ČESKÁ SPOŘITELNA

Annual Report 2009

2009

Basic Consolidated Financial Indicators

under International Financial Reporting Standards (IFRS)

Balance Sheet Indicators

CZK mil.	2009	2008	2007	2006	2005
Total assets	855,137	862,230	814,125	728,393	654,064
Loans and advances to financial institutions	126,506	93,306	65,688	73,179	97,846
Loans and advances to clients	469,192	461,433	418,415	329,105	283,420
Securities	177,376	209,888	226,813	230,354	192,210
Amounts owed to financial institutions	47,434	57,561	58,482	46,361	34,898
Amounts owed to clients	643,420	642,504	588,526	537,487	481,556
Shareholders' capital	63,168	64,805	55,576	48,594	43,322

Profit and Loss Account Indicators

CZK mil.	2009	2008	2007	2006	2005
Net interest income	31,128	30,239	24,727	21,206	18,719
Net fee and commission income	11,402	11,020	9,639	8,997	8,384
Operating income	45,894	42,712	36,075	32,471	28,834
Operating expenses	−19,269	−19,541	−18,349	−17,316	−16,395
Operating profit	26,625	23,171	17,726	15,155	12,439
Net profit	12,022	15,813	12,148	10,385	9,134

Basic Ratios

	2009	2008	2007	2006	2005
ROE	19.3%	26.3%	23.8%	23.0%	22.3%
ROA	1.4%	1.8%	1.5%	1.5%	1.4%
Operating costs / operating income	42.0%	45.8%	50.7%	53.3%	56.9%
Non-interest income / operating income	32.2%	29.3%	31.9%	34.7%	35.1%
Net interest margin on interest-bearing assets	4.2%	4.1%	3.7%	3.6%	3.4%
Client receivables / client payables	72.9%	71.8%	71.1%	61.2%	58.9%
Capital adequacy*	12.3%	10.3%	9.6%	9.3%	8.7%

* parent bank according to the Czech National Bank methodology (2007 to 2009 Basel II)

Key Operating Indicators

Number	2009	2008	2007	2006	2005
– Staff (average headcount)	10,843	10,911	10,897	10,809	11,406
– Česká spořitelna branches	660	646	636	637	646
– Clients	5,272,785	5,293,632	5,294,470	5,276,897	5,326,378
– Giro accounts	2,837,756	2,874,110	2,838,173	2,789,076	2,761,062
of which: Private Accounts	1,715,257	1,080,579	425,943	0	0
– Active cards	3,258,011	3,304,197	3,340,180	3,095,614	2,941,843
of which: Credit	476,463	553,329	622,161	447,089	340,510
– Active SERVIS 24 and BUSINESS 24 users	1,252,155	1,199,329	1,142,170	1,033,198	934,874
– ATMs	1,218	1,164	1,124	1,090	1,076

Rating

Rating agency	Long-term rating	Short-term rating	Outlook
Fitch	A	F1	stable
Moody's	A1	Prime−1	negative
Standard & Poor's	A	A1	negative

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Profile of Česká spořitelna

We are a bank that adheres to one rule in everything we do: to focus on the interests of all our clients, whether they are individuals, small or medium-sized enterprises, large corporations or the public and non-profit sector. The key concept underlying our approach is ACCOUNTABILITY – to clients, employees, shareholders and society. These rules harken back to the 19th century roots of Česká spořitelna. And we proudly uphold them today.

We are a part of Erste Group, central Europe's leading financial group. We know our business environment inside out, meaning we offer stability to our clients, shareholders and employees. Our business is focussed on the markets of EU member states in central Europe and candidate member states. We are considered a leader in a range of banking business lines on most of the markets in which we do business.

