUR, USD), with a maturity of up to 2 years, by 250 basic points.

The following table shows the impact of the parallel shift of the yield curve on the Group's profit:

		Basic stress test	MM stress test
MEUR	–200bp	+200bp	+250bp
Value as at 31 December 2008	(1.31)	(0.75)	(5.25)
Average for the year	2.99	(2.79)	(3.32)
Maximum value	21.57	14.63	6.15
Minimum value	(14.40)	(12.35)	(8.78)
Value as at 31 December 2007	16.98	(13.91)	(1.88)
Average for the year	5.28	(4.46)	(1.68)
Maximum value	21.91	(18.59)	1.30
Minimum value	(0.72)	0.49	(7.06)

The following table includes interest rate sensitivity of the Group's assets and liabilities on EIR:

MCZK	EIR	Up to 1 months	1–3 months	3 m. to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2008											
Cash in hand and balances with central banks	0.00	116	–	–	–	–	–	–	–	1,689	1,805
Financial assets held for trading	3.91	7,068	493	5,869	34	–	300	32	320	–	14,116
Receivables from banks	3.18	44,884	4,235	2,763	–	–	–	–	–	–	51,882
Receivables from customers	4.35	51,498	63,123	24,907	10,015	6,846	7,238	3,837	5,926	–	173,391
Financial investments	4.79	3,873	2,978	5,457	4,269	1,920	105	1,759	12,263	124	32,748
Deposits from banks	2.63	18,476	7,103	1,469	–	–	–	–	–	–	27,048
Deposits from customers	1.37	156,454	7,548	5,780	321	415	94	6	2	–	170,620
Debt securities issued	3.59	4,113	8,541	11,999	4,601	–	1,435	89	6,482	10	37,270
Financial liabilities held for trading	0.00	6,256	–	–	412	–	–	–	–	–	6,668
Subordinated liabilities	4.24	–	1,000	–	–	–	–	–	–	–	1,000

MCZK	EIR	Up to 1 months	1–3 months	3 m. to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2007											
Cash in hand and balances with central banks	–	–	–	–	–	–	–	–	–	1,720	1,720
Financial assets held for trading	3.74	4,763	11,130	983	99	36	–	125	935	88	18,159
Receivables from banks	4.53	38,309	6,811	1,969	9	91	–	–	–	–	47,189
Receivables from customers	5.14	41,311	31,022	37,404	11,651	8,541	3,020	7,230	4,360	7,624	152,163
Financial investments	5.25	1,111	3,683	7,161	1,073	4,207	2,145	111	13,710	2,926	36,127
Deposits from banks	3.93	19,213	3,639	4,131	–	–	–	–	–	–	26,983
Deposits from customers	2.97	156,886	4,913	3,299	402	281	410	92	–	–	166,283
Debt securities issued	4.91	56	351	11,080	6,806	3,922	–	–	6,438	–	28,653
Financial liabilities held for trading	0.00	3,694	–	1,500	–	–	–	–	–	–	5,194
Subordinated liabilities	4.70	–	–	1,000	–	–	–	–	–	–	1,000

Hedge accounting

As part of its market risk management strategy, the Group hedges against interest rate risk. The Group's hedge strategy uses both fair value hedges and cash flow hedges.

Fair value hedging

Hedged instruments can be financial assets and liabilities recognized at their carrying amounts (except securities held-to-maturity) and available-for-sale securities recognized at their fair values, with changes in fair value recognized in equity. Hedging instruments are derivatives (most commonly interest rate swaps and cross-currency swaps).
The Group performs a fair value hedge effectiveness test on the basis of future cash flows of hedged and hedging instruments and of expected interest rates movements (a so-called "prospective test"). On the basis of real interest rates development, the test of effectiveness is carried out at the last day of each month. The Group has chosen the monthly frequency of effectiveness testing to be able to detect possible non-effectiveness of hedge relationships.
For particular hedged items and hedging trades (loans, deposits, securities, interest rate swaps, etc.) the amount of cash flows and dates are determined from the beginning of a hedged relationship until the maturity of the hedged instrument, or until the end of the hedge relationship. The present values of particular cash flows for the relevant date (date of effectiveness measurement) are determined on the basis of discount factors for specific currencies. The fair value of the trade is the total of discounted cash flows from the relevant trade at the given time. The cumulative change of the fair value is determined by comparing the fair value in the given time with the first revaluation. These cumulative changes are further netted for realized cash flows by subtracting or adding them back. The hedge is considered as effective if the proportion of cumulative fair value changes of hedged and hedging instruments is between 80% and 125%.

