

**Business
Results of
Volksbank CZ, a.s.**

**Annual
Report 2008**
Výroční zpráva 2008

Austria
Bosnia-Herzegovina
Croatia
CZECH REPUBLIC
Hungary
Romania
Serbia
Slovakia
Slovenia
Ukraine

Lazarská 8

120 00 Prague 2

Tel.: +420 221 969 911

Fax: +420 221 969 951

VOLKSBANK CZ, A.S.

mail@volksbank.cz

www.volksbank.cz

CONTENTS

FOREWORD FROM THE BOARD OF DIRECTORS	2
KEY FIGURES IN SUMMARY	4
INTERNATIONAL NETWORK	5
GOVERNING BODIES	6
ORGANISATION CHART	8
GENERAL ECONOMIC BACKGROUND	9
BUSINESS ACTIVITIES	10
RISK MANAGEMENT	22
OTHER INFORMATIONS	25
FINANCIAL STATEMENTS	33
Profit and Loss Account	35
Balance Sheet	36
Statement of Changes in Equity	37
Statement of Cash Flow	38
Notes to the Financial Statements	39
Quantitative Indices	103
Report of Relations	104
Report of Independent Auditors	106
Report of the Supervisory Board	108
SERVICE	109
Our Network	110

FOREWORD FROM THE BOARD OF DIRECTORS



from left:
Frank Guthan
Johann Lurf
Gernot Daumann
Libor Holub

Dear Ladies and Gentlemen,
Dear Clients, Business Partners and Shareholders,

In the past year 2008, we managed to achieve very good results and to continue the excellent course set in previous years. Volksbank thus reaffirmed its stable position and its performance founded on long-term cooperation with clients.

The Bank achieved improvement in all key business indicators. Profit on ordinary activities before tax reached CZK 443 million, while profit after tax totalled CZK 339 million, which represents a 6% increase year on year. Another reason for the past year's success is seen in the more than 31% gain in total assets, which ended the year at CZK 47.8 billion. In the lending area, the Bank recorded 30% growth and risks in the loan portfolio were fully covered by creating allowances and provisions. Despite the complicated market conditions at the end of the year, the volume of client deposits rose by 15% as a result of an intensive focus on this area. Important elements strengthening the Bank's stability and reaffirming the shareholders' interest in its further development were an increase in the share capital, which totalled CZK 5.3 billion at the year's end, and a capital adequacy amounting nearly to 14%.

In the corporate clients area, the results achieved in 2008 continued where the exceptionally successful year 2007 left off. The Bank was able to maintain the revenues growth rate not only by growing the portfolio of asset-side transactions but especially through intensive cross-selling in the area of cash management. This was reflected in the higher growth rate for risk-free and fee-related revenues. Growth in business volumes and the addition of new clients were achieved primarily in the segment comprising micro-enterprises plus small and medium enterprises, which we consider to be a driving force of the economy and the Bank's natural partner.

Other successes from last year include strengthening of the Bank's position in the public sector and expansion of the product offering with a new deposit product. This contributed to the 21% growth in the volume of municipalities' and cities' deposits at Volksbank.

In retail banking, Volksbank continued its intensive development in the lending area during 2008, especially through mortgage financing. Other activities were oriented toward acquiring deposits in accordance with Volksbank's strategy focused on increasing the proportion of primary funding sources for financing asset-side transactions. A new deposit product, the Investment Current Account, which due to its promotional representation is also called "rabbits" by clients, drew great interest. From its introduction in September 2008 through the end of the year, the volume of deposits on these accounts had already reached CZK 1.5 billion.

Volksbank CZ increased its number of points of sale from 54 to 57 during 2008. The Bank reached out to a wider circle of clients through the targeted acquisition activities of its highly educated bank advisors and by continuous cooperation with external networks. Volksbank's wide range of sales activities adheres to its main long-term objective of providing a fair approach to clients and a transparent and comprehensible offer of services characterised by the motto "Fair & Easy".

The Volksbank Board of Directors enters the year 2009 reinforced by two new members: Mr Gernot Daumann and Mr Frank Guthan. The existing two-member Board thus has been extended temporarily to four members.

To our valued clients, business partners, shareholders and employees, we would like to thank you on behalf of Volksbank for the patronage and support you have shown us. We wish you great success throughout the next year.



Johann Lurf



Libor Holub

KEY FIGURES IN SUMMARY

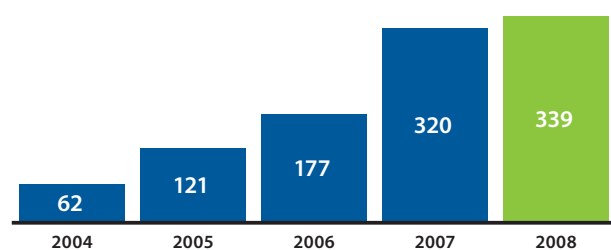
CZK million	2008	2007	2006	2005	2004
Total assets	47,784	36,448	25,414	19,915	19,016
Liabilities to clients, including deposit certificates	27,155	23,685	16,842	13,971	12,550
Receivables from clients	39,059	30,161	21,020	16,532	14,411
Income on financial transactions before general and specific provisions	1,749	1,342	907	736	698
Operating expenses	825	725	580	548	561
Profit on ordinary activities before tax	443	440	255	171	90
Profit for the year	339	320	177	121	62
Number of employees*	726	635	497	453	455
Number of points of sale	57	54	32	22	18

Notice: 2008 – 2005 due to IFRS, 2004 due to Czech Accounting Standards

* including employees on maternity leave

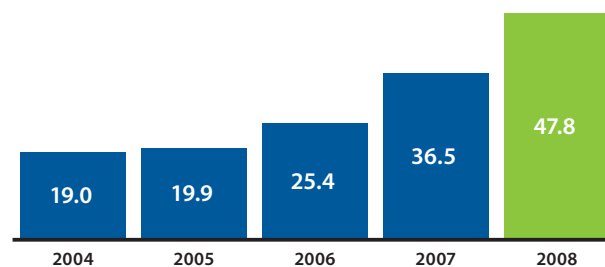
PROFIT FOR THE YEAR

CZK million



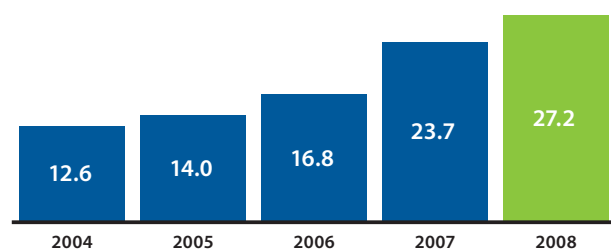
TOTAL ASSETS

CZK milliard



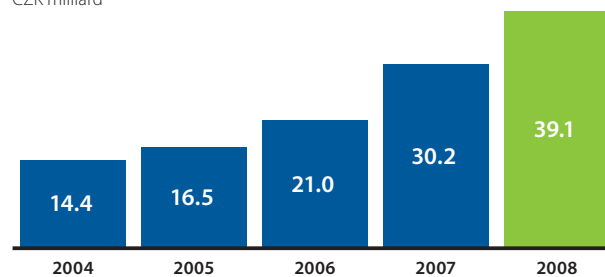
CLIENT DEPOSITS

CZK milliard

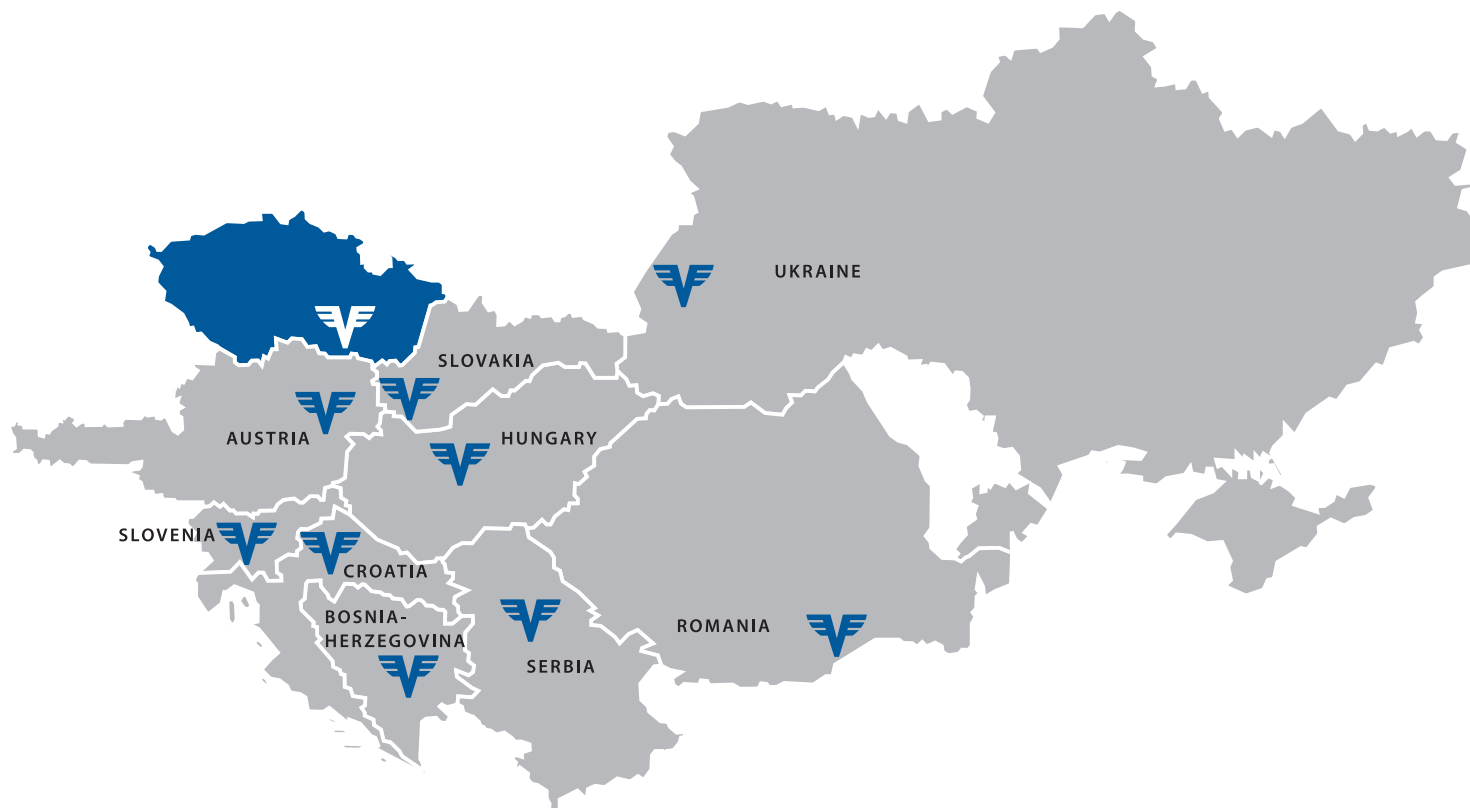


LOANS TO CLIENTS

CZK milliard



INTERNATIONAL NETWORK



Volksbank CZ has prospered in the Czech market since 1993. The bank's main shareholder is Volksbank International AG.

Volksbank International AG (VBI), located in Vienna, Austria, is majority-owned by VBAG (51 %), the remaining shares are equally held by the German DZ BANK / WGZ BANK and the French Banque Fédérale des Banques Populaires (both 24.5 %). VBI is managing a successful and steadily expanding network of more than 600 outlets in nine Central and Eastern European countries: Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Romania and Ukraine.

As of 2008 the total assets of VBI Group amount to EUR 14.7 billion. More than 5,800 employees offer a full range of modern banking products and services to both private and corporate clients

SHAREHOLDERS STRUCTURE BY PROPORTION OF TOTAL SHARE CAPITAL AS AT 31 DECEMBER 2008

Volksbank International AG, Vienna	98.14 %
Banca Popolare di Vicenza S.C.P.A., Vicenza	0.93 %
EM.RO Popolare S.P.A., Modena	0.93 %

www.volksbank.cz

GOVERNING BODIES

SUPERVISORY BOARD

CHAIRMAN

Dr. Friedhelm BOSCHERT

Chairman of the Supervisory Board

Appointed on: 24 April 2008

Experience:

21 years of banking experience, 14 years of management experience

Membership on other companies' bodies:

Volksbank International AG, Austria: Chairman of the Board of Directors; Volksbank BH d.d., Bosnia and Herzegovina: Chairman of the Supervisory Board; VB-Holding AG, Austria: Member of the Supervisory Board; Volksbank-Invest GmbH, Austria: Member of the Supervisory Board; IK Investmentbank AG, Austria: Member of the Supervisory Board; Vienna Economic Forum, Austria: Member of the Board of Directors

VICE-CHAIRMAN

Dr. Engelbert BRAMERDORFER

Vice-Chairman of the Supervisory Board

Appointed on: 30 May 2005

Experience:

11 years of banking experience, 8 years of management experience

Membership on other companies' bodies:

Magyarországi Volksbank Zrt., Hungary: Vice-Chairman of the Supervisory Board; Volksbank BH d.d., Bosnia and Herzegovina: Vice-Chairman of the Supervisory Board; Electron Bank, Ukraine: Member of the Board of Directors

SUPERVISORY BOARD MEMBERS

Gabriele UGOLINI

Member of the Supervisory Board

Appointed on: 24 April 2008

Experience:

35 years of banking experience, 23 years of management experience

Membership on other companies' bodies:

Volksbank BH d.d., Bosnia and Herzegovina: Member of the Supervisory Board

Mag. Peter SZENKURÖK

Member of the Supervisory Board

Appointed on: 24 April 2008

Experience:

14 years of banking experience, 8 years of management experience

Membership on other companies' bodies:

Volksbank BH d.d., Bosnia and Herzegovina: Member of the Supervisory Board

Ing. Jindřich HORNÍČEK

Member of the Supervisory Board

Appointed on: 18 August 2005

Experience:

8 years of banking experience, 2 years of management experience

No membership on other companies' bodies.

Ing. Luboš VLČEK

Member of the Supervisory Board

Appointed on: 18 August 2005

Experience:

11 years of banking experience, 16 years of management experience

No membership on other companies' bodies.

BOARD OF DIRECTORS

CHAIRMAN

Johann LURF

Appointed on: 24 April 2008

Experience:

33 years of banking experience, 22 years of management experience

No membership on other companies' bodies.

MEMBER OF THE BOARD OF DIRECTORS

Ing. Libor HOLUB

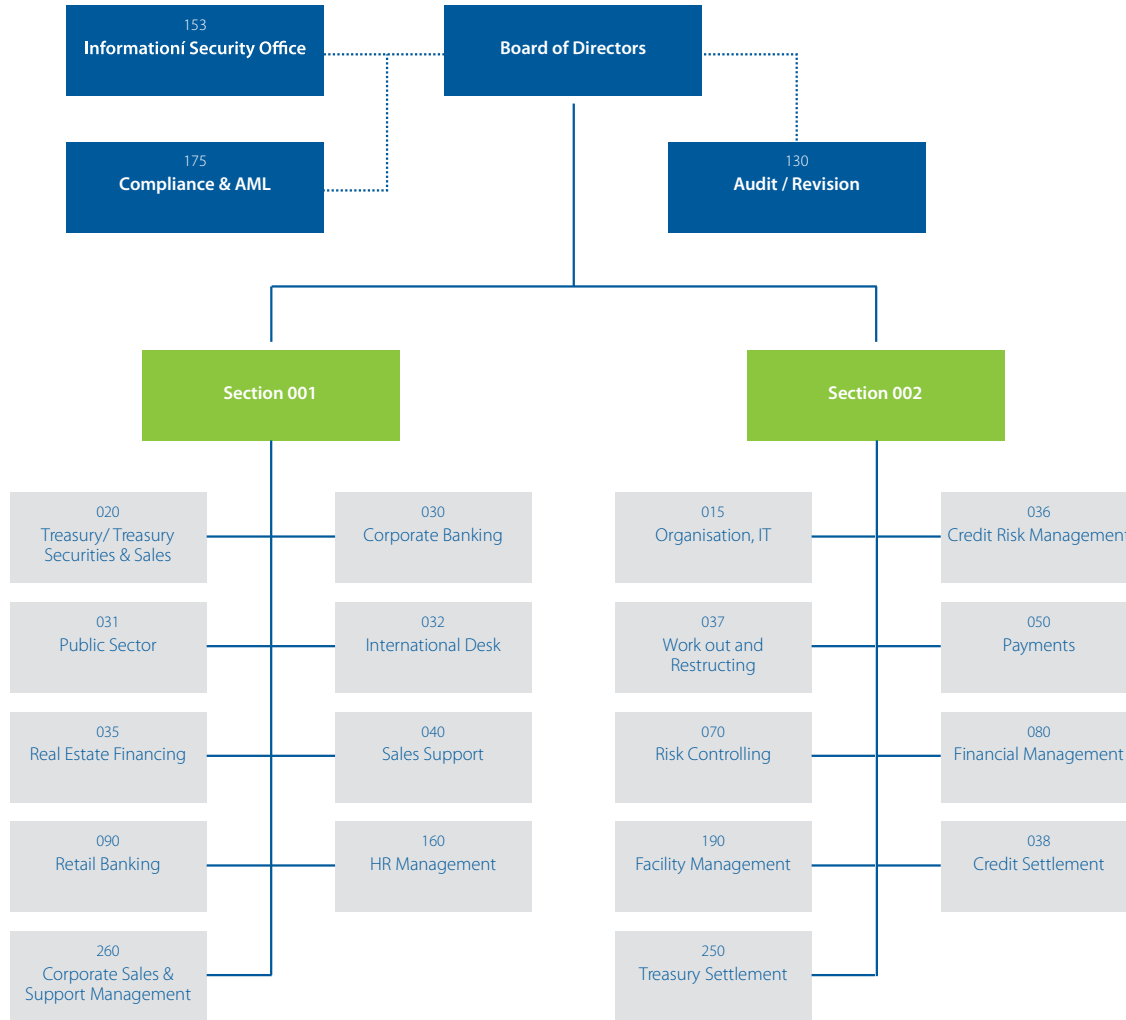
Appointed on: 26 November 2008

Experience:

7 years of banking experience, 14 years of management experience

No membership on other companies' bodies.