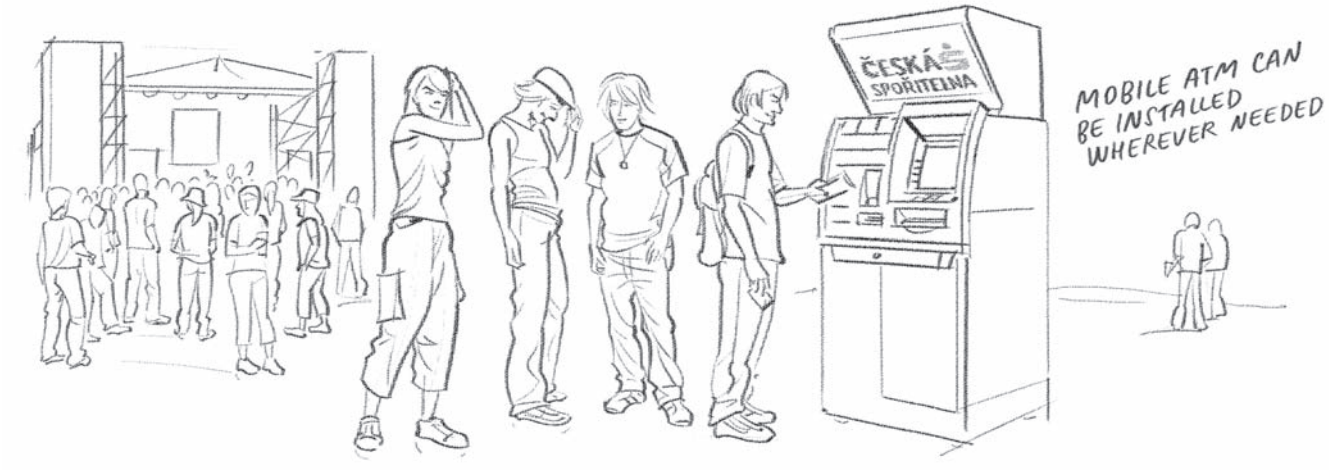
We have a nationwide presence in the Czech Republic. You can't miss us. We have more than 660 branches, 15 business centres for corporate client services, 25 specialised mortgage offices, two client telephone centres and more than 1,200 multi-function ATMs.

Integrated services, solutions and advisory in retail banking form the core of our business; we accompany our clients through every stage of their financial lives and help meet their every financial need. We find customised solutions for all our clients and offer comprehensive services to enterprises – from traditional account administration, through investment and operating loans to securities trading and share offerings.

We do not believe in mediocrity. We do believe that every person is a singular individual and that every company or organisation is unique. That is why we provide out clients with advice, services and solutions that are made to measure. Clients are free to customise their portfolio with the services and products that best meet their needs.

We know our clients' time is valuable. In addition to our branch locations, corporate and individual clients can bank electronically 24 hours a day from anywhere. We continue to develop this service in line with the latest trends and technologies while keeping security a top priority.

We honour the rule that says success should be shared with the society that fosters it. We are active in philanthropy, volunteerism and sponsorship – whether by annually supporting projects to help people in need or supporting educational projects or sports and cultural activities that we help create and execute across the Czech Republic.



The Year 2009 in Review

January

– The Česká spořitelna Perfect Deposit is a new deposit product offering clients an opportunity to increase the value of their deposits over a 48-month period with a guaranteed rate, statutory insurance and no administration fee. A unique feature of the Perfect Deposit is the advance payout of half of the return at the time of product purchase.

– The number of SERVIS 24 and BUSINESS 24 direct banking users reached 1.2 million.

February

– Česká spořitelna introduced the Benefits Programme, which rewards clients for using the Bank's products and services. With the Benefits Programme, a client may save up to 100% of the monthly Česká spořitelna Private Account administration fee. The discount rate depends on the total balance of Private Account deposits or the sum of all the client's assets and liabilities.

– With the new Private Account Student, students may set up an account tailored to their needs. They have access to the same broad range of products and services as do standard Private Account holders. The student variant of the Benefits Programme provides for further price reductions.

– The Česká spořitelna Women's Investment Club celebrated its first anniversary in February. In this time, it has attracted more than 1,500 women interested in investing. Nearly 800 of them have attended the club's professional and social gatherings and received important investing information for better orientation in the financial world.

March

– The volume of funds on the personal accounts of Penzijní fond České spořitelny clients passed the CZK 30 billion mark.

– More than 150 thousand clients have taken advantage of the many benefits afforded by the Česká spořitelna Cool Card.

– Deposits of citizens exceeded CZK 500 billion for the first time ever.

April

– The last of the non-chip magnetic payment cards expired at the end of April, so all Česká spořitelna cards are now chip cards. Chip technology makes transactions far more secure and minimises the possibility of card misuse.

– The ordinary General Meeting of Česká spořitelna approved, inter alia, the proposal for the distribution of profit. A total of CZK 15,504 million was allocated for dividend payment, i. e. a dividend of CZK 102 per share.

May

– Česká spořitelna cards could be locked and unlocked as of 1 May. Card locking and unlocking enables transaction limits to be raised instantly for one-time higher payments and then automatically returned to the original limit level.

– The European Investment Bank (EIB) and Erste Group Bank executed an agreement to place EUR 200 million in the Czech Republic to fund SME projects via Česká spořitelna.

– Česká spořitelna became the first bank whose payment cards may be used in the Kaufland retail chain.

June

– Česká spořitelna won Bank Innovator of 2009 in the Hospodářské noviny competition for its Private Account with the Benefits Programme.

– As the first bank authorised to accept applications for State Environment Fund Green Savings Programme subsidies, Česká spořitelna began to accept applications at every one of its branches on 15 June. The Bank's role is to accept and process applications and disburse monies to applicants' accounts. Česká spořitelna also provides complementary financing.