The following table shows the contractual amounts and fair values of derivatives designated as fair value hedging instruments.

	Contractual amount		Fair value	
MCZK	31. 12. 2008	31. 12. 2007	31. 12. 2008	31. 12. 2007
Interest rate swaps	20,387	21,578	(2)	(12)
Cross currency swaps	–	–	–	–

Cash flow hedging
The Group uses the concept of cash flow hedging to eliminate interest rate risk on an aggregate basis. The hedged instruments are future forecasted transactions in the form of interest income and interest expense sensitive to changes of market interest rates. The hedging instruments are derivatives (the most common are interest rate swaps and cross-currency swaps).
The effectiveness of the cash flow hedge is carried out in accordance with BA Group standards which are contained in approved methodology. Firstly, the nominal values (divided into assets and liabilities) of external trades for which the interest cash flow (set on a basis of refinancing the "funding" rate) may be considered as variable are identified for specific currencies (hedged cash flows). Secondly, for these same currencies the nominal interest cash flows of variable hedged parts are identified and are monitored on a net basis.
The Group compares the absolute value of future variable interest cash flows from hedged deals for specific time periods with the absolute value (having the opposite sign, plus or minus) of net variable cash flows from hedge derivatives. The hedge is effective if the absolute volume of variable interest cash flows from hedged deals is greater.

The following table shows the contractual and fair values of derivatives designated as cash flow hedging instruments.

	Contractual amount		Fair value	
MCZK	31. 12. 2008	31. 12. 2007	31. 12. 2008	31. 12. 2007
Interest rate swaps	58,817	32,088	486	(11)
Cross currency swaps	10,341	9,147	(555)	(47)

	Fair value	
MCZK	31. 12. 2008	31. 12. 2007
Hedged instruments		
Available-for sale-securities	137	39
Receivables from clients	(248)	105
Debt securities issued	373	181
The remaining part of formerly hedged financial instruments		
Available-for sale-securities	–	3
Receivables from clients	(6)	41
Debt securities issued	(2)	21

In line with a change in group strategy in the area of hedge accounting, the Group terminated fair value hedge accounting for selected financial instruments in December 2003. In connection with this change the Group still reports the remaining fair value of those instruments, which is amortized till maturity.

Currency risk

Assets and liabilities denominated in foreign currency, including off-balance sheet exposures, represent the Group's exposure to currency risks. Both realized and unrealized foreign exchange gains and losses are reported directly in the income statement.
The Group has set the system of currency risk limits based on its net currency exposure in individual currencies. The Group has determined a currency risk limit of MEUR 20 with respect to the total net currency exposure and to individual main currencies (CZK, EUR and USD).
For remaining currencies valid limits range from MEUR 0.2 to MEUR 5 according to the risk profile of a particular currency.

Notes to the consolidated financial statements (Continued)