ORGANISATION CHART



GENERAL ECONOMIC BACKGROUND

ECONOMIC DEVELOPMENT IN THE CZECH REPUBLIC IN 2008

For 2008 as a whole, the Czech economy showed overall improvement as GDP grew by 3.1%. Nevertheless, the results in the last quarter of 2008 showed that the economy's performance was declining and that the Czech economy had already entered recession at the end of 2008. The reason for the downturn in the Czech economy is the global economic crisis caused by the crisis of the financial system that is overflowing into the real economy.

The level of inflation in the Czech economy also rose in 2008 compared to the previous year, to 3.6%. At the end of 2008, consumer prices decreased significantly. This was caused especially by a drop in prices for fuel and food. The Czech National Bank (CNB) responded to the inflation development by decreasing its key interest rate. During the second half of 2008, the CNB gradually reduced its reference repo rate a total of three times, from 3.75% to 2.25% by the end of 2008. In view of the falling interest rates for all of the world's major currencies and the further decline in inflation at the beginning of 2009, the CNB proceeded to reduce the reference rate again in February 2009, to 1.75%.

The significant slowing in economic growth led to a worsening of the situation on the labour market at the end of 2008. Unemployment reached 6.0% at the end of 2008, with the number of unemployed rising to 352,000. This trend continued in the beginning of 2009, as the unemployment rate reached 7.4% and the number of unemployed totalled nearly 430,000. Unemployment is very likely to exceed 8% by the end of 2009.

The impacts of the global crisis also were reflected in the development of the Czech crown's exchange rate. It showed high volatility throughout the year, reaching several historically high values in the middle of 2008. The crown's exchange rate against the euro and US dollar reached 23 CZK/EUR and 14.50 CZK/USD, respectively. Enterprises in particular had great difficulties in dealing with the development of the crown's exchange rate and the weakening of domestic economic activity.

Unlike in foreign countries, the domestic banking sector was not a source of the deceleration in economic growth. The primary cause was the deteriorating economic situation abroad. Despite the problems of many banks abroad, the Czech financial system proved to be very stable. Thanks to the general public's trust in Czech banking institutions, the banks' good liquidity positions, the traditionally conservative model and the steady banking supervision, the Czech banking sector was able to withstand those shocks coming from abroad. In response to the problems of banks in foreign countries, the Czech National Bank implemented a number of measures to support liquidity in the domestic market. Czech banks, thanks to their good liquidity positions, barely made use of these possibilities.

OUTLOOK FOR 2009

Data from the end of 2008 and 2009's first figures show that the economy in the Czech Republic is in decline. In 2009, therefore, the Czech economy will experience recession for the second time since 1989. Unlike the situation in 1997–1998, the current recession is global and the deepest one since the world economic crisis in the 1930s. Although any outlook for economic development is burdened by great uncertainty, in 2009 we can expect deceleration of the Czech economy's year-on-year growth by as much as 2%. In 2010, then, growth of 2.2% can be anticipated. The development will depend on domestic factors, particularly implementation of a fiscal package to support the Czech economy, but especially on the development of the global economy.

BUSINESS ACTIVITIES

CORPORATE CLIENTS

As measured by its results, the Corporate Clients division continued in 2008 to build upon the extraordinary success of 2007. It managed to maintain its growth rate for operating income not only by growing the portfolio of asset-side transactions but especially through intensive cross-selling in the area of cash management. This was reflected in the higher growth rate for risk-free and fee-related revenues.

Growth in business volumes and the addition of new clients were especially successful in the SME segment of clients with turnover of CZK 30–150 million. This result fully accords with the Bank's strategy and target set for 2008.

Marketing activities and campaigns were aimed to strengthen the liabilities side of the Corporate Clients portfolio and cash management activities while also intensifying the cooperation among companies within Volksbank Group. For the purposes of the two main campaigns, a deposit product was prepared that combines an attractive interest rate with ensuring liquidity for everyday business needs.

One of the prerequisites for successful growth and increasing client satisfaction is a sufficient number of high-quality selling personnel. To support expansion in the regions, the number of salespeople in all regions – and including those outside of Prague and Brno – was successfully increased. The prerequisites for the stabilisation and future expansion of points of sale were thereby fulfilled.

In the course of 2008, client portfolios were reviewed and clients were redistributed among individual salespeople. The goal was to consolidate the portfolios in the SME (clients with turnover of CZK 30–150 million) and COR (clients with turnover of CZK 150 million and over) segments in order to increase the service capacity of the individual sales personnel and, in future, to increase both the quality as well as the speed of servicing clients in the relevant segments.

In 2008, the first signs of the impending recession and crisis were manifested on financial markets. This brought about an increase of loans in default. The Bank, however, was able to absorb these cases within the provisions created. Despite an expected deterioration of the economic situation among business entities, the Bank is prepared to provide credit to existing clients in accordance with the appropriate market conditions and to continue supporting the business activities of its long-term partners.

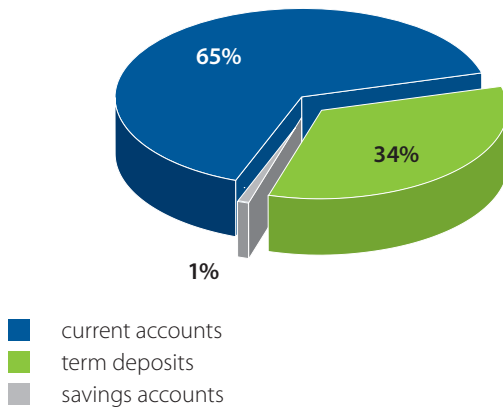
RETAIL BANKING

Lending, and particularly that financing housing needs, was the driving force for Volksbank's retail banking activities in 2008. Due to effects of the changed situation on the financial markets at the middle of the year, the Bank inevitably had to focus more in the following months on selling products from the area of deposits, savings and financial security for old age. Thanks to the quick action in shifting the sales focus, sharing out responsibilities and introducing new products, Volksbank managed to achieve good business results in the retail banking area over the past year.

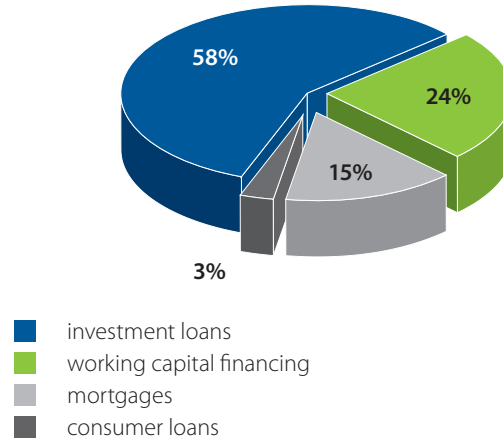
Prominent success stories of the past year were the 100% fulfilment of the established target for sales of insurance from the partner company Victoria Volksbanken and 136% sales growth in the area of building society products in comparison to 2007. By means of its conservative advisory strategy, Volksbank also recorded a successful year in the area of securities sales.

In the coming months, Volksbank's retail banking will be concentrated on newly established priorities that include deposit products, guaranteed securities, insurance and building society products. The successes achieved in these sales areas contribute decisively to achieving established targets, increasing the key indicator of return on risk-weighted assets (RORWA), and improving the ratio of loans provided to deposit products.

STRUCTURE OF CLIENT DEPOSITS



CLIENT LOANS AND CREDIT



Notice: Data apply to the whole structure of bank's portfolio.

INTERNATIONAL DESK

The year 2008 also was successful for the International Desk. Despite the signs of a globally deteriorating economic situation, the growth trend of previous years was confirmed again in 2008 by the increase in both clients served and results achieved. Compared with 2007, the number of Italian, French and Spanish clients who chose Volksbank as their main partner grew to nearly 1,700, which represented an increase of 8.5% year on year and contributed to the approximately 28% growth in operating profit. It is worth noting that the focus on the SME client segment was the main determining factor for growth in 2008.

Reorganisation of the department that occurred in 2007 fulfilled expectations in terms of optimising efficiency and improving the quality of provided services. These two areas, which the Bank considers to be of key importance for the difficult months ahead, will be developed even further in 2009.

The employee ranks were strengthened in 2008, bringing the present number of specialists with corresponding language and technical skills and knowledge to 14. In July 2008, a new project focused on intensifying bilateral relationships and creating new business opportunities was begun in cooperation with Italian partner Banca Popolare dell' Emilia Romagna. The presence each year of a representative of this bank directly at the International Desk supports these relationships and opportunities. Our Italian clients thereby can benefit from the added value of dialogue with Italy's sixth largest banking group directly in the Czech Republic.

Cooperation with additional contractual partners and other members of Volksbank Group was very beneficial, and they are therefore deserving of our sincere thanks. Special appreciation also is due to the Bank's management, whose support to the Bank enabled it to achieve the results and successes mentioned above.

REAL ESTATE FINANCING – PROJECT FINANCING

Again in 2008, Volksbank successfully continued its financing of new residential building projects, such as Nad Rokytkou in Prague 9, Vysočany. In 2008, the first phase of the project Zahrady Nad Rokytkou, creating 210 new apartments, was successfully concluded. At the same time, construction on another phase of the project Dvůr Nad Rokytkou was begun. It comprises 10 apartment buildings with a total of 284 apartments, of which over 70% were sold as at the end of 2008.

Another extraordinary project financed by the Bank was the residential project Na Vyhliďce in Prague 8, Prosek. The first two phases of the project, comprising nearly 200 apartments, have already been successfully completed, while the third and final phase of the project, comprising another 43 apartments, was begun in 2008. This project earned 3rd place in the “Best of Realty 2008” competition in the Residential Projects category. The Volksbank-financed Steinova vila project also earned acclaim in the “Best of Realty 2008” competition, as it received an award from its media partners’ readers.

PUBLIC SECTOR

The year 2008 saw continuing restructuring and a shift in the focus of the department’s activities. The Bank further strengthened its position in the segment of housing cooperatives and apartment owners associations. The volume of loans provided by Volksbank CZ – and particularly to finance renovation of prefabricated apartment buildings within the PANEL grant programme and housing privatisation – increased during 2008 by more than 53%.

Funds deposited by cooperatives and apartment owners associations in accounts maintained at Volksbank grew in the same period by nearly 43%.

Loan exposure to regional and district governments decreased slightly, as had been expected, while the volume of deposits from municipalities and cities at Volksbank increased during 2008 by 21%.

The Bank’s product offer for public sector entities was significantly enriched in the first half of 2008 with a new type of savings account – the Deposit Account. As clients took advantage of its benefits, sales developed favourably in the second half of the year.

Considering Volksbank’s increasing business volumes within the public sector and the rising number of clients, the ranks of the Bank’s personnel in the division responsible for this segment were strengthened in 2008 and a new office was opened in Ostrava.

TRADE AND STRUCTURED FINANCE

During 2008, activities connected with the discounting of accounts receivable were reduced and the Bank successfully decreased its portfolio of discounted accounts receivable to a minimum by the end of the year.

TREASURY / SECURITIES

Financial markets

For financial markets, 2008 was marked by the deepest financial crisis since the 1930s. Unlike all previous crises, this crisis did not start in developing countries but in the USA – the most advanced country in the developed world. The crisis subsequently spread through the entire financial markets sphere.

Thanks to its prevailing model of classic commercial banking, the Czech banking sector remained rather unaffected by the crisis in the past year. The Czech banking sector has good liquidity and sufficient capital. The banks, moreover, had low exposures to American assets. Currently, therefore, the main issue is the impact of the financial crisis from its slowing the world economy.

Despite the turbulence on financial markets and the resulting problems for a number of banks abroad, the year 2008 for Volksbank entailed further confirmation of its strong position in trading on financial and capital markets in the Czech Republic.

Investment instrument sales

Volksbank in 2008 continued to pursue its successfully established long-term strategy for selling investment instruments. The Bank offered its clients, in particular, currency and interest rate risk hedging instruments. The individual approach of its Treasury experts, increase in the quality and comprehensiveness of services, and innovation of the products offering ensure that the Bank will continue over the long term to increase both the volumes of transactions and, very importantly, the satisfaction of its corporate clients with the services it provides.

Investment products for retail clients

Despite the sharp decline and high volatility of financial markets in 2008, Volksbank continued to improve the quality of provided services and to expand the offer of investment instruments for its clients.

Demand for investment services and instruments developed in parallel with financial markets. The Bank responded to the demand for secure investments in particular by offering new issues of guaranteed certificates, and especially in cooperation with other companies from Volksbank Group.

In 2008, Volksbank introduced to the market seven new issues of guaranteed certificates. These comprised an offer of investment instruments to both existing and new clients.

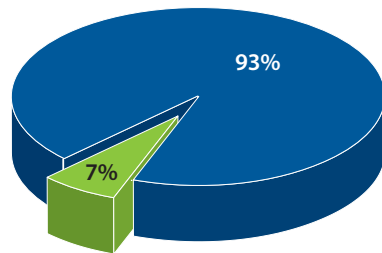
PAYMENT SYSTEM

Again in 2008, we recorded growth in the volume of executed cashless payments compared to the previous year. The number of domestic payments grew by 13% in the case of incoming payments and by 12% for outgoing payments as compared with 2007. The number of executed foreign outgoing and incoming payments was some 24% greater than in the previous year.

Clients entered their payment orders mainly by means of electronic banking applications – today a standard method of communicating with the Bank. The share of domestic electronic payments, including standing orders and authorised debits, amounted to 93% of the total number of executed payments. In the case of foreign payments, electronic payments, including standing orders, accounted for 86%.

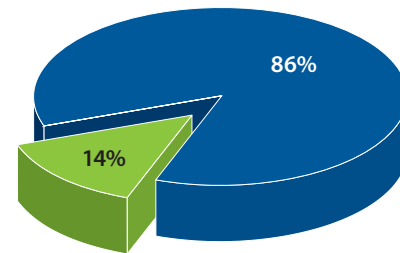
Payment system – outgoing payments in 2008 by method of submission

DOMESTIC PAYMENTS



■ electronic
■ other

FOREIGN PAYMENTS



■ electronic
■ other

IT / ORGANISATION

Within the IT/Organisation division, the year 2008 was characterised by support to develop applications for credit processes and the further development of CRM systems. The Bank must respond quickly to the changing demands of the market, and therefore it needs a flexible application enabling it to effect quick changes in its processes. Great attention is also devoted to the integration of IT systems. In order to save time in banking processes, it is necessary that various banking systems are able to work well together – just as employees must do so at various levels.

An important project completed in 2008 was the implementation of VoIP technologies into the Bank's branch network. We believe that the application of these modern communication technologies can bring considerable financial savings in future and thereby increase the efficiency and productivity of our work. Many other IT projects relating to developing the virtual IT infrastructure also are oriented toward cost savings. Very good experiences with smaller projects led to large-scale virtualisation of servers in 2008.

Last but not least, great attention was devoted to implementing legal changes into processes related to securities trading. The so-called Markets in Financial Instruments Directive (MiFID) was perceived as a priority project and received maximum support from the IT/Organisation division.

At the end of the year, the Bank concluded its development and testing of a new version of the internet banking system. Important changes include a new design, expanded functionality and, especially, increased security.

SALES SUPPORT

At the start of 2008, consolidation of the Sales Support division was completed with the incorporation of the new Electronic Banking department. The mission of the entire Sales Support division is to support all of the Bank's sales departments in their business activities and in creating the Bank's business strategy. The Electronic Banking department thus joins the team comprising the Product Development, Marketing, External Sales Network, Payment Cards and Call Centre departments.

In response to the continuing worldwide banking and financial crisis, Volksbank reassessed its priorities in sales support during the second half of 2008 and began to orient its activities toward re evaluating the parameters of loan products and focusing on acquiring deposits in accordance with its group strategy.

Product Development

For the Product Development department, 2008 was a successful year not only in terms of developing new products but also in terms of sales support and improving internal processes for processing existing products. While the first half of 2008 was rather dominated by loan transactions, there was a clear shift toward deposits in the second half of the year.

In the area of private sector financing, the first months of 2008 were particularly significant for mortgages. The product offer was expanded, for example, with the internet mortgage, which reduces the price of the product for clients as well as the costs for the Bank. Mortgages sales also were supported by a marketing campaign for mortgage refinancing. At the close of the year, the product offer was updated in the area of overdraft and consumer loans for individuals.

Corporate clients were approached with an advantageous loan offer known as "Kontoúvěř". The processes for providing loan products for entrepreneurs and corporate clients also were optimised during 2008 while emphasising the Bank's traditionally conservative approach to loans.

By introducing the new Aktiv půjčka, or Aktiv loan, at VolksbankShops, the offer of consumer loans at these points of sale was simplified. At the same time, their sale was supported by the "Loan for People" marketing campaign.

In the second half of 2008, the Bank enhanced its offer of deposit products. The Investment Current Account, which is designed to grow retail clients' available funds, elicited great interest from clients. For clientele in the health care industry, the "MEDI konto" service package was prepared, while clients in the public sector were offered the Deposit Current Account. The launch of selected products was supported once again by direct marketing events.

At the start of 2008, the Bank acceded to Czech Banking Association Standard No. 19/2005 – Code of Conduct in Relations between Banks and Clients. The rules established by this code took full effect with the start of November. This step was intended to further boost the quality of services provided to our clients.

The Bank also successfully developed cooperation with its partner companies during 2008. These include Českomoravská stavební spořitelna, a.s., with which the Bank collaborates in providing building society products; ČSOB Penzijní fond Stabilita, a.s. and ČSOB Penzijní fond Progres, a.s., in providing supplemental pension insurance in the VolksbankShops network; VICTORIA VOLKSBANKEN pojišťovna, a.s., which in 2008 prepared a single-payment pension insurance bound to the RAKETA GARANT index for the Bank's clients; AXA penzijní fond, a.s. (supplementary pension insurance); and VB Leasing CZ, spol. s r.o. Moreover, the Bank continues to expand its collaboration with the European Investment Bank in refinancing projects for small and medium enterprises.