The position of the Bank in foreign currencies is as follows:								
MCZK	CZK	EUR	USD	SKK	CHF	HUF	Others	Total
As at 31 December 2008								
Cash in hand and balances with central banks	1,233	373	85	29	39	–	46	1,805
Financial assets held for trading	14,002	62	52	–	–	–	–	14,116
Receivables from banks	29,766	21,493	71	3	42	1	506	51,882
Receivables from customers	122,709	48,173	1,686	15	796	–	12	173,391
Financial investments	19,988	7,691	1,009	–	–	4,060	–	32,748
Property, plant and equipment	1,690	–	–	–	–	–	–	1,690
Intangible assets	4	–	–	–	–	–	–	4
Deferred tax asset	237	–	–	–	–	–	–	237
Other assets	3,087	214	110	–	1	–	2	3,414
Non-current assets held for sale	–	–	–	–	–	–	–	–
Deposits from banks	9,587	15,275	977	1,191	–	–	18	27,048
Deposits from customers	133,962	27,087	6,296	–	405	2,056	814	170,620
Debt securities issued	36,443	731	96	–	–	–	–	37,270
Financial liabilities held for trading	6,635	–	33	–	–	–	–	6,668
Provisions	516	6	–	–	–	–	–	522
Deferred tax liability	23	–	–	–	–	–	–	23
Other liabilities	7,216	1,511	248	–	19	–	71	9,065
Subordinated liabilities	1,000	–	–	–	–	–	–	1,000
Equity	27,359	(293)	1	–	4	–	–	27,071
As at 31 December 2007								
Cash in hand and balances with								
central banks	1,245	310	71	25	19	–	50	1,720
Financial assets held for trading	18,159	–	–	–	–	–	–	18,159
Receivables from banks	24,765	18,850	2,318	17	388	155	696	47,189
Receivables from customers	107,099	41,855	929	1,475	800	–	5	152,163
Financial investments	21,038	9,567	1,027	–	–	4,495	–	36,127
Property, plant and equipment	1,662	–	–	–	–	–	–	1,662
Intangible assets	6	–	–	–	–	–	–	6
Deferred tax asset	403	–	–	–	–	–	–	403
Other assets	11,214	488	99	1	2	–	9	11,813
Deposits from banks	9,827	12,701	1,860	1,433	2	803	357	26,983
Deposits from customers	128,750	27,742	5,253	331	520	2,307	1,380	166,283
Debt securities issued	28,374	177	102	–	–	–	–	28,653
Financial liabilities held for trading	5,194	–	–	–	–	–	–	5,194
Provisions	631	–	–	–	–	–	–	631
Deferred tax liability	–	–	–	–	–	–	–	–
Other liabilities	14,306	1,865	245	17	6	–	28	16,467
Subordinated liabilities	1,000	–	–	–	–	–	–	1,000
Equity	23,235	–	–	–	–	–	–	23,235

Equity risk

The equity risk is the risk of a movement in the prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of this risk is trade with equity instruments, although some equity risk also arises as a result of the Bank's non-trading activities. The risks associated with equity instruments are managed through trading limits. The methods used to manage these risks are described above.

Liquidity risk

Liquidity risk arises as a result of the type of financing of the Group's activities and management of its positions. It includes both the risk that the Group is unable to finance its assets using instruments with appropriate maturity and the risk that the Group is unable to dispose of its assets for an appropriate price within the necessary time period. The Group has access to diverse sources of funds, which comprise deposits and other savings, securities issued, loans accepted including subordinated loans and equity. This diversification makes the Group flexible and limits its dependency on one financing source. The Group regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Group's liquidity risk management strategy, which is approved by the Group's Board of Directors. The Group also holds, as part of its liquidity risk management strategy, a proportion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Liquidity risk is evaluated regularly by the Group using the analysis of differences between the residual maturity of assets and liabilities. Two approaches are used: short-term and long-term (structural). In the short-term approach the Group daily monitors in detail over the following weeks the difference between inflows and outflows of liquidity. Limits for cumulative inflows and outflows are set. If the limits are breached the Group takes action to reduce the liquidity risk. In the long-term perspective the Group monitors the difference between the maturity of assets and liabilities in periods longer than a year. For products with a non-specified maturity (i.e. current accounts) the Group has developed a model for their expected residual maturity. The Group again sets limits, and appropriate action is taken if they are breached, e.g. acquiring long-term sources of refinancing.

For the case of a liquidity crisis, a contingency plan has been drawn up by the Group. This plan defines roles, responsibilities and the process of managing a crisis. It also defines the possible measures which should be considered if there is a crisis situation.

Residual maturity of assets and liabilities of the Group:

MCZK	Up to 1 month	1–3 months	3 months – 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2008										
Cash in hand and balances with central banks	116	–	–	–	–	–	–	–	1,689	1,805
Financial assets held for trading	2,707	762	6,592	912	572	940	490	1,020	121	14,116
Receivables from banks	39,478	4,232	2,786	–	5,386	–	–	–	–	51,882
Receivables from customers	78,339	72,334	14,892	1,889	137	1,615	1,736	2,449	–	173,391
Financial investments	374	859	844	4,841	3,015	453	2,276	17,269	2,817	32,748
Property, plant and equipment	–	–	–	–	–	–	–	–	1,690	1,690
Intangible assets	–	–	–	–	–	–	–	–	4	4
Deferred tax asset	–	–	–	–	–	–	–	–	237	237
Other assets	290	65	172	104	133	68	30	950	1,602	3,414
Non-current assets held for sale	–	–	–	–	–	–	–	–	–	–
Total	**121,304**	**78,252**	**25,286**	**7,746**	**9,243**	**3,076**	**4,532**	**21,688**	**8,160**	**279,287**

Deposits from banks	18,404	5,168	679	9	1,004	88	7	1,688	1	27,048
Deposits from customers	155,356	8,381	6,040	306	416	94	11	5	11	170,620
Debt securities issued	309	8,130	3,994	4,606	569	2,504	165	16,616	377	37,270
Financial liabilities held for trading	940	718	1,013	881	1,393	349	600	727	47	6,668
Provisions	–	–	–	–	–	–	–	–	522	522
Deferred tax liability	–	–	–	–	–	–	–	–	23	23
Other liabilities	22	–	205	209	220	120	361	715	7,213	9,065
Subordinated liabilities	–	–	–	–	–	–	–	1,000	–	1,000
Equity	–	–	–	–	–	–	–	–	27,071	27,071
Total	**175,031**	**22,397**	**11,931**	**6,011**	**3,602**	**3,155**	**1,144**	**20,751**	**35,265**	**279,287**
Gap	**(53,727)**	**55,855**	**13,355**	**1,735**	**5,641**	**(79)**	**3,388**	**937**	**(27,105)**	**–**
Cumulative gap	**(53,727)**	**2,128**	**15,483**	**17,218**	**22,859**	**22,780**	**26,168**	**27,105**	**–**	
MCZK	Up to 1 month	1–3 months	3 months – 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Unspe-cified	Total
As at 31 December 2007										
Cash in hand and balances with central banks	107	–	–	–	–	–	–	–	1,613	1,720
Financial assets held for trading	1,190	11,198	2,274	833	944	–	343	1,230	147	18,159
Receivables from banks	38,302	6,847	2,025	15	–	–	–	–	–	47,189
Receivables from customers	17,943	11,151	34,560	20,985	11,054	7,969	12,625	35,876	–	152,163
Financial investments	6	483	1,995	2,059	9,102	–	–	19,606	2,876	36,127
Property, plant and equipment	–	–	–	–	–	–	–	–	1,662	1,662
Intangible assets	–	–	–	–	–	–	–	–	6	6
Deferred tax asset	–	–	18	–	–	–	–	–	385	403
Other assets	155	–	19	178	225	34	–	118	11,084	11,813
Total	**57,703**	**29,679**	**40,891**	**24,070**	**21,325**	**8,003**	**12,968**	**56,830**	**17,773**	**269,242**
Deposits from banks	19,213	155	4,152	2,288	1,078	–	–	–	97	26,983
Deposits from customers	149,704	8,394	3,604	409	291	410	92	–	3,379	166,283
Debt securities issued	–	–	1,628	8,919	6,644	–	–	11,462	–	28,653
Financial liabilities held for trading	367	123	1,157	854	713	339	–	1,421	220	5,194
Provisions	–	–	–	–	–	–	–	–	631	631
Deferred tax liability	–	–	–	–	–	–	–	–	–	–
Other liabilities	232	1	78	97	152	33	–	225	15,649	16,467
Subordinated liabilities	–	–	–	–	–	–	–	1,000	–	1,000
Equity	–	–	–	–	–	–	–	–	23,235	23,235
Total	**169,516**	**8,673**	**10,619**	**12,567**	**8,878**	**782**	**92**	**14,108**	**43,211**	**268,446**
Gap	**(111,813)**	**21,006**	**30,272**	**11,503**	**12,447**	**7,221**	**12,876**	**42,722**	**(25,438)**	**796**
Cumulative gap	**(111,813)**	**(90,807)**	**(60,535)**	**(49,032)**	**(36,585)**	**(29,364)**	**(16,488)**	**26,234**	**796**	**–**