External Sales Networks

For Volksbank CZ, 2008 entailed further development of cooperation with external sales networks. Our goal was primarily to improve the quality of the Bank's portfolio of collaborating partners while at the same time satisfying new anti-money laundering requirements.

Products from the Retail segment, and especially standard mortgages and investment loans for small companies and entrepreneurs, predominated in the offerings of external partners. Great emphasis was placed particularly on refinancing mortgages, which was supported by a marketing campaign and attracted strong interest from both external partners and their clients. Products for housing cooperatives and apartment owners associations also attracted considerable interest, as this area clearly showed its potential for further growth.

The cooperation with Českomoravská stavební spořitelna, a.s. (ČMSS) was deepened, and it is now possible to arrange an Aktiv konto or Aktiv loan (i.e. products offered within the VolksbankShops sales network) also through ČMSS financial advisors.

In the second half of the year, the Bank began to shift its activities from loan products to acquiring new clients and deposits through the external sales networks. At the end of the year, the first contracts having this aim were concluded. We believe that the external sales networks will contribute significantly to fulfilment of the demanding targets of 2009, just as they contributed to fulfilling the Bank's targets in the previous year.

Payment Cards

In the past year, the Bank gave maximum priority to completing the conversion of all types of payment cards to the more secure chip technology. The Bank accomplished this objective by the end of 2008's first half.

The total number of active payment cards reached nearly 30,000 in 2008. Along with growth in the number of payment cards in issue, the number and volume of processed transactions also continued to increase. Growth in the number of transactions brought the Bank to a new high in December 2008, when 86,000 transactions were successfully executed in a total volume of over CZK 230 million.

During 2008, the Bank expanded its ATM network to a total of 60 machines. ATMs operate using the most modern security technologies. Through the cooperation with ČSOB, that bank's network of more than 700 ATMs is also available to Volksbank clients under very favourable conditions.

Volksbank also was able to optimise the processes and IT systems in the payment cards area. This contributed especially to faster transactions processing, improved transparency for clients, as well as greater client satisfaction.

The primary focus was on the security of card transactions and development of measures preventing payment card abuse. In 2008, we also were able to achieve the planned increase in the profitability of POS acquisitions.

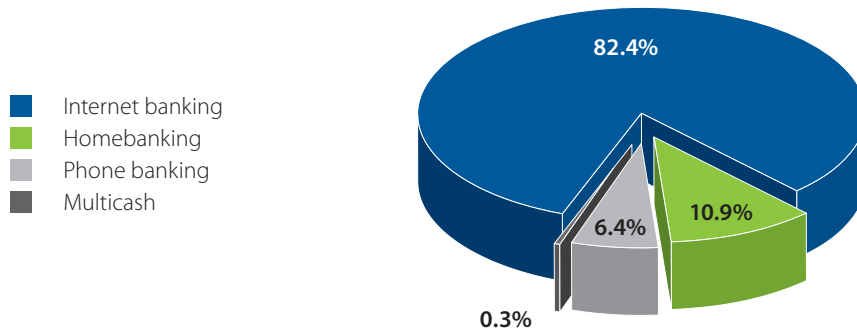
Electronic Banking

Direct banking services were provided to clients in 2008 by means of the applications Internet banking, Phone banking, Homebanking and Multicash. From the start of 2008, the Bank began to actively offer its clients the new Phone banking product, which had already been implemented in the previous year. The number of clients using Phone banking thus rose during 2008 to ca 1,500.

Internet banking continues to be the most used product in Volksbank's electronic banking offer. As at the end of 2008, it had nearly 20,000 users. This represents an increase of 30% as compared with the previous period. Relative to other applications, this product's share in the total number of electronic banking products used is over 82%. Homebanking and Multicash together comprise 11%, while Phone banking accounts for 7%.

The significant savings on transaction fees and time savings from eliminating personal visits to the Bank's branches are the main advantages clients receive from direct banking products.

BREAKDOWN OF DIRECT BANKING CHANNELS USE AS AT 31 DECEMBER 2008

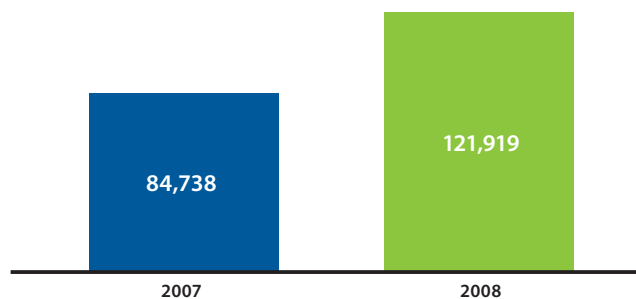


Call Centre

In 2008, the Call Centre recorded an increasing trend in the number of client calls to the toll-free line. The number of outgoing calls also increased in view of the centralisation of certain activities relating to client service. Through this centralisation, selected processes were simplified and the Bank was able to offer clients higher-quality products and services with greater speed.

In 2008, the Call Centre handled approximately 45% more calls than in the previous year. In September 2008, Volksbank placed first in a test of banks' responses to email queries conducted by the iDNES.cz server.

GROWTH IN THE NUMBER OF CALLS HANDLED



Marketing & Communication

In 2008, marketing activities were closely connected with the Bank's business objectives, which were reflected in the focus of all major campaign activities. Product-oriented marketing focused on both loans as well as deposits, and activities were concentrated in both the retail and corporate banking segments.

The special offer for refinancing mortgages was an important communication campaign in 2008. Volksbank thus strengthened its position in the housing finance segment. In the same period, activities in VolksbankShop points of sale were directed toward another type of loan products – consumer loans. A successful campaign connected with an interesting trivia competition took place at the turn of April and May 2008. Activities in retail banking were rounded off in the second part of the year with active support to a new deposit product, the Investment Current Account (also known as "rabbits"). Thanks to proper timing and an effective combination of product parameters and marketing support, this product garnered success in the form of over 3,000 newly opened accounts by the end of 2008.

Sales of both deposit and loan products were emphasised in the corporate banking area, as well. Active use of direct marketing tools was especially effective in achieving results.

The Bank also received considerable publicity in relation to its public relations activities. Volksbank became an integral part of the Czech Republic's media scene, as in the course of the year more than 1,100 articles and references relating to the Bank appeared in various media.

A significant share of activities was devoted also to the corporate identity. Updated designs for such new applications as internet banking, the intranet and the internet mortgage product were prepared. Moreover, the new logo was installed at all of the Bank's branches.

RISK MANAGEMENT

Volksbank CZ maintains a conservative approach to risk management that takes as its starting point the applicable legal regulations and risk strategy of the Group. The Bank uses a system of regulatory and internal limits. The amounts of these limits and adherence to them are regularly monitored.

The overriding general principles in the risk management process are optimisation of the relationship between risk and expected return, an effective internal control system, proper segregation of duties, identification and analysis of risks, portfolio diversification, and the accuracy and completeness of the data in the Bank's system. The management of the Bank is regularly informed with regard to the level of risk undertaken, and the risk management system is monitored and evaluated.

The Bank's Board of Directors plays a key role in risk management's organisational structure. The Board determines the risk management strategy; approves the Bank's control documentation, including limits and authorised guidelines; and decides upon the most important risk positions. The Risk Management Committee monitors the Bank's risk profile for all major types of risk, including their sufficient coverage by capital (a system of internal capital adequacy assessment). Departments directly subordinate to the board member responsible for risk management analyse the Bank's risk positions, monitor compliance with established limits, report on the results of their findings, and, as appropriate, approve their own risk positions within the scope of their assigned authorities.

CREDIT RISK MANAGEMENT

Providing loan products is one of the Bank's most important business activities, and the emphasis given to managing credit risk reflects that fact. This process includes identifying risks, measuring risk positions, monitoring limits and adopting measures leading to mitigation of the credit risk undertaken. The process takes place at the levels of both the individual client and the loan portfolio.

In assessing a client's creditworthiness, the Bank places particular emphasis on analysing the client's financial situation, his or her ability to repay the provided loan from cash flow, and the experience with the client to date.

Volksbank CZ is preparing its transition to calculating the capital adequacy for credit risk of the investment portfolio according to the internal ratings-based (IRB) approach. The credit quality of each client is assessed using an internal rating system corresponding to the type of client being assessed. Within each rating system, a client is classified at one of 20 points on the internal rating scale (another five points are intended for default exposures). Each point corresponds to a fixed one-year probability of the client's default. This probability is used as one of the parameters in the decision-making process. The rating tools are regularly tested and adjusted accordingly to ensure that the estimated probabilities of default are correct.

The quality of the collateral instruments is another criterion taken into account in assessing a credit application. A catalogue of these instruments defines the acceptable types of collateral, the methods for establishing their fair values, the frequency of revaluation, and the responsibilities of the Bank's individual branches.

The assessment and approval of credit applications is independent from the selling departments. Authorisation powers are delegated by the Board of Directors and are segmented by value into several layers.

The Bank regularly monitors individual exposures in order to continuously check the quality of the loan portfolio. This process increases the probability for timely recognition of future client defaults. For such cases, the Bank has established a system to address problematic loans in a timely manner. This reduces the probability of incurring losses from providing loans.

Volksbank CZ is in compliance with all regulatory limits for its investment portfolio exposure.

MARKET RISK MANAGEMENT

The main instrument for managing market risk is a system of limits for individual types of market risk. Compliance with these limits is regularly monitored and the findings are reported to the Board of Directors, the Risk Management Committee, and the appropriate business units. The limits are established internally in cooperation with the parent company or are based on the relevant CNB regulations. Stress testing of market risks is carried out regularly.

With regard to currency risk, the Bank manages its risk position by trading on the currency market. The risk position is monitored daily and compared with the applicable limits.

On the assets side, the Bank's exposure to interest rate risk is substantially limited by linking interest rates for the majority of loans to short-term rates on the inter-bank market. Likewise, on the liabilities side, a crucial volume of interest-bearing positions is characterised by the possibility for responding quickly to changes in market interest rates. The proportion of assets or liabilities with fixed long-term interest rates (the main source of interest rate risk) is balanced using interest rate swaps and bonds issuance. The Bank's interest rate position is regularly measured and compared to the applicable limits.

To a small extent, exposure to securities market volatility occurs in relation to bond portfolios held. From a regulatory point of view, the Bank holds a small trading portfolio.

LIQUIDITY RISK

Management of liquidity risk begins with daily analysis of the actual residual maturities of assets and liabilities, which are examined both in the main individual currencies and on an aggregate basis for all currencies. Based on this analysis, the Bank monitors daily the compliance with liquidity limits that are established internally. The structure of limits is based upon the ratio of assets to liabilities within a given period of residual maturity.

In managing its short-term liquidity position, the Bank includes planned and expected cash flows for five consecutive business days. For the purpose of long-term forecasting, a scenario for liquidity risk management is regularly prepared that includes data on the existing as well as planned structure of the balance sheet. This scenario is submitted to the Risk Management Committee. A contingency liquidity plan is prepared for the theoretical possibility that extraordinary circumstances would threaten the Bank's liquidity position.

OPERATIONAL RISK

In accordance with regulatory requirements, Volksbank CZ has an internal database of the requisite internal regulations for operational risk management, including those for the areas of information security, continuity of operations, and anti-money laundering. A system of control mechanisms is established for those individual processes.

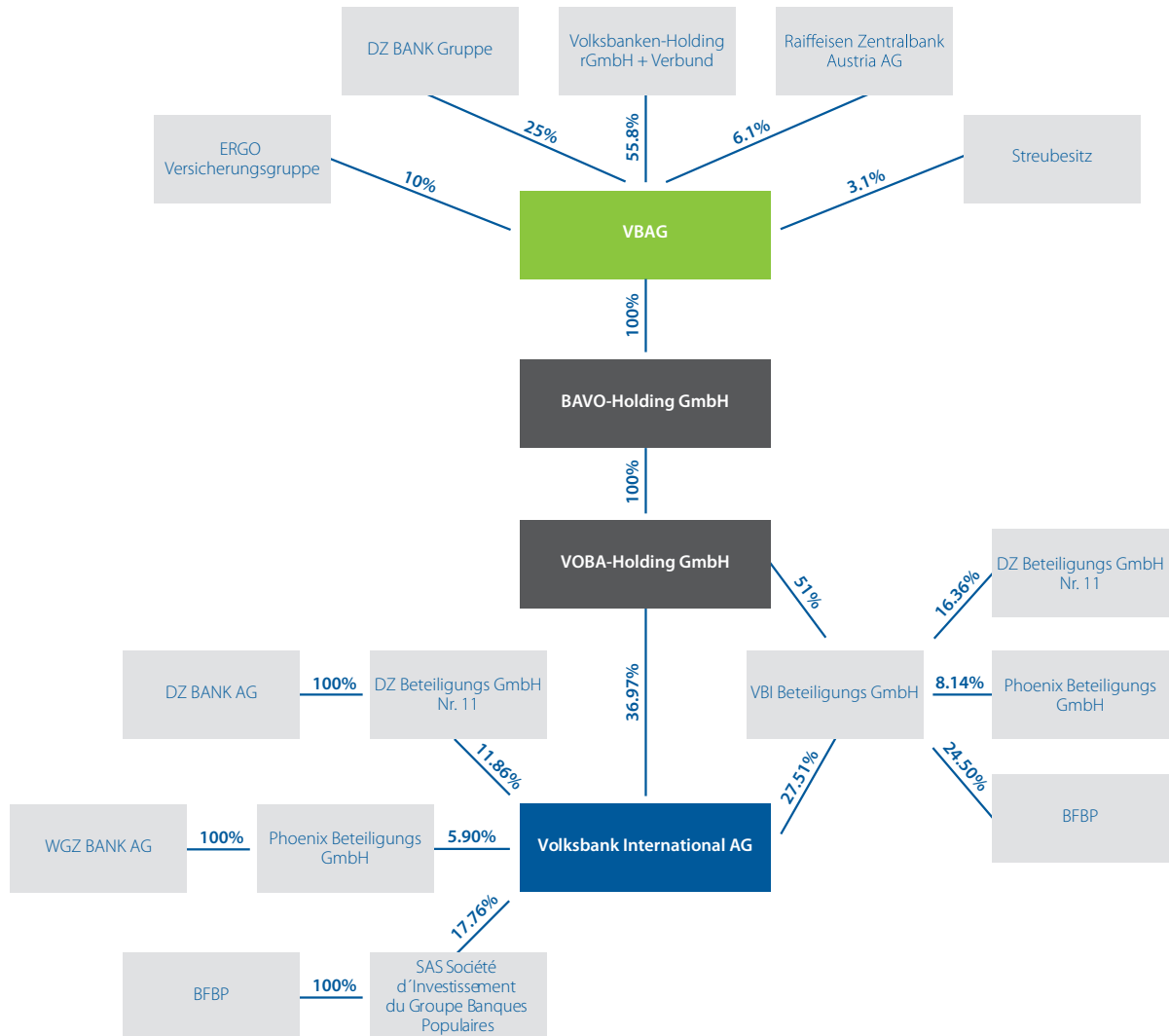
The operational risk management process includes identification, recording, evaluation and valuation of risks, as well as measures for their minimisation, and it is applied at the levels of both actual events and hypothetical risks.

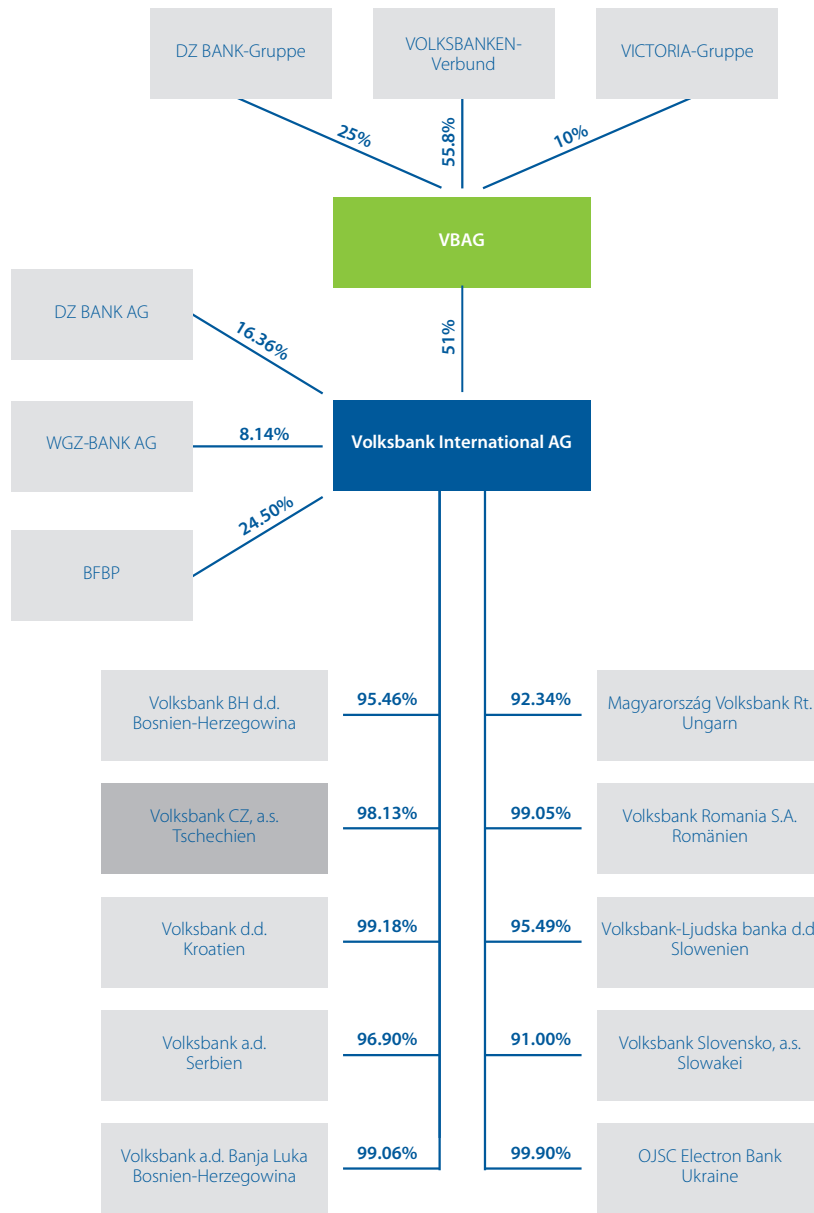
Identified events are assessed and considered individually, and the measures to be taken are designed in accordance not only with the frequency of the events' occurrence and the amount of the realised or anticipated loss or gain, but also their seriousness and original cause of origin. The objective is to ensure that the measures taken will effectively minimise or eliminate occurrences of similar events in future.