(d) Operational risk

Operational risk represents the risk of a loss due to the absence, violation, exceeding or failure to uphold rules and to damages caused by failure of internal processes, human or system error, or external events. Strategic risk, business risk and reputation risk differ from operational risk while legal risk and compliance risk are included into the definition of operational risk.

The Bank's organizational structure and its internal rules fully respect the segregation of incompatible duties and prevent any conflict of interests. regulate the working processes and control activities. The Operational Risk Management Committee is the main control and decision body regarding operational risk. All members of the Board of Directors are permanent members of the committee. The Operational Risk Division is an independent body, which directly reports to the Board of Directors' member responsible for finance and operational risk management.

The Operational Risk Division is entrusted with securing unified and coordinated operational risk management, congruent with the applicable regulation and with the standards of the parent company. The operational risk management and monitoring itself is exercised by the designated employees of the particular departments. The Internal Audit Department identifies extraordinary trends and breach of or non-compliance with directives, and it assesses the control and management system's functionality.

In 2008, in connection with the transition to the AMA approach for calculating the capital requirement for operational risk, the Bank continued developing and setting up a comprehensive system for identification, monitoring and management of operational risk.

To ensure effective collection of operational risk events and data, the Bank uses an on-line information system developed by the UniCredit Bank Austria Group (formerly Bank Austria Creditanstalt). The system complies with the requirements for capital adequacy management, in accordance with the new regulation of the Basel Committee on Banking Supervision. The data acquired through the system form one of the bases for the design of processes that will lead to a reduced number of particular events and the mitigation of their consequences (e.g. in preparing a strategic insurance plan for the Bank). The data are also used for rechecking the reliability of proposed measures for operational risk mitigation. Data is collected continuously, in cooperation with the Bank's departments. All significant events are reported and resolved immediately. Based on the collected data, a quarterly consolidated report is prepared, which is presented to the Operational Risk Management Committee and distributed within the Bank. The Bank's Board of Directors, Internal Audit Department and the parent company are informed about the most significant cases of operational risk on a weekly basis, or promptly, if needed. The data is regularly reconciled with the accounting and other sources in order to ensure its completeness and accuracy.

In 2008, the Bank also performed a scenario analysis and a risk indicators and risk limits configuration. The continuity of operations management (emergency planning, crisis management) forms another important part of operational risk management. In 2008, the Bank updated the recovery plans (for crisis situations such as the floods in 2002) in order to ensure their full usefulness and effectiveness in the current conditions of the merged Bank. Testing of the updated recovery plans is planned for 2009. The Operational Risk Division is also increasing the overall awareness of operational risk in the Bank and trains the Bank's staff. An e-learning training "Basel II – operational risks" was launched in 2007.

The Bank started calculating the capital requirement for operational risk under the standardized approach (TSA) as at 1 January 2008, i.e. as at the Basel II implementation date. At the same time, the Bank was preparing for the planned sequential implementation of the AMA advanced approach for capital requirement calculation. The parent bank, UniCredit S.p.A, and Bank Austria Creditanstalt (part of the sub-consolidated UniCredit Bank Austria group) are sponsoring this project. The Bank met all the conditions necessary to calculate the capital requirement for operational risk under the AMA advanced approach, and in 2008 it successfully completed the validation process. The Bank can therefore use the Group model for the calculation of capital adequacy for operational risk, which is based on internal and external data, results of scenarios analysis and data of risk indicators.

(e) Capital management

The bank market regulator, the Czech National Bank (CNB), sets the rules for the calculation of capital requirements and monitors their development. Since 1 January 2008 the Group has met its requirements in accordance with Basel II. They were implemented by CNB Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms. The Group currently uses the standardized approach.

The Group's regulatory capital consists of:

- Original capital (Tier 1), which comprises paid up registered capital, share premium, reserve funds, retained earnings, audited profit for the previous period after tax; minus intangible assets;
- Additional capital (Tier 2), which comprises subordinated debt;
- Deductible items, which comprise capital investments over 10% in banks and other financial institutions, and significant prudential adjustments as part of a market appraisal or an appraisal using a model.

The following table shows the regulatory capital of the Group:		
MCZK	31. 12. 2008	31. 12. 2007
Tier 1 Capital		
Paid up registered capital	5,125	5,125
Share premium	3,473	3,473
Reserve funds	2,812	2,812
Retained earnings	15,920	12,151
Planned dividend outflows	(750)	(1,000)
Intangible assets	(4)	(6)
Total Tier 1	26,576	22,555
Tier 2 Capital		
Subordinated debt – received	1,000	1,000
Total Tier 2	1,000	1,000
Deductible items		
Subordinated debt – granted	(203)	(201)
Significant prudential adjustments	(40)	(63)
Total deductible items	(243)	(264)
Total regulatory capital	**27,333**	**23,291**

Capital funds amounting to MCZK 37 are not included in Tier 1.
The Group's management monitors development of the Group's capital adequacy and monitors the Group's capital position. The Group's capital adequacy fulfils the minimum requirement of 8% set by the CNB and Basel II.

(f) Market development in 2008

As a reaction to significant changes in market conditions in the second half of 2008, which, together with the worsening economic performance, will probably lead to increased risks related to the Bank's entire portfolio, the Bank took the following action:

(i) Credit risk area
– One-time exceptional Liquidity Check of the Bank's largest exposures
– Tightening the loan policy for financing commercial real estate
– Implementation of concentration limits in relation to specific economically connected groups of debtors, depending on the annual probability of a specific group failure
– Making the loan review process more specific and more strict
– Tightening collateral coefficients used for setting the collateral value
– Tightening conditions for granting loans in several industries
– Modification of some product parameters for credit products in retail banking

(ii) Market risk area
– Tightening the control of market factors and prices used by the Group for appraisal of financial instruments in its portfolios
– Tightening the mapping of securities for VaR calculation in NoRisk system control

(iii) Liquidity area
– Introduction of more accurate and more detailed monitoring of the short-term liquidity position of the Group
– Introduction of daily monitoring of drawing, repayment of loans and of the inflow and outflow of deposits
– Implementation of a new approval process for new loan commitments
– Tightening conditions for loan commitments

38. Related parties transactions

Entities are considered to be related entities if one entity is able to control the activities of the other or is able to exercise significant influence over the financial or operational policy of the other entity. In its normal course of business, the Group enters into transactions with related entities. These transactions represent mainly loans, deposits and other types of transactions and are concluded under normal trade conditions and at normal market prices so that there is no injury to any of the contracting parties.
As related parties there were identified namely affiliated companies within UCI/HVB/BACA Group, subsidiaries and associated companies, Board members and other management of the Group.

MCZK	31. 12. 2008	31. 12. 2007
Assets		
Receivables from banks	16,644	15,862
Thereof:		
UniCredit Bank Austria AG	7,305	13,792
UniCredit CAIB AG Treasury, Vienna	8,231	–
Bayerische Hypo-und Vereinsbank AG	459	639
HVB Bank Serbia and Montenegro	203	201
UniCredit S.p.A, Milano	52	400
Receivables from customers	4,318	4,673
Thereof:		
BA/CA Leasing GmbH	4,781	4,623
Banking Transaction Services s.r.o.	2	–
Board of Directors	8	–
Management	25	13
Financial investments	1,585	1,695
UniCredit Bank Austria AG	347	348
HVB Jelzalogbank, Hungary	1,238	1,347
Total	**22,547**	**22,230**