OTHER INFORMATION

INFORMATION ON RELATIONS

Volksbank International AG (VBI) is the controlling entity of Volksbank CZ, a.s. and is part of the group Volksbank AG. The group's structure is laid out in the following diagram:





Measures that should ensure that the controlling entity does not abuse its powers stem from the Commercial Code. The measures concern, in particular, a prohibition against abusing the majority of votes in the company (Section 56a, paragraph 1 of the Commercial Code); a prohibition against abusing the controlling entity's influence in order to force the adoption of a measure or the conclusion of a contract from which financial damage may arise to a controlled entity, unless the controlling entity compensates for the damage so arising no later than by the end of the accounting period within which the damage occurred, or unless within the same time limit an agreement is concluded establishing a reasonable period and method for the damage's reimbursement by the controlling entity (Section 66a, paragraph 8 of the Commercial Code); the company's obligation to prepare a report on relationships between related parties in accordance with Section 66a, paragraph 9 nn of the Commercial Code (see page 104 of the Annual Report – Report on Relations); the obligation of the controlling entity to compensate damage incurred by the controlled entity in accordance with Section 66a, paragraph 14 of the Commercial Code; and the liability of members of the controlling entity's and controlled entity's statutory bodies in accordance with Section 66a, paragraph 15 of the Commercial Code.

Contracts concluded between VBI AG and Volksbank CZ, a.s.:

	Title of the contract	Concluded with	Subject of the contract
1	Rahmendiensteleistungsvertrag	VBI AG, VBAG	Provision of advisory services
2	Triangular International Assignment Agreement	VBI AG, VBI employee	Delegating an employee to work in VB CZ (terminated in 2008)
3	Vereinbarung	ALB EDV-Service GmbH	Provision of IT services
4	Stand-by Liquidity Commitment	VBI AG	(terminated in June 2008)
5	Vereinbarung	VB IT-Services GmbH	Provision of IT services
6	Nutzungsvertrag	VB Managementberatung GmbH	Right to use Riskwarehouse and rating systems
7	Loan Agreement	VBI AG	Provision of loan facility from June 2008
8	Loan Agreement	VBI AG	Provision of another loan facility from September 2008

INFORMATION ON TREASURY SHARES AND SECURITIES

During 2008, Volksbank CZ, a.s. did not trade or hold any of its own shares, nor did it own any shares of the controlling entity, VBI AG.

No restriction exists on the transferability of securities issued by Volksbank CZ, a.s. except that treasury shares of Volksbank CZ, a.s. are not publicly traded. Except for the interests resulting from ownership, there is no other significant direct or indirect participation in the voting rights of Volksbank CZ, a.s., nor are there any restrictions to voting rights with the exception that, as results from the provisions under the Banking Act, voting rights do not pertain to priority shares.

Priority shares of Volksbank CZ, a.s. bear a right to share in profit that is one percentage point greater than the same right pertaining to ordinary shares.

As far as Volksbank CZ, a.s. is aware, no agreements exist between shareholders that may result in hindering the transferability of shares or voting rights. Apart from the statutes, there exist no special regulations governing the election and dismissal of members of the Board of Directors and modification of the company's statutes. The members of the Board of Directors have no special powers such as the authorisation under Sections 161a and 210 of the Commercial Code.

There exist no significant agreements to which Volksbank CZ, a.s. is a contracting party and which will become effective, change or lapse in the case of a change in the control of Volksbank CZ, a.s. due to a takeover bid and the effects resulting from such agreements.

There exist no agreements between Volksbank CZ, a.s. and the members of its Board of Directors or employees that Volksbank CZ, a.s. is obliged to fulfil in the case that their offices or employment is terminated in relation to a takeover bid.

There exist no programmes on the basis of which employees and members of the company's Board of Directors are allowed to acquire participation securities of the company, options to these securities or other rights thereto under advantaged conditions.

DATA ON ISSUED SECURITIES

Shares of Volksbank CZ, a.s.

- Kind: ordinary and preference shares
- Type: 308,561 registered ordinary shares, 92,515 registered preference shares
- Form: dematerialised
- Quantity: 401,076 shares in total
- Total volume in issue: CZK 2,005,380,000
- Nominal value per share: CZK 5,000
- Marketability of shares: The shares are not traded on any public market.

Issues of mortgage-backed securities (HZL) of Volksbank CZ, a.s.

HZL VB CZ 3.70% payable in 2010

- Identification code (ISIN): CZ0002000599
- Date, Type and form of issue: 18 October 2005, bearer shares, dematerialised
- Total volume of issue: CZK 0.5 billion
- Nominal value, quantity: CZK 10,000, 50,000
- Coupons: fixed annual interest rate of 3.70% paid each year in arrears
- Traded on: ---
- Maturity: The securities will be paid up in their nominal value on 18 October 2010.

HZL VB CZ 4.60% payable in 2011

- Identification code (ISIN): CZ0002000813
- Date, type and form of issue: 27 June 2006, bearer shares, dematerialised
- Total volume of issue: CZK 0.5 billion
- Nominal value, quantity: CZK 10,000, 50,000
- Coupons: fixed annual interest rate of 4.60% paid each year in arrears
- Traded on: ---
- Maturity: The securities will be paid up in their nominal value on 27 June 2011.

HZL VB CZ 5.40% payable in 2012

- Identification code (ISIN): CZ0002001159
- Date, type and form of issue: 25 September 2007, bearer shares, dematerialised
- Total volume of issue: CZK 0.7 billion
- Nominal value, quantity: CZK 10,000, 70,000
- Coupons: fixed annual interest rate of 5.40% paid each year in arrears
- Traded on: Prague Stock Exchange, official open market
- Maturity: The securities will be paid up in their nominal value on 25 September 2012.

HZL VB CZ 5.30% payable in 2017

- Identification code (ISIN): CZ0002001688
- Date, type and form of issue: 18 December 2007, bearer shares, dematerialised
- Total volume of issue: CZK 0.8 billion
- Nominal value, quantity: CZK 10,000, 80,000
- Coupons: fixed annual interest rate of 5.30% paid each year in arrears
- Traded on: ---
- Maturity: The securities will be paid up in their nominal value on 18 December 2017.

AUDITOR'S REMUNERATIONS TO KMPG ČESKÁ REPUBLIKA AUDIT, S.R.O.

Auditing services	CZK 1.40 million
Tax services	CZK 0.00 million
Others	CZK 0.40 million
Total	CZK 1.80 million

PRINCIPLES OF REMUNERATING THE BANK'S MANAGERS

A person or entity with management authority in Volksbank CZ, a.s. includes the managing entity and members of the Supervisory Board.

Managing Entity of the Issuer

The managing entity of the issuer Volksbank CZ, a.s. comprises the Chairman of the Board of Directors, who is also the general director; the members of the Board of Directors; and company secretaries.

By law, the Board of Directors is the statutory body directing the company's operations and acting on its behalf. Members of the Volksbank CZ Board of Directors perform their functions with a proper manager's care and act in good faith, with appropriate diligence and care, and in the best interest of the company and its shareholders. They are experts in managing large corporations and have international experience and ability to work as a team. Their office requires ongoing development both in their fields of expertise and in the general operation and management of companies; an active approach to fulfilling their obligations and the ability to contribute to the company's strategy development; and, last but not least, loyalty to the company. Members of the Board of Directors adhere to high ethical standards and are responsible for the company's observance of the applicable laws. They are personally liable for any damage that they may cause by violating their legal obligations, and they also are functionally responsible to the company represented by the shareholders.

The Chairman of the Board of Directors and members of the Board of Directors are remunerated on the basis of the "Contract on Discharging the Office of a Member of the Board of Directors" concluded in accordance with the relevant provisions of Act No. 513/1991 Coll., the Commercial Code. The Contract on Discharging the Office of a Member of the Board of Directors was approved by the company's Supervisory Board.

The company pays fixed monthly remuneration to the Chairman and members of the Board of Directors for their management activity, attendance at the body's meetings, due preparation for those meetings, and for other activities associated with discharging the office of a member of the Board of Directors.

Moreover, the Chairman and members of the Board of Directors are remunerated in consideration of a performance evaluation regarding their activity, which is measured on the basis of their fulfilling established performance criteria. The performance criteria, which are established in cooperation with VBI AG, are drawn up each calendar year and are derived from the financial goals (profit before taxes of VBI AG, profit before taxes of Volksbank CZ, and profit of the controlled organisational unit) and the fulfilment of structural duties. The variable component of the remuneration may be as much as 35% of the fixed component.

The general director and company secretaries are not additionally remunerated due to their positions. Thus, only the employment salaries of company secretaries are listed for other managers.

Based on their managerial and professional knowledge and experience and their contribution to the company, the Chairman of the Board of Directors, members of the Board of Directors and company secretaries receive:

- all monetary earnings pertaining to members of the Board of Directors in the total amount of CZK 21.65 million,
- all monetary earnings pertaining to other managers in the total amount of CZK 4.77 million,
- all in-kind earnings pertaining to members of the Board of Directors in the total amount of CZK 0.38 million,
- all in-kind earnings pertaining to other managers in the total amount of CZK 0.16 million.

These earnings were paid on the basis of fulfilling financial, qualitative and development criteria, as well as on the basis of efficiency criteria.

Neither the Chairman of the Board of Directors, members of the Board of Directors, company secretaries nor persons close to them own shares or options to purchase shares of Volksbank CZ. The shares of Volksbank CZ, a.s. are not publicly tradeable.

Supervisory Board

The Supervisory Board is the company's controlling body and oversees the performance of the Board of Directors in carrying out the company's business operations. The Supervisory Board in particular monitors whether the Board of Directors is performing its duties in accordance with legal regulations and the company's statutes and whether members of the Board of Directors are acting in accordance with the company's interests while exercising a proper manager's care. Members of the Supervisory Board perform their functions with a proper manager's care. To perform the duties of a member of the Supervisory Board, members must be expertly qualified and maintain loyalty to the company and discretion regarding confidential information and facts.

Members of the Supervisory Board are liable for any damage that they may cause by violating their legal obligations. Moreover, members of the Supervisory Board are functionally responsible to the company represented by the shareholders. Members of the Supervisory Board are remunerated in accordance with the relevant provisions of Act No. 513/1991 Coll., the Commercial Code. The amount of the relevant remuneration for members of the Supervisory Board is approved by the general meeting. No monthly remuneration is paid for activities in the Supervisory Board of Volksbank CZ.

Neither members of the Supervisory Board nor persons close to them own shares or options to purchase shares of Volksbank CZ. The shares of Volksbank CZ, a.s. are not publicly tradeable.

No remuneration due to membership in the Supervisory Board, including those of an in-kind nature, were paid in 2008 to members of the Supervisory Board of Volksbank CZ for their activities in that body.

Volksbank CZ declares that there are no conflicts of interests in relation to the obligations of members of administrative, managing and supervisory bodies and their private interests or other obligations.

MARKET POSITION IN RELATION TO THE BANK'S PRINCIPAL ACTIVITIES

Volksbank CZ has successfully operated on the Czech market since 1993. In 2008, the Bank held a 1.15% share in the total assets of all 37 banks operating in the Czech Republic. Volksbank CZ grew its assets by 31.10% in 2008, while the year-on-year growth rate for the banking sector as a whole was 12.09%, thus making the Bank very successful. It also achieved a 0.74% share in the banking sector's overall profit. The Bank's year-on-year profit growth was 5.90%, while the year-on-year development of the financial result for the overall banking sector recorded a 1.32% decline. The share of Volksbank CZ's client loans in the banking sector was 1.88%, and the share of its client deposits was 1.06% of total client deposits in the banking sector.

AFFIDAVIT

Volksbank CZ, a.s., having its registered office at Lazarská 8, Prague 2, Nové Město, Postal Code 120 00, is responsible for the data in its 2008 Annual Report.

The undersigned hereby declare that, in exercising all due care, the data contained in the Annual Report of Volksbank CZ, a.s., for 2008 is accurate and that no substantial facts that could change the meaningfulness of the Annual Report of Volksbank CZ, a.s., were concealed.

Financial Statements

Volksbank CZ

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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

Volksbank CZ, a.s.

Residence:	Lazarská 8, 120 00 Praha 2
Identification number:	25083325
Legal form:	joint-stock company
Primary business:	banking
Date of preparation:	27 February 2009

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2008

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

in CZK million	Note	Year ended 31 December	
		2008	2007
Interest and similar income		2,333	1,476
Interest expense and similar charges		(1,001)	(507)
Net interest income	3	1,332	969
Fee and commission income		437	399
Fee and commission expense		(54)	(82)
Net fee and commission income	4	383	317
Net trading income	5	35	56
Impairment charge for credit losses	13	(460)	(164)
Provisions	25	(13)	-
Administrative expenses	6	(825)	(725)
Other operating income	7	14	7
Other operating expenses	8	(23)	(20)
Operating profit		443	440
Profit before income tax		443	440
Income tax expense	9	(104)	(120)
Profit for the year		339	320

These financial statements were approved for issue by the Board of Directors on 27 February 2009 and signed on its behalf by:

Signature of the statutory representatives

Person responsible
for accounting

Person responsible
for the preparation
of the financial statements

Johann Lurf
Chairman of the
Board of Directors

Libor Holub
Member of the
Board of Directors

Alena Sládková

Libor Nosek






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

BALANCE SHEET AS AT 31 DECEMBER 2008

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

in CZK million	Pozn.	As at 31 December 2008	As at 31 December 2007
ASSETS			
Cash and balances with central banks	10	2,809	809
Loans and advances to banks	11	4,587	3,707
Loans and advances to customers	12,13	39,059	30,161
Derivative financial instruments	14	342	160
Financial assets at fair value through profit or loss	15	144	260
Investment securities:			
– Available for sale	16	171	167
– Held to maturity	16	204	759
Intangible assets	17	114	81
Property and equipment	18	257	266
Current income tax assets		26	-
Deferred income tax assets	19	17	31
Other assets	20	54	47
Total assets		47,784	36,448
LIABILITIES			
Deposits from banks	21	14,409	7,416
Due to customers	22	23,458	20,538
Derivative financial instruments	14	111	154
Debt securities in issue	23	3,697	3,147
Other liabilities	24	537	699
Provisions	25	21	8
Current income tax liabilities		-	77
Subordinated debt	26	273	270
Total liabilities		42,506	32,309
EQUITY			
Share capital	27	2,005	1,683
Share premium account		2,695	2,017
Statutory reserve		53	37
Cumulative gains not recognised in the income statement	27	10	4
Retained earnings		515	398
Total equity		5,278	4,139
Total equity and liabilities		47,784	36,448

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

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

in CZK million	Share capital	Share premium account	Statutory reserve	Cumulative gains not recognised in the income statement	Retained earnings	Total Equity
As at 1 January 2007	1,145	887	26	5	252	2,315
Net change in available-for-sale investments, net of tax	-	-	-	(1)	-	(1)
Net income recognised directly in equity	-	-	-	(1)	-	(1)
Net profit	-	-	-	-	320	320
Total recognised income for 2007	-	-	-	(1)	320	319
Transfer to statutory reserve	-	-	11	-	(11)	-
Dividend relating to 2006	-	-	-	-	(163)	(163)
Equity issue	538	1,130	-	-	-	1,668
As at 31 December 2007	1,683	2,017	37	4	398	4,139
As at 1 January 2008	1,683	2,017	37	4	398	4,139
Net change in available-for-sale investments, net of tax	-	-	-	6	-	6
Net income recognised directly in equity	-	-	-	6	-	6
Net profit	-	-	-	-	339	339
Total recognised income for 2008	-	-	-	6	339	345
Transfer to statutory reserve	-	-	16	-	(16)	-
Dividend relating to 2007	-	-	-	-	(206)	(206)
Equity issue	322	678	-	-	-	1,000
As at 31 December 2008	2,005	2,695	53	10	515	5,278

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2008

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

in CZK million Item	Note	2008	reclassified 2007
Cash flow from / (used in) operating activities			
Profit before income tax		443	440
Adjustment for:			
Impairment losses on loans and advances	13	448	149
Provisions	25	13	-
Depreciation of property and equipment	6	84	69
Change in cumulative gains not recognised in the income statement	27	6	(1)
(Increase)/ decrease in operating assets:			
Due from banks, non-demand, over 3 months		-	303
Financial assets at fair value through profit or loss		(66)	(78)
Loans and advances		(9,346)	(9,290)
Other assets		(19)	(1)
Prepayments and accrued income		11	17
Increase / (decrease) in operating liabilities			
Due to banks, term		7,828	2,513
Financial liabilities at fair value through profit and loss		(43)	130
Due to customers		2,920	5,706
Promissory notes and certificates of deposits		62	46
Other liabilities		(139)	(40)
Accruals and deferred income		(23)	2
Net cash flow from / (used in) operating activities before income tax		2,179	(35)
Net income tax paid		(192)	(115)
Net cash flow from (used in) operating activities		1,987	(150)
Cash flow from / (used in) investing activities			
Purchase of investment securities	16	-	(898)
Proceeds from sale and redemption of securities		551	-
Purchase of property and equipment		(109)	(142)
Disposal of property and equipment		-	1
Net cash flow from (used in) investing activities		442	(1,039)
Cash flow from / (used in) financing activities			
Issue of bonds		488	1,091
Issue of shares		1,000	1,668
Decrease in borrowings		3	(8)
Dividends paid	34	(206)	(163)
Net cash flow from financing activities		1,285	2,588
Net increase / (decrease) in cash and cash equivalents		3,714	1,399
Cash and cash equivalents at the beginning of the year	30	2,762	1,363
Net increase / (decrease) in cash and cash equivalents		3,714	1,399
Cash and cash equivalents at the end of the year	30	6,476	2,762

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

1 GENERAL INFORMATION

VOLKSBANK CZ, a.s. (hereinafter referred to as "the Bank") was incorporated on 31 October 1996. The Bank had 56 domestic regional branches in the Czech Republic as at 31 December 2008 (as at 31 December 2007: 55 branches) and employed on average 620 people (as at 31 December 2007: 540 people).

The ultimate holding company is Österreichische Volksbanken AG, which is incorporated in Austria.

The Bank's operations primarily consist of the following:

- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currencies;
- accepting current and term accounts denominated in Czech and foreign currencies;
- rendering of general banking services through a network of branches and agencies;
- providing foreign exchange transactions on the inter-bank money market;
- providing foreign trade finance and related banking services; and
- trading in securities and portfolio management.

During 2008 Supervisory Board member Thorsten Paul resigned from his office and was replaced by Peter Szenkurök.

During 2008 and until preparation of financial statements Board of Directors members Václav Vitha and Tomáš Kořínek resigned from their offices. Libor Holub and Gernot Daumann became new members of the Board of Directors.

2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity, statement of the cash flow and accompanying notes, of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The policies set out below have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets held at fair value through profit or loss, and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 (aa).

The financial statements are rounded to millions of Czech Crowns ("CZK million" or "CZKm") unless otherwise stated.

(b) Segment reporting

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

(c) Foreign currencies translation

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

The financial statements are presented in CZK, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(d) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. They are classified based on management's intention at inception.

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modifying the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of trading derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in "net trading income".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity financial assets

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

Held-to-maturity investments are measured at amortised cost.

Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at the amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(e) Offsetting financial instruments

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

(f) Derivative financial instruments and hedge accounting

Derivatives including foreign exchange contracts, currency and interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

The Bank does not apply hedge accounting.

(g) Recognition of deferred day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique the variables of which include only data from observable markets.

(h) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognised within “interest and similar income” and “interest expense and similar charges” in the income statement using the effective interest method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(i) Fee and commission income and fee expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(j) Dividend income

Dividends are recognised in the income statement when the Bank’s right to receive payment is established.

(k) Sale and repurchase agreements

Securities sold subject to repurchase agreements (“repos”) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in “deposits from banks” or “due to customers”, as appropriate. Securities purchased under agreements to resell (“reverse repos”) are recorded as “loans and advances to banks” or “loans and advances to customers”, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(l) Impairment of financial assets

Assets carried at amortised costs

The Bank assesses as at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy or insolvency proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between one month and three months.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. These procedures mainly include cession of a loan, filing a lawsuit in order to recover the loan through demand for payment and filing a distraint or bankruptcy petition.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed either directly or by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement in "impairment charge for credit losses".

Assets classified as available for sale

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

Renegotiated loans and advances

Since the moment of renegotiation, such loans are treated as impaired for the period of six months. If a loan performs according to the renegotiated schedule, it becomes treated as watched during the subsequent 18 months, and as standard starting the third year since the renegotiation.

(m) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortised on the basis of the expected useful lives (three to four years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding three years).

(n) Property, premises and equipment

Land and buildings comprise mainly branches and offices. All property, premises and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to "other general administrative expenses" during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other long-term assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and constructions	30
Administrative buildings	30
Hardware and equipment	4
Fixtures and fittings	6
Safes	12
Motor vehicles	4

The leasehold improvements are depreciated over the term of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in "other operating income" or "other operating expenses" in the income statement.

(o) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to “other general administrative expenses” in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months’ maturity from the date of acquisition, including cash and balances with central banks (including Mandatory Minimum Reserves), trading assets, debt securities, amounts due from banks and due to banks.

(r) Provisions

Provisions for legal claims, financial guarantee contracts and other contingent liabilities are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as at the balance sheet date. These estimates are determined based on experience with similar transactions and history of past losses, supplemented by the judgment of management.

(t) Staff costs, pensions and social fund

Staff costs

Staff costs are included in “administrative expenses” and they also include board emoluments.

Pensions

The Bank currently executes a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Bank pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Social fund

The Bank creates a social fund to finance the social needs of its employees and employee benefit programmes. The allocation to the social fund is recognised in the income statement.

(u) Taxation and deferred income tax

Income tax

Income tax payable on profits, based on Czech tax law, is recognised as an expense in the period in which profits arise.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions and tax losses carried forward. The rates enacted or substantively enacted as at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

(v) Value added tax

The Bank is registered for value added tax ("VAT"). Intangible and tangible fixed assets are stated at acquisition cost including the appropriate VAT. The Bank does not claim input VAT as the ratio of the taxable income to the total income of the Bank is such that it is not economical for the Bank to claim the input VAT.

(w) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(x) Share capital and reserves

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on shares

Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

Statutory reserve

In accordance with the Commercial Code, the Bank is required to set aside a statutory reserve in equity.

The statutory reserve represents accumulated transfers from retained earnings. Five percent of net profit shall be allocated to the statutory reserve until the value of 20 % of share capital is achieved. This reserve is not distributable and can be used exclusively to cover losses.

(y) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, and other institutions. These assets and income arising thereon are excluded from these financial statements, as they do not belong to the Bank.

(z) IFRS / IAS accounting and reporting developments

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods and which the Bank has not early adopted:

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

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

IAS 32 and IAS 1 Amendment - Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009).

The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Bank is currently assessing the impact of the amendment on its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).

The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).

The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance. The current standard requires excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses. The revised standard also specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. Any investment retained in the former subsidiary will have to be measured at its fair value at the date when control is lost. The current standard requires the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The Bank is currently assessing the impact of the amended standard on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The disclosures required to be made in relation to contingent consideration will be enhanced. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank is currently assessing the impact of the amended standard on its financial statements.

IFRS 2 amendment, Vesting Conditions and Cancellations, Share-based Payments (issued in January 2008; effective for annual periods beginning on or after 1 January 2009).

The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank is currently assessing the impact of the amendment on its financial statements.

IAS 39 Amendment, Eligible hedged items (issued in July 2008; effective for annual periods beginning on or after 1 July 2009).

The amendment provides clarification on identifying inflation as a hedged risk or portion and hedging with options. Inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument.

However, the amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge because such a component is not separately identifiable and reliably measurable. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged. The amendment also permits an entity to designate purchased options as a hedging instrument in a hedge of a financial or non-financial item. The entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable. The Bank is currently assessing the impact of the amendment on its financial statements.

Other new standards or interpretations

The Bank has not early adopted the following other new standards or interpretations:

- IFRS 1 and IAS 27 Amendment - Measurement of the Cost of Investments in Subsidiaries, Jointly Controlled Entities and Associates when Adopting International Financial Reporting Standards (IFRSs) for the First Time (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).

The IASB and the IFRIC made certain amendments to existing standards and interpretations as part of their improvement projects. The effective dates for these amendments vary and most will be applicable to the Bank's 2009 financial statements.

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

(aa) Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of the Bank's debtors, or national or local economic conditions that correlate with defaults on examined portfolio of assets.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated CZK 20 million lower or CZK 27 million higher.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Deferred tax

Significant estimates are required in determining deferred income tax. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of temporary differences is different from the amounts that were initially recorded, such differences will impact the current income tax provision and deferred tax in the period in which such determination is made.

(ab) Reclassifications of comparative figures

The Bank changed classification or presentation of the following comparative amounts in order to ensure their comparability with current year:

- Cash and cash equivalents in the statement of cash flow (Note 30) were misstated (omission to add Due from banks and Due to banks due up to 2 days), which led to reduction of Cash and cash equivalents as at 1 January 2007 from CZK 1,478 million to CZK 1,363 million and increase of Cash and cash equivalents as at 31 December 2007 from CZK 791 million to CZK 2,762 million.

3 NET INTEREST INCOME

INTEREST AND SIMILAR INCOME

(CZKm)	2008	2007
Loans and advances to customers	2,147	1,339
Due from banks	132	97
Mandatory minimum reserves with central banks	15	10
Loans and advances to banks	147	107
Investment securities held to maturity	38	30
Securities designated at fair value	1	-
	2,333	1,476

INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS

(CZKm)	2008	2007
Receivables from companies and individuals including consumer loans	2,063	1,265
Receivables from municipalities	28	29
Receivables from governmental bodies	1	1
Other receivables from customers	55	44
	2,147	1,339

INTEREST INCOME FROM INVESTMENT SECURITIES HELD TO MATURITY

(CZKm)	2008	2007
Receivables from companies	38	30
	38	30

Management estimates that approximately CZK 84 million of interest income was recognised on impaired receivables in 2008 (2007: CZK 53 million).

INTEREST AND SIMILAR EXPENSE

(CZKm)	2008	2007
Due to customers	395	216
Due to banks	469	224
Debt securities in issue	137	67
	1,001	507

4 NET FEE AND COMMISSION INCOME

(CZKm)	2008	2007
Fee and commission income	437	399
Fee and commission expense	(54)	(82)
	383	317

FEE AND COMMISSION INCOME

(CZKm)	2008	2007
International payment transactions	203	194
Domestic payment transactions	97	93
Lending business	53	47
Foreign exchange, foreign notes and coins transactions	46	34
Securities and custody business	24	24
Other	14	7
	437	399

Fee and commission income from securities and custody business includes CZK 2 million of fee income from custody activities (2007: CZK 1 million).

5 NET TRADING INCOME

(CZKm)	2008	2007
Net interest income – trading securities	13	13
Net trading income – trading securities and derivatives	22	43
	35	56
Fixed-income securities and money market	13	12
Net foreign exchange gains	26	41
Interest rate contracts	(4)	3
	35	56

Net foreign exchange gains include results arising from both customer and proprietary activities in foreign exchange cash, spot, forward, swap and option operations. Included in Net trading income of CZK 35 million (2007: CZK 56 million) is change in fair value of CZK 228 million (2007: CZK 16 million) estimated using a valuation technique and loss on realised transactions of CZK 193 million (2007 profit: CZK 26 million).

6 ADMINISTRATIVE EXPENSES

(CZKm)	2008	2007
Personnel expenses	414	388
Depreciation of property and equipment and amortisation of intangible assets	84	69
Other general administrative expenses	327	268
	825	725

PERSONNEL EXPENSES

(CZKm)	2008	2007
Salaries and bonuses of Board of Directors members	22	12
Salaries and bonuses of senior management	31	24
Salaries and bonuses of Supervisory Board members	2	2
Salaries and bonuses of the employees	257	246
Social security costs	90	94
Other personnel costs	12	10
	414	388

Social security costs also include the contribution to the state pension scheme.

Management bonus scheme

Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to approval of the Supervisory Board. The key performance indicator of the Annual performance bonus is based on the growth of the net profit before taxes.

Retirement benefits

The Bank provides its employees with a defined contribution retirement scheme in accordance with the Act No. 42/1994 Coll. Participating employees can contribute some percentage of their salaries to a pension fund. The Bank contributes up to CZK 24,000 a year per person based on the agreement with the employee. The Bank's contribution is added to the employee's basic salary. Total Bank expense for the retirement scheme in 2008 was CZK 0.6 million (2007: CZK 0.7 million).

OTHER GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2008	2007
Rent and leasing	86	76
Information technology	67	57
Marketing and public relations	36	27
Material consumption	29	24
Audit, tax, legal consultancy	37	21
Tax and fees	2	3
Other	70	60
	327	268

7 OTHER OPERATING INCOME

(CZKm)	2008	2007
Gain on disposal of fixed assets	2	1
Rental income	1	1
Other	11	5
	14	7

8 OTHER OPERATING EXPENSES

(CZKm)	2008	2007
Deposit insurance	20	18
Other	3	2
	23	20

9 INCOME TAX EXPENSE

(CZKm)	2008	2007
Current tax expense	91	145
Deferred tax income relating to the origination and reversal of temporary differences (Note 19)	13	(25)
	104	120

The following table shows how the tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate:

(CZKm)	2008	2007
Profit before taxation	443	440
Applicable rates	21%	24%
Taxation at applicable tax rates	93	106
Tax effect of non-taxable income	-	-
Tax effect of non-deductible expenses	10	8
Other	1	6
	104	120

The effective tax rate was 23,47 % (2007: 27.27%).

10 CASH AND BALANCES WITH CENTRAL BANKS

The Bank classifies its cash and balances with central banks, except for cash in hand, in the category of financial assets "loans and receivables".

(CZKm)	31.12.2008	31.12.2007
Loans and deposits to central bank	2,130	300
Mandatory minimum reserves with central banks	211	124
Cash in hand	400	351
Balances with central banks	68	34
	2,809	809

Mandatory minimum reserves with the Czech National Bank ("CNB") are generally not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 2.25% as at 31 December 2008 (31 December 2007: 3.5%).

Cash and balances with central bank include CZK 500 million (31 December 2007: CZK 300 million) recognised as a result of the cash collateral placements in respect of securities purchased under reverse repos. The fair value of the securities collateral held amounted to CZK 490 million (31 December 2007: CZK 293 million).

Cash and balances with central bank further include term deposit of CZK 1,630 million (31 December 2007: CZK 0 million).

11 LOANS AND ADVANCES TO BANKS

The Bank classifies its loans and advances to banks in the category of financial assets "loans and receivables".

(CZKm)	31.12.2008	31.12.2007
Analysed by product and bank domicile		
Current accounts		
Domestic	18	37
Foreign	76	13
Term deposits		
Domestic	3,061	2,839
Foreign	1,432	818
	4,587	3,707
Allowances for credit losses	-	-
Net due from banks	4,587	3,707

12 LOANS AND ADVANCES TO CUSTOMERS

Bank classifies its loans and advances to customers in the category of financial assets "loans and receivables".

(CZKm)	31.12.2008	31.12.2007
Analysed by product		
Investment loans	23,032	18,408
Working capital financing	9,724	7,542
Mortgages	5,956	3,737
Consumer loans	1,201	880
Gross loans and advances	39,913	30,567
Allowance for impairment (Note 13)	(854)	(406)
Net loans and advances	39,059	30,161

For the analysis of individual categories of loans and advances to customers according to their credit quality see Note 32 (b).

13 IMPAIRMENT CHARGE FOR CREDIT LOSSES

The movement in allowance for impairment of loans and advances to customers can be analysed as follows:

(CZKm)	Retail	Corporate	Total
As at 1 January 2007	146	111	257
Net addition to provision for loan impairment	34	131	165
Loans written off during the year as uncollectible	(16)	(1)	(17)
Unwind of discount of allowance	2	-	2
Exchange differences	-	(1)	(1)
As at 31 December 2007	166	240	406
Net addition to provision for loan impairment	187	272	459
Loans written off during the year as uncollectible	(9)	-	(9)
Unwind of discount of allowance	(1)	(1)	(2)
As at 31 December 2008	343	511	854

Segments Corporate/Retail are determined in accordance with Basel II standardised approach as opposed to Note 31, where the segments are defined based on the Bank's organisational structure.

The Bank also realised loss amounting to CZK 12 million (2007: CZK 15 million) on ceded receivables.

14 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's trading activities primarily involve providing various derivative products to its customers and managing positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage interest rate position and which do not meet the criteria of hedge accounting.

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

Derivative financial instruments

TRADING DERIVATIVES

(CZKm)	31.12.2008			31.12.2007		
	Contract/ notional	Fair value positive	Fair value negative	Contract/ notional	Fair value positive	Fair value negative(mil.)
Interest rate derivatives						
Swaps	234	-	3	277	3	1
	234	-	3	277	3	1
Foreign exchange derivatives						
Swaps	3,486	237	15	731	3	9
Forwards	4,742	105	93	6,523	138	128
Options	1	-	-	1,284	16	16
	8,229	342	108	8,538	157	153
Total	8,463	342	111	8,815	160	154

Fair value gains less losses of trading derivatives are recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore presented above as trading derivatives with fair value gains and losses recognised in the income

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

SECURITIES HELD FOR TRADING

(CZKm)	31.12.2008	31.12.2007
Debt securities	137	260

SECURITIES DESIGNATED AT FAIR VALUE

(CZKm)	31.12.2008	31.12.2007
Debt securities	7	-

16 INVESTMENT SECURITIES

The Bank classifies its investment securities in the categories of financial assets “available for sale” and “held to maturity”.

(CZKm)	31.12.2008	31.12.2007
Securities available for sale		
Share units thereof:		
– Unlisted	141	140
Equity securities thereof:		
– Unlisted	30	27
	171	167
Securities held to maturity		
Debt securities thereof:		
– Listed	204	255
– Unlisted	-	504
	204	759

The Bank holds a 9.72% share of Victoria pojišťovna a.s. (“Victoria”) at a value of CZK 30 million (31 December 2007: CZK 27 million). Victoria increased its registered capital from retained earnings by CZK 30 million in 2008. Accordingly, the Bank acquired shares corresponding to its share on Victoria’s equity. The Bank does not exert significant influence in Victoria.