MCZK	31. 12. 2008	31. 12. 2007
Liabilities		
Deposits from banks	18,421	16,820
Thereof:		
UniCredit Bank Austria AG	7,454	10,881
UniCredit CAIB AG Treasury, Vienna	5,391	–
Bayerische Hypo-und Vereinsbank AG	3,124	4,650
Unicredito Milano	21	54
Deposits from customers	808	749
Thereof:		
BA/CA Leasing GmbH	102	131
Pioneer Asset Management	479	413
CAE PRAHA a.s. in the process of liquidation	1	1
Banking Transaction Services s.r.o.	24	–
Board of Directors	31	–
Management	34	6
Debt securities issued	–	17
Pioneer Asset Management	–	17
Subordinated liabilities	1,000	1,000
UniCredit S.p.A, Milano	1,000	1,000
Total	**20,229**	**18,586**

MCZK	1. 1. 2008 – 31. 12. 2008
Revenues	
Interest income and similar income	949
Thereof:	
UniCredit S.p.A, Milano	11
UniCredit Bank Austria AG	307
Bayerische Hypo-und Vereinsbank AG	20
UniCredit Leasing Vienna	183
BA/CA Leasing GmbH	9
Fee and commission expense	12
Thereof:	
Bayerische Hypo-und Vereinsbank AG	2
UniCredit Bank Austria AG	4
Total	**961**

MCZK	1. 1. 2008 – 31. 12. 2008
Expenses	
Interest expenses and similar charges	632
Thereof:	
UniCredit S.p.A, Milano	48
Bayerische Hypo-und Vereinsbank AG	147
Bank Austria Creditanstalt AG	214
UniCredit CAIB AG Treasury, Vienna	83
Fee and commission expense	17
Thereof:	
UniCredit Bank Austria AG	17
General administrative expenses	860
Thereof:	
Banking Transaction Services	224
UniCredit Servizi Informativi S.P.	627
Total	**1,509**

39. Fair value of financial assets and financial liabilities

The estimate of fair values (see Note 3 (b)) is made on the basis of actual market prices, if available. In many cases, however, the market prices of various financial instruments are not available. In such circumstances, the fair values are based on management estimates, discounted cash flow models or other commonly used valuation methods. The discount factors used for discounting cash flows are derived from yield curves quoted on the market using the standard mathematical approach for discounting. Many from the methods mentioned above are characterized by certain levels of uncertainty, and the fair value estimates cannot be always considered as market values, and, in many cases, these would not necessarily be achieved in selling a certain financial instrument. Changes of initial assumptions used for establishing fair value could have significant impact on this value determination.

The following table analyses the carrying values and fair values of financial assets and liabilities which are not presented in the consolidated balance sheet at their fair values:				
	31. 12. 2008		31. 12. 2007	
MCZK	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Receivables from banks	51,882	53,087	47,189	47,189
Receivables from customers	173,391	183,191	152,163	165,452
Securities held to maturity	–	–	–	–
Financial liabilities				
Deposits from banks	27,048	28,422	26,983	26,983
Deposits from customers	170,620	172,210	166,283	165,773
Debt securities issued	37,270	37,270	28,653	28,463
Subordinated liabilities	1,000	1,039	1,000	1,000

40. Income statement for comparable periods

The following table presents income statement items relevant for the period from 1 January to 31 December 2008 and comparative information for the year 2007.		
MCZK	2008	2007
Interest income and similar income	12,737	10,155
Interest expense and similar charges	(6,315)	(4,798)
Net interest income and similar income	**6,422**	**5,357**
Dividend income	253	173
Fee and commission income	3,260	3,467
Fee and commission expenses	(529)	(513)
Net fee and commission income	**2,731**	**2,954**
Net trading income	91	147
Net income from financial investments	1,243	(130)
Other operating income	164	360
General administrative expenses	(3,950)	(4,242)
Impairment of loans and receivables	(821)	(388)
Other operating expenses	(407)	(501)
Profit before tax	**5,726**	**3,730**
Current income tax	(761)	(766)
Deferred income tax	(44)	(26)
Profit for the period	4,921	2,938
Profit from discontinued operations	–	101
Profit for the period	**4,291**	**3,039**

41. Subsequent events

The Bank's management is not aware of any events that have occurred since the balance sheet date that would have a significant impact on the Group's financial statements as at 31 December 2008.