(CZKm)	Securities available for sale	Securities held to maturity	Total
As at 1 January 2007	29	-	29
Additions	139	759	898
Losses from changes in fair value	(1)	-	(1)
As at 31 December 2007	167	759	926
Disposals	(4)	(555)	(559)
Gains from changes in fair value	8	-	8
As at 31 December 2008	171	204	375

17 INTANGIBLE ASSETS

(CZKm)	Software	Development in progress	Other	Total
Costs				
As at 1 January 2007	164	6	1	171
Additions	29	19	-	48
Transfer	6	(6)	-	-
Disposal	-	-	-	-
As at 31 December 2007	199	19	1	219
Additions	16	49	-	65
Transfer	3	(3)	-	-
Disposal	(2)	-	-	(2)
As at 31 December 2008	216	65	1	282
Accumulated amortisation				
As at 1 January 2007	(112)	-	(1)	(113)
Amortisation charge	(25)	-	-	(25)
Disposals (accumulated amortisation)	-	-	-	-
As at 31 December 2007	(137)	-	(1)	(138)
Amortisation charge	(32)	-	-	(32)
Disposals (accumulated amortisation)	2	-	-	2
As at 31 December 2008	(167)	-	(1)	(168)
Net book value				
As at 1 January 2007	52	6	-	58
As at 31 December 2007	62	19	-	81
As at 31 December 2008	49	65	-	114

18 PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	Leasehold improvement	Equipment	Other	Construction in progress	Total
Costs						
As at 1 January 2007	166	62	223	140	4	595
Additions	2	5	68	15	4	94
Transfer	-	1	1	2	(4)	-
Disposal	-	-	(6)	(8)	-	(14)
As at 31 December 2007	168	68	286	149	4	675
Additions	-	4	15	20	5	44
Transfer	-	-	1	1	(2)	-
Disposal	-	-	(14)	(13)	-	(27)
As at 31 December 2008	168	72	288	157	7	692
Accumulated depreciation						
As at 1 January 2007	(68)	(19)	(176)	(115)	-	(378)
Depreciation charge	(4)	(6)	(23)	(11)	-	(44)
Disposals (accumulated depreciation)	-	-	5	8	-	13
As at 31 December 2007	(72)	(25)	(194)	(118)	-	(409)
Depreciation charge	(5)	(7)	(29)	(11)	-	(52)
Disposals (accumulated depreciation)	-	-	13	13	-	26
As at 31 December 2008	(77)	(32)	(210)	(116)	-	(435)
Net book value						
As at 1 January 2007	98	43	47	25	4	217
As at 31 December 2007	96	43	92	31	4	266
As at 31 December 2008	91	40	78	41	7	257

In 2008 there was not any depreciation charge related to low value fixed assets, as well as in 2007.

19 DEFERRED INCOME TAX ASSETS

Deferred income taxes in 2008 are calculated on all temporary differences under the liability method using the 20% income tax rate enacted for 2009 (21% for 2008).

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

(CZKm)	2008	2007
As at 1 January	31	5
Income statement (debit) / credit (Note 9)	(13)	25
Available-for-sale securities		
Fair value re-measurement	(1)	1
As at 31 December	17	31

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

(CZKm)	2008	2007
Allowance for impairment	29	41
Available-for-sale securities	(2)	(1)
Depreciation of the fixed assets	(11)	(12)
Other temporary differences	1	3
	17	31

The deferred tax (debit) / credit in the statement of income comprise the following temporary differences:

(CZKm)	2008	2007
Allowance for impairment	(12)	27
Depreciation of fixed assets	1	(2)
Other temporary differences	(2)	-
Total (Note 9)	(13)	25

The Bank's management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

20 OTHER ASSETS

(CZKm)	31.12.2008	31.12.2007
Prepayments and accrued income	14	25
Other debtors, net of provisions	17	15
Anticipated receivables	2	3
Other	21	4
	54	47

21 DEPOSITS FROM BANKS

The Bank classifies its deposits from banks in the category of financial liabilities “measured at amortised cost”.

(CZKm)	31.12.2008	31.12.2007
Analysed by product and bank domicile		
Current accounts		
domestic	1	25
foreign	116	79
Term deposits		
domestic	1,224	769
foreign	103	98
Borrowings		
domestic	2,160	2,271
foreign	10,792	4,155
Other		
foreign	13	19
	14,409	7,416

22 DUE TO CUSTOMERS

The Bank classifies its due to customers in the category of financial liabilities “measured at amortised cost”.

(CZKm)	31.12.2008	31.12.2007
Analysed by product		
Current accounts	15,257	14,199
Term deposits	8,053	6,190
Savings accounts with notice period	147	146
Savings accounts	1	3
	23,458	20,538
Analysed by customer type		
Private companies	10,415	11,063
Individual - households	6,154	5,512
Individual - entrepreneurs	1,632	1,701
Government bodies	4,076	1,792
Non-profit institutions	314	301
Insurance companies and pension funds	738	32
Other financial institutions	129	137
	23,458	20,538

The Bank has not given any collateral for its liabilities.

23 DEBT SECURITIES IN ISSUE

The Bank classifies its debt securities in issue in the category of financial liabilities "measured at amortised cost".

	Issue date	Currency	Maturity date	31.12.2008 CZKm	31.12.2007 CZKm
Issued mortgage bonds					
Mortgage bond emission 3.70/10	18.10.2005	CZK	18.10.2010	508	516
Mortgage bond emission 4.60/11	27.6.2006	CZK	27.6.2011	518	528
Mortgage bond emission 5.40/12	25.9.2007	CZK	25.9.2012	739	746
Mortgage bond emission 5.30/17	18.12.2007	CZK	18.12.2017	834	321
				2,599	2,111
Promissory notes and certificates of deposits					
Promissory notes and certificates of deposits short-term				1,023	900
Promissory notes and certificates of deposits long-term				75	136
				1,098	1,036
Debt securities in issue				3,697	3,147

The Bank did not issue any mortgage bonds in 2008.

Issued mortgage bonds are collateralised by the Bank's receivables arising from the granted mortgages in line with Czech regulatory requirements.

24 OTHER LIABILITIES

(CZKm)	31.12.2008	31.12.2007
Payments in transit	162	237
Other clearing accounts	153	201
Other creditors	127	145
Accruals and deferred income	45	68
Payables to Deposit insurance fund	21	18
Anticipated payables	22	16
VAT and other tax payables	6	2
Other	1	4
Auxiliary credit accounts	-	8
	537	699

25 PROVISIONS

(CZKm)	Provisions for financial guarantees and other contingent liabilities	Other operating provisions	Total provisions
As at 1 January 2007	3	5	8
Additions	-	-	-
As at 31 December 2007	3	5	8
Additions	13	-	13
As at 31 December 2008	16	5	21

Other operating provisions cover also possible losses regarding legal proceedings. The provision of CZK 3 million as at 31 December 2008 (31 December 2007: CZK 3 million) for litigation is not discounted to its net present value, as the timing of its utilisation could not be predicted with sufficient certainty.

26 SUBORDINATED DEBT

The Bank classifies its subordinated debt in the category of financial liabilities “measured at amortised cost”.

The Bank received a subordinated liability of EUR 10 million from the European Bank for Reconstruction and Development on 24 December 2004, which is payable in one instalment on 26 January 2015. As at 31 December 2008 this debt bears 6M EURIBOR interest of 5.435% plus a margin of 0.8% p.a. until the fifth year from the date of the agreement and 1.50% p.a. in the subsequent years which is payable semi-annually. This liability of CZK 273 million, including accrued interest, (31 December 2007: CZK 270 million) is subordinated to all other liabilities of the Bank and forms a part of the tier 2 capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy (Note 32 (g)).

27 EQUITY

The extraordinary general meeting held on 6 May 2008 decided on an increase of share capital by CZK 322 million to CZK 2,005 million. Increase of the share capital was performed by subscription of the 49,634 ordinary shares and 14,882 non-voting shares; both of nominal value CZK 5,000. Share capital was subscribed with share premium of 310% of the nominal value of the shares. Subscribed shares were paid up by the majority shareholder on 14 May 2008. Registration by the Regional Court in Brno regarding share capital came into force on 10 June 2008.

SHARE CAPITAL

(CZKm)	31.12.2008	31.12.2007
Voting shares	1 543	1 295
Non-voting shares	462	388
Issued, paid and registered by the Commercial register	2,005	1,683

ISSUES OF SHARES

ISIN	Date of issue	Nominal value of share CZK	Number of shares	Nominal value CZKm
770980001406	23.10.1998	5,000	30,000	150
770980001414	23.10.1998	5,000	100,000	500
770980001406	7.8.2002	5,000	4,600	23
770980001414	7.8.2002	5,000	15,400	77
770980001406	23.11.2005	5,000	3,165	16
770980001414	23.11.2005	5,000	10,555	53
770980001406	31.7.2006	5,000	6,565	33
770980001414	31.7.2006	5,000	21,895	109
770980001406	20.12.2006	5,000	8,479	42
770980001414	20.12.2006	5,000	28,281	142
770980001406	16.5.2007	5,000	8,336	42
770980001414	16.5.2007	5,000	27,804	139
770980001406	21.12.2007	5,000	16,488	82
770980001414	21.12.2007	5,000	54,992	275
770980001406	30.7.2008	5,000	14 882	74
770980001414	30.7.2008	5,000	49 634	248
			401,076	2,005

Non-voting shares are not allowed to vote and bear a 1% higher dividend payment than voting shares.

Cumulative gains not recognised in the income statement may be analysed as follows:

(CZKm)	2008	2007
As at 1 January	4	5
Net gains/(losses) from changes in fair value (Note 16)	8	(2)
Change in deferred income taxes (Note 19)	(2)	1
As at 31 December	10	4

28 CONTINGENT LIABILITIES AND COMMITMENTS

Commitments to provide a loan, loan guarantees to third parties and guarantees from acceptance of letters of credit expose the Bank to credit risk and to loss in the event of a client's inability to meet his obligations. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit, interest rate and liquidity risk.

Contingent liabilities include:

(CZKm)	31.12.2008 Contract amount	31.12.2007 Contract amount
Documentary credits	193	355
Financial guarantees	1,308	1,044
Provision for guarantees (Note 25)	(10)	(3)
Net financial guarantees	1,298	1,041
Un-drawn formal standby facilities, credit lines	7,624	9,034
Provision for un-drawn credit lines (Note 25)	(6)	-
Net un-drawn formal standby facilities, credit lines	7,618	9,034
Total	9,125	10,433

Un-drawn credit lines are irrevocable.

29 OTHER CONTINGENT LIABILITIES

(a) Litigation

Apart from litigation for which provisions have already been raised (Note 25), the Bank is not involved in any other litigation with material impact on its position.

(b) Taxation

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

Czech tax authorities are authorised to perform tax inspection for three years retrospectively. The last tax inspection was for year 2003.

(c) Assets under management and custody

(CZKm)	31.12.2008	31.12.2007
Assets held under custody	1,024	938

Assets held under custody are shown at their nominal value.

(CZKm)	31.12.2008	31.12.2007
Assets held under management	4,786	6,644

Assets held under management are shown at their fair value.

Management considers that no present obligations were associated with these fiduciary duties as at 31 December 2008 and 31 December 2007.

(d) Operating lease commitments

Future minimum lease payments under land, building and equipment operating leases are as follows:

(CZKm)	31.12.2008	31.12.2007
Not later than 1 year	79	56
Later than 1 year and not later than 5 years	214	190
Later than 5 years	78	102
	371	348

30 CASH AND CASH EQUIVALENTS

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

(CZKm)	reclassified		1.1.2007
	31.12.2008	31.12.2007	
Cash and balances with central banks	2,809	809	1,266
Due from banks due up to 3 months	4,547	3,667	2,071
Due to banks due up to 3 months	(880)	(1,714)	(1,974)
	6,476	2,762	1,363

31 SEGMENT REPORTING

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

SEGMENT REPORTING INFORMATION BY CUSTOMER SEGMENTS FOR 2008

(CZKm)	Retail	Corporate	Treasury	Other	Total
Net interest income	417	673	242	-	1,332
Non-interest income	162	232	24	-	418
Segment expenses	(358)	(143)	(28)	(318)	(847)
Segment result	221	762	238	(318)	903
Impairment charge to credit losses	(20)	(440)	-	-	(460)
Operating profit	201	322	238	(318)	443
Income tax (expense) / benefit	(42)	(68)	(50)	56	(104)
Profit for the year	159	254	188	(262)	339
Assets	11,072	28,365	8,330	17	47,784
Liabilities	12,443	10,597	21,840	2,904	47,784
Capital expenditure	23	4	9	74	110
Depreciation	24	3	2	55	84

SEGMENT REPORTING INFORMATION BY CUSTOMER SEGMENTS FOR 2007

(CZKm)	Retail	Corporate	Treasury	Other	Total
Net interest income	295	548	126	-	969
Non-interest income	144	226	3	-	373
Segment expenses	(316)	(126)	(25)	(271)	(738)
Segment result	123	648	104	(271)	604
Impairment charge to credit losses	(52)	(112)	-	-	(164)
Operating profit	71	536	104	(271)	440
Income tax (expense) / benefit	(17)	(129)	(25)	51	(120)
Profit for the year	54	407	79	(220)	320
Assets	7,638	23,155	5,413	242	36,448
Liabilities	10,814	10,001	13,635	1,998	36,448
Capital expenditure	44	4	2	92	142
Depreciation	23	3	2	41	69

Definitions of customer segments:

Retail: Private individuals and entrepreneurs and companies with a turnover less than CZK 30 million.

Corporate: Companies with turnover greater than CZK 30 million and non-banking institutions in the financial sector.

Treasury: Asset and liability management, Dealing.

Other: Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank operates only in the Czech Republic; therefore, there is no secondary segment reporting.

32 FINANCIAL RISKS

(a) Strategy in using financial instruments

The Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet receivables and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other similar contingent liabilities.

The Bank also, in a limited extent trades in financial instruments where it takes positions in traded and over-the-counter instruments including derivatives to take advantage of short-term market movements in the debt securities markets, in currency and interest rate. The Board of Directors places trading limits on the level of exposure that can be taken in relation to relevant market positions.

(b) Credit risk

The Bank defines credit risk as the risk that a counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation.

Credit risk management is performed in a close co-operation with the Bank's parent company, thus reflecting the risk strategy and risk-appetite of shareholders, as well as the entire Volksbank Group.

Overall, the credit-risk policy is conservative. Considered within the general context of the overall business relations existing with the respective customer, each transaction for which the Bank knowingly undertakes risk should yield a contribution margin that is commensurate with the specific risk incurred.

The Bank structures the levels of accepted credit risk by regular measurement of the risk exposure, monitoring of the limits and taking appropriate procedures leading to the decrease of the accepted level of credit risk. This process is performed on the level of each individual borrower and the whole loan portfolio. When deciding about acceptance of a new exposure, an analysis of customer's cash flow and overall financial situation is a key factor, as well as the existing experience with the customer together with the quality of received collateral. The decision-making is performed independently from sales units.

Since 2008, the Bank has been fully applying Basel II regulatory framework. The capital requirement for credit risk in investment portfolio is calculated using the standardised approach as the Bank continues its preparation for gaining regulatory approval for the transition to internal rating based approach.

The table below summarises maximum exposure to credit risk before collateral held or other credit enhancements. Included in the table are the Bank's assets and liabilities at carrying amounts..

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

(CZKm)	31.12.2008	31.12.2007
Credit risk exposures relating to on-balance sheet assets		
Loans and advances to banks	4,587	3,707
Loans and advances to customers:		
– Corporate loans		
Investment loans	16,892	13,182
Working capital financing	6,426	5,246
Mortgages	224	141
Consumer loans	194	186
– Retail loans		
Investment loans	5,970	5,044
Working capital financing	2,721	2,110
Mortgages	5,646	3,573
Consumer loans	986	679
Derivative financial instruments	342	160
Financial assets at fair value through profit or loss		
Debt securities	144	260
Investment securities		
Debt securities	204	759
Other exposures	54	47
Credit risk exposures relating to off-balance sheet items (nominal amount)		
Financial guarantees	1,308	1,044
Loan commitments and other credit related liabilities	7,817	9,389
	53,515	45,527

Corporate loans include loans and advances to customers with the total exposure above EUR 1 million or with annual turnover of at least EUR 50 million. Segments Corporate/Retail are determined in accordance with Basel II standardised approach as opposed to Note 31, where the segments are defined based on the Bank's organisational structure.

Collateral held and other credit enhancements

Collateral held and other credit enhancements may be summarised by collateral type as follows:

(CZKm)	Fair value
As at 31 December 2008	
Bank and similar guarantees	3,227
Mortgage right on real estate	27,778
Financial collateral	5,129
Other	582
Total	36,716
As at 31 December 2007	
Bank and similar guarantees	3,951
Mortgage right on real estate	16,378
Financial collateral	4,811
Other	597
Total	25,737

Loans and advances

The Bank's exposure to credit risk from loans and advances is summarised as follows:

(CZKm)	31.12.2008		reclassified 31.12.2007	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	36,819	4,587	29,164	3,707
Past due but not impaired	479	-	636	-
Impaired	2,615	-	767	-
Loans and advances – gross	39,913	4,587	30,567	3,707
Allowances for impairment (Note 13)	(854)	-	(406)	-
Loans and advances – net	39,059	4,587	30,161	3,707

2007 exposures of CZK 445 million were reclassified from Loans and advances past due but not impaired to Loans and advances neither past due nor impaired based on amended methodology for classification of credit risk exposures introduced in 2008.

From the total loans and advances to customers which are neither past due nor impaired represent CZK 22,252 million (31 December 2007: CZK 18,027 million) Corporate loans and advances and CZK 14,567 million (31 December 2007: CZK 11,137 million) belong to Retail loans and advances.

The total impairment provision for loans and advances as at 31 December 2008 is CZK 854 million (31 December 2007: CZK 406 million) of which CZK 775 million (31 December 2007: CZK 244 million) represents the individually impaired loans and the remaining amount of CZK 79 million (31 December 2007: CZK 162 million) represents the portfolio provision.

Loans and advances neither past due nor impaired

Loans and advances which are not overdue are allocated to this category. These loans and advances are not individually impaired.

The Bank is collecting statistical data necessary for the allocation of these high-quality loans and advances into individual credit quality grades. This process is continuing in close cooperation with the Bank's parent company towards establishing an internal rating system which complies with the regulatory requirements for application of internal rating based approach (IRB) for the calculation of capital requirement for credit risk in the Bank's investment portfolio (Note 32g).

Loans and advances past due but not impaired

Loans and advances from 1 up to 90 days overdue are generally not considered to be impaired by individual impairment provision. They correspond to the category of watch loans and receivables in accordance with CNB regulatory classification.

The table below summarises the gross amount of loans and advances to customers past due but not impaired by business segment along with the fair value of related collateral held by the Bank as security.

As at 31 December 2008			Total loans and advances to customers
(CZKm)	Retail	Corporate	
Loans and advances past due but not impaired	194	285	479
Fair value of collateral	55	148	203

From the total loans and advances past due but not impaired as at 31 December 2008 were 91% overdue up to 1 month.