Date of approval: 16 March 2009	Stamp and signature of the Bank's statutory body:	Person responsible for the accounting: Ing. Jiří Kupec	Person responsible for the financial statements (name, signature): Mgr. Michaela Mrštíková

«Based on my experience,
I am convinced of the importance
of long-lasting customer
relationships.
The roots of my success are
anchored in deep customer
satisfaction, followed with a steadily
growing confidence in myself,
my personal competence and my
ability to find the right solutions.»

Sandra Stigger
Austria

«A good customer relationship
is about more than just the volume
of business.
I am not satisfied until my clients
recognize me and my company
as their preferred business partner.
This recognition I have to earn
every day anew.»

Ernst Jürgen Rohde
Germany

Auditor's report on the consolidated annual report

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Auditor's report to the shareholders of UniCredit Bank Czech Republic, a.s.

Financial statements

On the basis of our audit, on 16 March 2009 we issued an auditor's report on the Company's consolidated financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying consolidated financial statements of UniCredit Bank Czech Republic, a.s. which comprise the balance sheet as of 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in point 1 of the notes to these consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the assets, liabilities and the financial position of UniCredit Bank Czech Republic, a.s. as of 31 December 2008, and its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation and in accordance with International Financial Reporting Standards as adopted by the E.U."

Annual report

We have audited the consistency of the annual report with the audited consolidated financial statements. This annual report is the responsibility of Company's management. Our responsibility is to express our opinion on the consistency of the annual report with the audited consolidated financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that all also presented in the consolidated financial statements is, in all material respects, consistent with the audited consolidated financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited consolidated financial statements.

Prague, 30 April 2009

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Licence number 71

Vladimír Dvořáček
Partner

Pavel Závitkovský
Partner
Licence number 69

Resolution of the sole shareholder of UniCredit Bank Czech Republic, a.s.

UniCredit Bank Austria AG, with its registered office at Schottengasse 6-8, 1010 Vienna, Republic of Austria (Court File Number FN 150714 p), represented by Mag. Josef Duregger and Dr. Erhard Gehberger, as the sole shareholder of the commercial company UNICREDIT BANK CZECH REPUBLIC, A.S. (hereinafter referred to as the "Bank"), with its registered office at Prague 1, Na Příkopě 858/20, Postal Code 111 21, Czech Republic, ID No. 64948242,

in exercising the powers of the general meeting of the Bank pursuant to Section 190, para. 1 of Act No. 513/1991 Coll., as amended, **hereby adopts** the following

RESOLUTION

1. The Bank reported the following audited consolidated main financial results for 2008:

Total Assets:	CZK 279,287 million
Profit before Taxes:	CZK 5,726 million
Profit after Taxes:	CZK 4,291 million

2. The sole shareholder approves the final consolidated accounts stated under point 1) of this Resolution, which were audited by the company KPMG Česká republika Audit, s.r.o., Pobřežní 648/1a, Prague 8 (Licence number 71) and by the Auditor Pavel Závitkovský (Licence number 69).

In Vienna on 28 April 2009

UniCredit Bank Ausria AG

Mag. Josef Duregger

Dr. Erhard Gehberger

Data from the financial statements of the entities not included in the consolidation

CAE PRAHA a.s. in liquidation

UniCredit Bank and the consolidation group own 100% of this company's share capital. Based upon a resolution from 10 August 2006 of the sole shareholder in exercising the powers of the general meeting, the company was dissolved with liquidation as at 1 September 2006.

Key financial characteristics of the company (CZK 000):		
	31 Dec 2008	31 Dec 2007
Share capital	4,396	4,396
Equity	511	524
Total assets	614	663
Net profit/loss	(13)	(612)

CBCB – Czech Banking Credit Bureau, a.s.

UniCredit Bank and the consolidation group own 20% of the share capital of this company, whose main business activity is to operate a banking client information register.

Key financial characteristics of the company (CZK 000):		
	31 Dec 2008	31 Dec 2007
Share capital	1,200	1,200
Equity	4,365	3,982
Total assets	17,472	19,064
Net profit/loss	2,925	2,542

UniCredit Bank