As at 31 December 2007			Total loans and advances to customers
(CZKm)	Retail	Corporate	
		reclassified	
Loans and advances past due but not impaired	141	495	636
Fair value of collateral	32	212	244

From the total loans and advances past due but not impaired as at 31 December 2007 were 97% overdue up to 1 month.

Individually impaired loans and advances

The Bank performs assessment for individual impairment for loans and advances that are above materiality threshold. Individually impaired loans and advances include exposures corresponding to the categories of substandard, doubtful and loss loans and receivables in accordance with regulatory classification. Therefore, they also include loans and advances more than 90 days overdue. Remaining loans and advances from financial activities are considered within collective evaluation of impairment and for calculation of portfolio provision.

The table below summarises gross amount of individually impaired loans and advances to customers by business segment along with the fair value of related collateral held by the Bank as security.

As at 31 December 2008			Total loans and advances to customers
(CZKm)	Retail	Corporate	
Individually impaired loans and advances	905	1,710	2,615
Fair value of collateral	578	1,062	1,640

As at 31 December 2007			Total loans and advances to customers
(CZKm)	Retail	Corporate	
Individually impaired loans and advances	357	410	767
Fair value of collateral	114	160	274

Classification of individually impaired loans and advances

Individually impaired loans and advances (loans and advances in default) are in accordance with CNB's regulation classified as follows:

- substandard when their full repayment is uncertain or they are overdue for 91 to 180 days,
- doubtful, when their full repayment is highly improbable or they are overdue for 181 to 360 days,
- loss, when the full repayment is impossible or the receivable is overdue for more than 360 days or under bankruptcy proceedings.

Loans and advances renegotiated

Restructuring of loans and advances occurs when the Bank provides relief to the customer due to its adverse financial or legal situation since otherwise it would probably suffer a financial loss. Restructuring mainly includes modification of repayment schedule, reduction of interest, forgiveness of overdue interest and deferral of principal, interest and fees repayment. The Bank renegotiated CZK 242 million of its receivables in 2008 (2007: CZK 26 million).

Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2008, based on Moody's external ratings.

(CZKm)	Financial assets at fair value through profit or loss	Investment securities	Total
Aaa to A3	8	-	8
Unrated	136	204	340
Total	144	204	348

Concentration of risks of financial assets with credit risk exposure

Diversification is one of key principles in managing credit risk. The Bank fully adheres to regulatory limits for an exposure to single economically-linked groups of customers. Additionally, the Bank places and monitors limits on the amount of risk accepted in relation to both geographical and industry sectors.

GEOGRAPHICAL SECTORS

As at 31 December 2008 (CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Loans and advances to banks	3,078	1,462	41	6	4,587
Loans and advances to customers	38,307	687	17	48	39,059
Financial assets at fair value through profit or loss	144	-	-	-	144
Investment securities	102	102	-	-	204
Other assets	394	-	-	2	396
Total assets	42,025	2,251	58	56	44,390

As at 31 December 2007 (CZKm)	Domestic	European Union	Other Europe	Other	Total
Aktiva					
Loans and advances to banks	2,876	789	40	2	3,707
Loans and advances to customers	29,658	462	8	33	30,161
Financial assets at fair value through profit or loss	260	-	-	-	260
Investment securities	606	153	-	-	759
Other assets	204	2	-	1	207
Total assets	33,604	1,406	48	36	35,094

INDUSTRY SECTORS

As at 31 December 2008 (CZKm)	Real estate	Trade and services	Manu- facturing	House- holds	Financial institutions	Public sector	Other industries	Total
Assets								
Loans and advances to banks	-	-	-	-	4,587	-	-	4,587
Loans and advances to customers	15,771	5,442	4,941	7,141	1,489	679	3,596	39,059
Financial assets at fair value through profit or loss	-	57	-	-	86	1	-	144
Investment securities	102	-	-	-	102	-	-	204
Other assets	-	-	-	-	384	-	12	396
Total assets	15,873	5,499	4,941	7,141	6,648	680	3,608	44,390

As at 31 December 2007 (CZKm)	Real estate	Trade and services	Manu- facturing	House- holds	Financial institutions	Public sector	Other industries	Total
Assets								
Loans and advances to banks	-	-	-	-	3,707	-	-	3,707
Loans and advances to customers	11,670	4,193	4,242	4,659	1,545	705	3,147	30,161
Financial assets at fair value through profit or loss	-	58	-	-	171	31	-	260
Investment securities	153	-	-	-	606	-	-	759
Other assets	-	-	-	-	198	-	9	207
Total assets	11,823	4,251	4,242	4,659	6,227	736	3,156	35,094

Derivatives

The Bank maintains strict control limits on credit risk from derivative positions, by both amount and term. Credit risk exposure expressed by credit equivalent, which in relation to derivatives is only a small fraction of derivative's notional amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires cash collateral from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each banking counterparty so as to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Currency risk

The Bank defines currency risk as a risk of financial loss because of changes in foreign exchange rates.

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank is managing its open foreign exchange position using foreign exchange deals (spots, forwards and swaps). Foreign exchange derivatives made on behalf of clients are included in trading portfolio. The Board of Directors sets limits on the level of currency position by currency and in total for all currencies, which are monitored daily.

Sensitivity analysis

The tables below summarise the Bank's exposure to currency risk. It is expressed by the sensitivity analysis showing effect of change in CZK foreign exchange rate against EUR and USD by 15% (appreciation of CZK) and -15% (depreciation of CZK) on the Bank's annual net profit and other movements in equity. In the Bank's management judgment such an annual change in foreign exchange rates may be reasonably possible based on historical development. Included in the table is the respective change in the Bank's annual net profit and other movements in equity from assets and liabilities sensitive to currency risk.

As at 31 December 2008 (CZKm)	15%	-15%
	Annual net profit	
Assets		
Cash and balances with central banks	(9)	9
Loans and advances to banks	(612)	612
Loans and advances to customers	(608)	608
Other assets	(1)	1
Unsettled transactions with currency instruments	(877)	877
	(2,107)	2,107
Liabilities		
Deposits from banks	1,170	(1,170)
Due to customers	479	(479)
Debt securities in issue	17	(17)
Subordinated debt	41	(41)
Other liabilities	30	(30)
Unsettled transactions with currency instruments	374	(374)
	2,111	(2,111)
Total	4	(4)

Change in CZK foreign exchange rate against EUR and USD does not have any effect on the Bank's movements in equity other than annual net profit.

As at 31 December 2007 (CZKm)	15%	-15%
	Annual net profit	
Assets		
Cash and balances with central banks	(7)	7
Loans and advances to banks	(91)	91
Loans and advances to customers	(688)	688
Other assets	(1)	1
Unsettled transactions with currency instruments	(693)	693
	(1,480)	1,480
Liabilities		
Deposits from banks	221	(221)
Due to customers	558	(558)
Debt securities in issue	13	(13)
Subordinated debt	41	(41)
Other liabilities	37	(37)
Unsettled transactions with currency instruments	604	(604)
	1,474	(1,474)
Total	(6)	6

Change in CZK foreign exchange rate against EUR and USD does not have any effect on the Bank's movements in equity other than annual net profit.

Currency position

The tables below summarise the Bank's exposure to currency risk expressed by open currency position. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorised by currency.

As at 31 December 2008 (CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	2,731	48	11	6	13	2,809
Loans and advances to banks	456	3,738	341	13	39	4,587
Loans and advances to customers	34,904	3,927	125	-	103	39,059
Financial assets at fair value through profit or loss	144	-	-	-	-	144
Investment securities	375	-	-	-	-	375
Other assets	806	4	-	-	-	810
	39,416	7,717	477	19	155	47,784
Liabilities and equity						
Deposits from banks	6,605	7,686	115	-	3	14,409
Due to customers	20,221	2,740	453	-	44	23,458
Debt securities in issue	3,586	42	69	-	-	3,697
Provisions	20	1	-	-	-	21
Subordinated debt	-	273	-	-	-	273
Other liabilities	444	184	18	-	2	648
Equity	5,278	-	-	-	-	5,278
	36,154	10,926	655	-	49	47,784
Net assets/(liabilities and equity)	3,262	(3,209)	(178)	19	106	-
Net assets/(liabilities) from unsettled transactions with currency instruments	(3,017)	3,181	178	-	(106)	236
Net open currency position	245	-28	-	19	-	236
Off-balance sheet items						
Financial guarantees	882	366	60	-	-	1,308
Loan commitments and other credit related liabilities	7,061	718	38	-	-	7,817
Net open currency position from off-balance sheet items	7,943	1,084	98	-	-	9,125

As at 31 December 2007 (CZKm)	CZK	EUR	USD	SKK	Other	Total
Assets						
Cash and balances with central banks	747	36	8	6	12	809
Loans and advances to banks	3,042	357	251	32	25	3,707
Loans and advances to customers	25,473	4,371	213	2	102	30,161
Financial assets at fair value through profit or loss	260	-	-	-	-	260
Investment securities	926	-	-	-	-	926
Other assets	576	9	-	-	-	585
	31,024	4,773	472	40	139	36,448
Liabilities and equity						
Deposits from banks	5,844	1,333	140	-	99	7,416
Due to customers	16,749	3,288	435	31	35	20,538
Debt securities in issue	3,058	18	71	-	-	3,147
Provisions	8	-	-	-	-	8
Subordinated debt	-	270	-	-	-	270
Other liabilities	679	203	43	2	3	930
Equity	4,139	-	-	-	-	4,139
	30,477	5,112	689	33	137	36,448
Net assets/(liabilities and equity)	547	(339)	(217)	7	2	-
Net assets/(liabilities) from unsettled transactions with currency instruments	(519)	371	220	-	2	74
Net open currency position	28	32	3	7	4	74
Off-balance sheet items						
Financial guarantees	(478)	413	62	3	-	-
Loan commitments and other credit related liabilities	(794)	746	33	-	15	-
Net open currency position from off-balance sheet items	(1,272)	1,159	95	3	15	-

(d) Interest rate risk

The Bank defines interest rate risk as a risk of financial loss because of changes in market interest rates.

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Bank exposure to interest rate risk is monitored daily using gap analysis in each foreign currency and is aggregated for all currencies. Sensitivity to the change in the market interest rate is regularly measured via simulated change of the present value of the interest cash flows from individual interest instruments in case of interest rate increase by standardised value of interest rate shock of 200 b.p. Interest rate swaps or other fixed-rate instruments are used to manage interest rate positions.

Sensitivity analysis

The table below summarises the Bank's exposure to interest rate risks. It is expressed by the sensitivity analysis showing effect of change in market interest rates by 75 basis points (b.p.) on the Bank's annual net profit and other movements in equity. Two week repo rate as a key interest rate of the CNB's monetary policy is usually changed several times a year. Having observed this rate's average annual change over the last 5 years, in the Bank's management judgment a mentioned change in annual market interest rates by 75 b.p. may reasonably be possible. Included in the table is respective change in the Bank's annual net profit and other movements in equity from:

- interest-bearing financial assets and liabilities at fair value through profit or loss and interest-bearing available-for-sale financial assets and
- loans and receivables, interest-bearing financial liabilities and held-to-maturity investments carried at amortised cost with contractual, re-pricing or maturity dates not exceeding one year.

As at 31 December 2008 (CZKm)	75 b.p.	-75 b.p. Annual net profit
Assets		
Cash and balances with central banks	16	(16)
Loans and advances to banks	30	(30)
Loans and advances to customers	194	(194)
Financial assets at fair value through profit and loss	(2)	2
Investment securities	(3)	3
	235	(235)
Liabilities		
Deposits from banks	(75)	75
Due to customers	(144)	144
Debt securities in issue	(7)	7
Subordinated debt	(2)	2
	(228)	228
Derivative financial instruments	(1)	1
Total	6	(6)

Change in market interest rates does not have any effect on the Bank's movements in equity other than annual net profit.

As at 31 December 2007 (CZKm)	75 b.p.	-75 b.p.
	Annual net profit	
Assets		
Cash and balances with central banks	5	(5)
Loans and advances to banks	24	(24)
Loans and advances to customers	166	(166)
Financial assets at fair value through profit and loss	(2)	2
Investment securities	4	(4)
	197	(197)
Liabilities		
Deposits from banks	(34)	34
Due to customers	(133)	133
Debt securities in issue	(8)	8
Subordinated debt	(1)	1
	(176)	176
Derivative financial instruments	(2)	2
Total	19	(19)

Change in market interest rates does not have any effect on the Bank's movements in equity other than annual net profit.

(e) Liquidity risk

The Bank defines liquidity risk as a risk that it will encounter difficulty in meeting obligations associated with financial liabilities or the risk of loss of ability to finance its assets.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from settlement of derivatives. Liquidity risk management is based on both the planning of the cash inflows and cash outflows based on the remaining maturity of the assets and liabilities and on the experience from progress analysis from the previous years. The Bank prepares a liquidity plan, which is approved by the Board of Directors together with the business plan and both these plans are closely interconnected.

Cash flows from balance sheet financial instruments

The table below presents the contractual undiscounted cash flows from the Bank's financial liabilities as compared with total financial assets based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2008						Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount	
Financial liabilities							
Deposits from banks	2,069	4,833	7,644	916	15,462	14,409	
Due to customers	23,380	1,150	61	1	24,592	23,458	
Debt securities in issue	1,031	188	2,037	952	4,208	3,697	
Subordinated debt	-	17	278	-	295	273	
Total financial liabilities							
(remaining contractual maturities)	26,480	6,188	10,020	1,869	44,557	41,837	
Total financial assets							
(remaining contractual maturities)	10,386	5,183	16,068	24,666	56,303	46,974	
Net financial assets/(liabilities)	(16,094)	(1,005)	6,048	22,797	11,746	5,137	

As at 31 December 2007						Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount	
Financial liabilities							
Deposits from banks	1,824	560	4,885	1,248	8,517	7,416	
Due to customers	19,902	416	96	147	20,561	20,538	
Debt securities in issue	959	178	2,110	405	3,652	3,147	
Subordinated debt	-	15	288	-	303	270	
Total financial liabilities							
(remaining contractual maturities)	22,685	1,169	7,379	1,800	33,033	31,371	
Total financial assets							
(remaining contractual maturities)	9,131	6,679	13,312	22,436	51,558	35,863	
Net financial assets/(liabilities)	(13,554)	5,510	5,933	20,636	18,525	4,492	

Negative net financial liability with remaining maturity within three months is influenced by the fact that Due to customers are strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the "Within 3 months" column). However, as statistical evidence shows it is unlikely that a majority of those customers will actually withdraw their deposits from the Bank on maturity.

Cash flows from derivative financial instruments

Derivatives settled on a net basis

The Bank's derivatives that will be settled on a net basis include interest rate swaps. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial liabilities settled on a net basis based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2008					Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Trading derivatives						
Interest rate swaps – assets	-	1	1	-	2	50
Interest rate swaps – liabilities	-	-	1	1	2	184
Net financial assets/(liabilities)	-	1	-	(1)	-	

As at 31 December 2007					Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Trading derivatives						
Interest rate swaps – assets	-	1	-	-	1	241
Interest rate swaps – liabilities	-	-	1	1	2	36
Net financial assets/(liabilities)	-	1	(1)	(1)	(1)	

Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and foreign exchange options. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial instruments settled on a gross basis based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2008					Total	
(CZKm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Carrying amount
Trading derivatives						
– Foreign exchange derivatives						
Outflow	4,569	3,009	416	-	7,994	7,994
Inflow	4,783	3,030	417	-	8,230	8,230

As at 31 December 2007 (CZKkm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undiscounted cash flows	Total Carrying amount
Trading derivatives						
– Foreign exchange derivatives						
Outflow	2,142	3,426	2,965	-	8,533	8,533
Inflow	2,142	3,426	2,970	-	8,538	8,538

Off-balance sheet items

The table below analyses off-balance sheet items of the Bank exposed to liquidity risk into relevant maturity buckets based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2008 (CZKkm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial guarantees	384	381	508	35	1,308
Loan commitments and other credit related liabilities	7,123	81	539	74	7,817
Capital commitments	43	71	-	-	114
Total	7,550	533	1,047	109	9,239

As at 31 December 2008 (CZKkm)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial guarantees	243	298	452	51	1,044
Loan commitments and other credit related liabilities	7,246	335	1,212	596	9,389
Capital commitments	67	155	-	-	222
Total	7,556	788	1,664	647	10,655

Future minimum lease payments under operating lease commitments are analysed in Note 29 (d).

(f) Operational risk

The Bank defines operational risk as the risk of a financial loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risks. In case of breakdown of business processes it also includes reputation risk.

In accordance with CNB measures, the Bank has an internal database of all requisite regulations for operational risk management, including those for the areas of information security, continuity of operations and anti-money laundering. The Bank has also established a system of control mechanisms for those individual processes that are basic elements of operational risk management.

Riskcontrolling department is responsible for setting up the methodology or framework conditions for operational risk management, as well as for providing support to the specialised units within the operational risk management process. Both Information security and Compliance & AML departments also participate on this process in a significant way.

The operational risk management process includes identification and recording, evaluation and valuation, measures and risks minimisation, along with controlling implementation of the designed measures and their effectiveness. The Bank applies the operational risk management process at the levels of both actual events and hypothetical risks.

Every identified event is assessed and considered individually, and the measures to be taken are designed in accordance with the frequency of the event's occurrence, amount of the realised or anticipated loss or profit, as well as its seriousness and cause. The objective is to ensure that the measures taken will effectively minimise or eliminate occurrences of similar events in future.

Operational risk management is performed in a close co-operation with the Bank's parent company The Bank has been applying standardised method for calculating the capital requirement for operational risk since 2008.

(g) Capital management

The capital management process is coordinated within Volksbank Group in close communication with the Bank's shareholders. It is aimed at:

- Ensuring of the Bank's long-term stability in relation to existing risks,
- Compliance with the supervisory capital requirements (capital adequacy) and
- Maintaining a strong capital base to support the development of the business expansion

The Bank fulfils the requirement of CNB Decree No. 123/2007 ("the Decree") for ongoing compliance with the capital adequacy limit by daily monitoring of risk-weighted assets. Required regulatory capital adequacy reports are filed with the CNB on a monthly basis. The Bank also informs the parent company on compliance with the regulatory capital requirements with the same frequency.

The methodology for calculation of capital is defined by the Decree. The Bank ensures that the capital level exceeds regulatory capital requirements in coordination with the parent company.

In 2008, the Bank estimated capital requirements for coverage of individual risks in compliance with the valid regulatory legislation according to new rules (Basel II).

Additionally, Bank's internal capital adequacy assessment system ensures that internally determined capital resources exceed internally assessed capital required.

The table below summarises the composition of the Bank's capital and risk-weighted assets. During both years, the Bank complied with the regulatory capital adequacy limit of 8%.

(CZKm)	31.12. 2008	31.12. 2007
Tier 1		
Share capital (net of treasury shares)	2,005	1,683
Share premium account	2,695	2,017
Obligatory reserve funds	53	37
Retained earnings from previous period	176	78
Less: Intangible assets other than goodwill	(114)	(81)
Other deductible items	-	-
Tier 1 capital	4,815	3,734
Tier 2		
Subordinated debt A	269	266
Tier 2 capital	269	266
Total capital	5,084	4,000
Risk-weighted assets		
Credit risk in investment/banking portfolio	34,290	31,397
Credit risk in trading portfolio	-	336
General interest rate risk	-	100
Operational risk	1,823	-
Total risk-weighted assets	36,113	31,833
Capital adequacy	13.95%	12.57%

The significant increase of the capital in the year of 2008 is mainly due to the increase of the Bank's share capital by shareholders (Note 27). The considerable increase of the risk-weighted assets reflects the continuing expansion of the loan portfolio in the first three quarters of the year.

33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(CZKm)	31.12.2008		31.12.2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to banks	4,587	4,588	3,707	3,705
Loans and advances to customers thereof:	39,059	37,339	30,161	28,584
Retail	15,323	13,534	11,406	10,509
Corporate	23,736	23,805	18,755	18,075
Financial liabilities				
Deposits from banks	14,409	14,744	7,416	7,313
Due to customers thereof:	23,458	23,421	20,538	20,291
Retail	18,075	18,215	16,000	15,874
Corporate	5,383	5,206	4,538	4,417
Debt securities in issue thereof:	3,697	3,720	3,147	3,130
Retail	365	365	414	412
Corporate	3,332	3,355	2,733	2,718

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

Loans and advances to banks

The carrying amounts of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current inter-bank market rates. A majority of the loans and advances re-price within relatively short time spans; therefore, it is assumed their carrying amounts approximate their fair values.

Loans and advances to customers

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

Deposits from banks

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

Due to customers

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

Debt securities in issue

Mortgage bonds issued are not publicly traded and their fair values are based upon quoted market prices of the debt securities with similar characteristics. The carrying amounts of promissory notes and certificates of deposit approximate their fair values.

34 DIVIDENDS

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 24 April 2008, a dividend of CZK 600 per ordinary share and CZK 650 per non-voting share was approved in respect of 2007 net profit. This dividend represented a total amount of CZK 206 million (2006: CZK 163 million). The dividend for the year 2008 has not been declared yet.

35 SHAREHOLDERS

The shareholder structure of Volksbank CZ as at 31 December 2008 was as follows:

VOTING SHAREHOLDERS

Name and registered office	Share in %
Volksbank International AG, Vienna	98.50
Banca Popolare di Vicenza, Vicenza	0.75
EM.RO.Popolare S.p.a., Modena	0.75
	100.00

36 RELATED PARTIES

Amounts of the income, expense and assets and liabilities balances regarding related parties were as follows:

AS AT 31 DECEMBER 2008 AND YEAR THEN ENDED

(CZKm)	Note	Ultimate parent	Management	Other related parties	Total
Interest income	3	14	1	70	85
Commission and fee income	4	5	-	9	14
Other operating income	7	-	-	1	1
Interest expense	3	78	-	147	225
Commission and fee expense	4	6	-	14	20
Administrative expenses	6	-	-	54	54
Due from banks	11	279	-	55	334
Loans and advances	12	-	17	1,409	1,426
Investment securities (available for sale)	16	-	-	171	171
Other assets	20	-	-	1	1
Due to banks	21	1,247	-	6,613	7,860
Due to customers	22	-	14	192	206
Other liabilities	24	3	-	29	32
Guarantees granted and commitments given	28	-	6	383	389
Guarantees granted and commitments received		3,158	10	39	3,207
Assets under custody		695	9	1,445	2,149

Ultimate parent company is Volksbank AG (VBAG). Parent company Volksbank International AG and companies within Volksbank Group other than parent company are part of Other related parties.

AS AT 31 DECEMBER 2007 AND YEAR THEN ENDED

(CZKm)	Note	Ultimate parent	Management	Other related parties	Total
Interest income	3	8	1	90	99
Commission and fee income	4	3	-	7	10
Other operating income	7	-	-	1	1
Interest expense	3	79	-	4	83
Commission and fee expense	4	14	-	31	45
Administrative expenses	6	-	-	34	34
Due from banks	11	61	-	72	133
Loans and advances	12	-	22	1,834	1,856
Investment securities (available for sale)	16	-	-	167	167
Other assets	20	-	-	1	1
Due to banks	21	1,644	-	13	1,657
Due to customers	22	-	12	262	274
Other liabilities	24	-	-	25	25
Guarantees granted and commitments given	28	15	8	507	530
Guarantees granted and commitments received		8,076	27	219	8,322
Assets under custody		1,136	11	1,265	2,412

Loans and advances to customers and individuals include the following receivables from related parties: (Note 12).

RECEIVABLES FROM RELATED PARTIES

(CZKm)	31.12.2008	31.12.2007
Imobilia Kik s.r.o.	507	515
Imobilia Omega s.r.o.	281	299
Imobilia Spa s.r.o.	226	278
VB Leasing CZ, spol. s r.o.	212	299
Management of the Bank	11	16
Members of Supervisory Board and Board of Directors	6	6
Other related parties (companies in the group)	183	443
Total receivables from related parties	1,426	1,856

In the opinion of management, all receivables from related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavourable features.

Due to customers include the following position with related parties:

DEPOSITS FROM RELATED PARTIES

(CZKm)	31.12.2008	31.12.2007
Management of the Bank	10	11
Members of Supervisory Board and Board of Directors	4	1
Other related parties (companies in the group)	192	262
Deposits from related parties	206	274

Due to banks include the following position with related parties:

DEPOSITS FROM RELATED PARTIES

(CZKm)	31.12.2008	31.12.2007
Volksbank AG	1,247	1,644
Volksbank International AG	6,598	-
Other related parties (banks in the group)	15	13
Deposits from related parties	7,860	1,657

In the opinion of management, deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal interest rate and liquidity risk or present other unfavourable features (Note 22).

37 SUBSEQUENT EVENTS

There were no events, which have occurred subsequent to the year-end until the date of preparation of the financial statements, which would have a material impact on the financial statements of the Bank as at 31 December 2008.

QUANTITATIVE INDICIES

CZK thousand	2008	2007	2006	2005
Return on average assets (ROAA)	0.81%	1.06%	0.97%	0.60%
Return on own average equity (ROAE)	7.81%	12.18%	16.23%	12.10%
Assets per employee	65,818	57,399	51,134	43,878
Administrative costs per employee	1,018	1,033	1,048	1,041
Net profit per employee	467	504	442	261
Capital structure				
Tier 1	4,814,846	3,734,200	1,984,846	1,037,315
Paid-up share capital	2,005,380	1,682,800	1,144,700	818,600
Paid up share premium	2,694,628	2,017,210	887,200	216,620
Legal reserve funds	52,863	36,867	25,882	21,456
Retained earnings from previous years	176,253	78,144	32,318	40,760
Tier 2	269,300	266,200	274,950	290,050
Provisions for general risks		0	0	0
Deductible items	(114,278)	(80,822)	(105,254)	(58,636)
Intangible assets	(114,278)	(80,822)	(58,189)	(58,636)
Capital	5,084,146	4,000,400	2,259,796	1,327,365
Capital requirements*				
Capital requirement A			1,597,136	1,054,973
Capital requirement B			27,530	15,009
Capital requirement relating to credit risk BASEL I		2,538,576	22,121	10,315
Total capital requirement relating to position, currency and commodity risk		8,021		
Total capital requirements relating to credit risk	2,770,444			
Total capital requirements relating to operational risk	145,829			
Capital adequacy	13.95%	12.57%	11.13%	9.92%

* data are not observed in the next years

REPORT ON RELATIONS

among related entities for the year 2008 in accordance with the provisions of Section 66a of Act No. 513/1991 Coll.

The Board of Directors, as the governing body of the company Volksbank CZ, hereby issues this Report on Relations between the Controlled Entity and the Controlling Entity and on Relations between the Controlled Entity and the Other Entities Controlled by the Same Entity (hereinafter just the “related entities”).

THE RELATIONSHIP BETWEEN THE CONTROLLED AND CONTROLLING ENTITY

The company Volksbank CZ is a part of the international financial group Österreichische Volksbanken-Aktiengesellschaft (VBAG). Volksbank CZ operates in the Czech market as a bank as defined by Act No. 21/1992 Coll., the Banking Act, and it is a controlled entity as defined by the Commercial Code. The controlling entity is VBAG, which controls Volksbank CZ indirectly through Volksbank International AG (VBI AG), which is a directly controlling entity in relation to Volksbank CZ.

VBAG, as the indirectly controlling entity of Volksbank CZ, provided bank guarantees in 2008 for loans granted by Volksbank CZ. Volksbank CZ pays fees for those guarantees in accordance with usual market terms and conditions. In 2003, Volksbank CZ concluded the ISMA Global Master Repurchase Agreement with VBAG, on the basis of which individual repo transactions are concluded with VBAG according to standard terms and conditions. With respect to individual repo and reverse repo transactions, Volksbank CZ paid or received the common market interest.

In October 2004, Volksbank CZ concluded an agreement with the European Bank for Reconstruction and Development (EBRD) and VBAG regarding the granting of a subordinated debt to Volksbank CZ. Furthermore, Volksbank CZ concluded with VBAG the following types of agreements: agreements on inter-bank deposits, for which Volksbank CZ receives/pays usual market interest; current account agreements based on standard terms and conditions duly reflecting the related party-relationship with VBAG, on the basis of which Volksbank CZ pays fees and receives/pays interest; as well as agreements concerning spot and derivative deals concluded under standard terms and conditions. Volksbank CZ also concluded with VBAG deposit security agreements on behalf of Volksbank CZ. These agreements were concluded under standard terms and conditions.

In 2005, Volksbank CZ concluded a framework co-operation agreement with the directly controlling entity VBI AG, on the basis of which VBI AG, supported by VBAG, provides to Volksbank CZ professional services of an advisory character according to the needs of Volksbank CZ. For the provision of these services, Volksbank CZ pays fees at a market amount. In 2008, Volksbank CZ furthermore concluded loan agreements with VBI AG for refinancing purposes.

Volksbank CZ neither entered into any other legal acts nor took any measures that would be in the interest or upon the instigation of the related entities. No detriment or loss has resulted for Volksbank CZ neither from the business relationships with the aforementioned entities nor from legal transactions undertaken by Volksbank CZ on behalf of affiliated companies or from other measures undertaken by Volksbank CZ on behalf of or at the instigation of affiliated companies.

No detriment or loss has resulted for Volksbank CZ from the business relationships between Volksbank CZ and its controlling entities.

RELATIONSHIP WITH OTHER CONTROLLED ENTITIES

Volksbank CZ also has business relationships with several commercial or financial entities that are likewise controlled indirectly by VBAG or directly by VBI AG. These include in particular banks in Slovakia, Hungary, Croatia, Slovenia, Romania, Bosnia and Herzegovina as well as Serbia that are members of the VBAG-Group. Volksbank CZ maintains standard banking connections and concludes routine banking deals with the aforementioned banks. No detriment or loss has resulted for Volksbank CZ from the business relationships with the aforementioned entities.

Volksbank CZ also has business relationships with VB Leasing CZ, spol. s r. o., Volksbank Invest Kapitalanlagegesellschaft m. b.H., Immoconsult Leasinggesellschaft m.b.H. Group, VB ManagementBeratung GmbH and DZ Bank AG. These involve normal banking and credit services. Interest rates on loans provided to the aforementioned companies include the financing costs of such loans and a certain margin.

No detriment or loss has resulted for Volksbank CZ from the business relationships with the aforementioned entities.

Neither VBAG nor VBI AG required Volksbank CZ to adopt any measure or to enter into any contract that would be to the latter's detriment, as defined by § 66a(14) of the Commercial Code.

Prague, 27 March 2009



Johann Lurf



Libor Holub

REPORT OF INDEPENDENT AUDITORS

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 VOLKSBANK CZ, A.S.

Financial statements

On the basis of our audit, on 27 February 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 Volksbank CZ, 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 Bank is stated 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 Volksbank CZ, a.s. in accordance with the 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 Volksbank CZ, a.s. as of 31 December 2008, and of its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with the 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 Volksbank CZ, a.s., which comprise the balance sheet as of 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 Volksbank CZ, a.s., which comprise the balance sheet as of 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.

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

Prague
27 April 2009

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



Pavel Závítkovský
Partner
Licence number 69

REPORT OF THE SUPERVISORY BOARD

In its two meetings held during the 2008 business year, on 24 April and 26 November 2008, the Supervisory Board reviewed the correctness, appropriateness and economic efficiency of the management of Volksbank CZ. The Supervisory Board further acknowledged the ongoing reports of the Board of Directors and issued resolutions as necessary for the 2008 business year.

At its 25th meeting, held on 20 April 2009, the Supervisory Board approved a resolution acknowledging the report presented by the Board of Directors and approved the financial statements for 2008. These included the balance sheet and off-balance sheet as at 31 December 2008, as well as the income statement for the year ended 31 December 2008. The Board also reviewed the Report on Relations in accordance with section 66a, paragraph 9 of the Commercial Code.

The closing financial statements for the year ended 31 December 2008 were examined by the audit company KPMG Česká republika Audit, s.r.o. The auditor issued an unqualified opinion.

On the basis of the report of the Board of Directors, the Supervisory Board states its affirmative appraisal to the general Shareholders' Meeting and recommends that appropriate resolutions be approved.

The Supervisory Board would like to thank the Board of Directors and all of the Bank's employees for their excellent cooperation and the efforts that they made throughout 2008.

Dr. Friedhelm Boschert
Chairman of the Supervisory Board

Prague, April 2009

Service

Volksbank CZ

OUR NETWORK

HEAD OFFICE

Praha

Lazarská 8
120 00 Praha 2
Tel.: +420 221 969 911
Fax: +420 221 969 951

REGIONAL HEAD OFFICE

Brno

M-Palác, Heršpická 5
658 26 Brno
Tel.: +420 543 525 111
Fax: +420 543 525 555

BRANCHES

Brno

M-Palác, Heršpická 5
658 26 Brno
Tel.: +420 543 525 222
Fax: +420 543 525 553

Brno

Palackého 38
612 00 Brno
Tel.: +420 549 122 611
Fax: +420 549 122 619

Brno

Panská 2/4
602 00 Brno
Tel.: +420 542 424 911
Fax: +420 542 424 919

Brno

Galerie Vaňkovka, Ve Vaňkovce 1
602 00 Brno
Tel.: +420 543 552 211
Fax: +420 543 552 219

Brno

EDEN, Purkyňova 35 E
612 00 Brno
tel.: +420 549 428 955
fax: +420 549 428 933

České Budějovice

nám. Přemysla Otakara II. č. 27
370 01 České Budějovice
Tel.: +420 386 105 811
Fax: +420 386 105 829

Hradec Králové

Na Kropáčce 30 (Velké náměstí)
500 03 Hradec Králové
Tel.: +420 495 000 361
Fax: +420 495 000 351

Jihlava

Benešova 15
586 01 Jihlava
Tel.: +420 567 584 511
Fax: +420 567 584 519

Kaplice

Náměstí 206
382 41 Kaplice
Tel.: +420 380 309 011
Fax: +420 380 309 019

Liberec

1. máje 59/5
460 01 Liberec
Tel.: +420 482 428 341
Fax: +420 482 428 355

As at 15 April 2009..

Olomouc

Křížkovského 5
771 11 Olomouc
Tel.: +420 585 208 311
Fax: +420 585 208 355

Olomouc

Horní náměstí 17
772 00 Olomouc
Tel.: +420 585 202 711
Fax: +420 585 202 755

Ostrava

28. října 3138/41
702 00 Ostrava
Tel.: +420 595 133 411
Fax: +420 595 133 419

Plzeň

Anglické nábřeží 12
301 00 Plzeň
Tel.: +420 377 350 211
Fax: +420 377 350 219

Praha

Lazarská 8
120 00 Praha 2
Tel.: +420 221 584 281
Fax: +420 221 584 253

Praha

Karla Engliše 1 (Anděl)
150 00 Praha 5
Tel.: +420 257 257 301
Fax: +420 257 257 319

Praha

Moskevská 32
101 00 Praha 10
Tel.: +420 267 267 111
Fax: +420 267 267 119

Praha

Soukenická 2 (Revoluční ulice)
110 00 Praha 1
Tel.: +420 221 722 611
Fax: +420 221 722 619

Praha

Strossmayerovo nám. 11/966
170 00 Praha 7
Tel.: +420 220 410 611
Fax: +420 220 410 619

Praha

Valentinská 20/10
110 00 Praha 1
Tel.: +420 221 778 711
Fax: +420 221 778 719

Praha

Vinohradská 40
120 00 Praha 2
Tel.: +420 222 922 811
Fax: +420 222 922 819

Praha

Dejvická 28/267
160 00 Praha 6
Tel.: +420 220 184 611
Fax: +420 220 184 610

Praha

Na Pankráci 129
140 00 Praha 4
Tel.: +420 221 969 981
Fax: +420 221 969 951

Zlín

Štefánikova 5293
760 01 Zlín
Tel.: +420 577 002 111
Fax: +420 577 002 155

Znojmo

Mariánské nám. 6
669 02 Znojmo
Tel.: +420 515 282 511
Fax: +420 515 282 519