– Česká spořitelna won second place in the prestigious MasterCard Corporate Bank of the Year contest, attesting to the high quality of the products and services Česká spořitelna offers in this market segment.

– In June, for the third time Česká spořitelna took first in the Pension Fund category of the Zlatá koruna competition for the Supplementary Pension Insurance offered by Penzijní fond ČS, and second place in the Mutual Fund category for the ČS life cycle funds of Investiční společnost ČS and in the Card category for the ČS Cool Card. The SERVIS 24 direct banking service won third place in the Direct Banking category.

July

– Česká spořitelna Financial Group added a new subsidiary: PARTNER České spořitelny, which is principally involved in managing external sales of products of the Financial Group and the strategic partner Vienna Insurance Group outside the Group's branch network via individual agents.

– Česká spořitelna introduced the first mobile ATM, which may be easily installed at any location. The ATM was available at summer music festivals of which Česká spořitelna was a general partner – Colours of Ostrava, Rock for People and České hrady.cz.

– Česká spořitelna became the first financial partner of the unique project ZalozFirmu.cz, which offers the first opportunity in the Czech Republic to set up a new company online without communicating directly with the authorities or paying an intermediary.

– The Česká spořitelna branch on Prague's Rytířská Street ranked first in a survey organised by internet portal Peníze.cz to find the most interesting bank branch. The same branch also won the Grand Prix of Architects 2009 for best reconstruction awarded by an international expert judging panel.

– Starting in July, Česká spořitelna could be found on Facebook and Twitter. Česká spořitelna wants to be closer to its clients and social media are the way to go.

– In the new Savings and Investment Programme, Česká spořitelna offers comprehensive advisory services to clients to add value to their deposits. The Savings and Investment Programme includes Smart Savings, a new deposit product offering regular saving, advantageous value added services and immediate liquidity.

August

– Some 1.5 million clients are taking advantage of the option of freely selecting products and services for their account via the Česká spořitelna Private Account.

September

– For the first time ever, the University of Economics in Prague (VŠE) offered a new specialisation created together with Česká spořitelna as its financial partner. In co-operation with the Bank, the specialisation "Financial Sector Analyst" was introduced. Courses are taught by VŠE instructors and Česká spořitelna managers. This represents another step in the Bank's long-term support for student education under its corporate social responsibility policy.

– In co-operation with POJIŠŤOVNA CARDIF PRO VITA and the personnel agency Manpower, Česká spořitelna prepared a special project to assist clients who lose their jobs and are unable to cover their expenses. If a client who has purchased expense coverage insurance loses his/her job, that client may have a personal consultation and attend a training seminar free of charge. The personnel agency's professionals advise on how to increase the odds of finding a new job.

– A new customer telephone centre staffed by specialists who will assist clients with delinquent loans was established. Staff remind clients by SMS, e-mail or telephone that payment is due. Česká spořitelna has thus centralised customer care for those who have forgotten to make a timely loan payment from the branch network to a single location and, by training a highly specialised professional team, has made its customer service better and more effective. The opening of the call centre also helped support employment in the Ostrava region.

– To reinvigorate interest in mortgages, Česká spořitelna introduced a favourable interest mortgage. The service, offered to clients through the Česká spořitelna Ideal Mortgage, applies a discount of one percent of the interest rate to half the mortgage loan amount. The service is available for loans with a maturity of at least 20 years, 5 year interest rate fixing for the loan's duration and payment insurance coverage.

– SERVIS 24 internet banking passed the 1 million client mark.

October

– Česká spořitelna won the Bank of the Year 2009 title in the Fincentrum Bank of the Year 2009 competition and was voted Most Reliable Bank in a public poll, while Česká spořitelna CEO Gernot Mittendorfer was voted Banker of the Year. This was the 6th year running that Česká spořitelna was named Most Reliable Bank of the Year.

– At an extraordinary General Meeting, Česká spořitelna shareholders approved a change in the Company's Statutes, which regulates new Company audit obligations arising from the Act on Auditors. In compliance with this law, the shareholders elected an Audit Committee as a freestanding Company body and defined its powers. The General Meeting also appointed an external auditor to perform a statutory audit of the annual financial statements of the Česká spořitelna Financial Group for 2009. After nine years, the audit firm Deloitte was replaced by Ernst & Young Audit.

– Owners of the Česká spořitelna Smart Card can set up their card based on the region in which they live. They choose a picture for their card that is characteristic of their region and obtain a summary overview of contractual vendors in the region where they can "shop smart" and save using their Česká spořitelna Smart Card.

November

– On 13 October 2009, Česká spořitelna was the first bank to sign the Czech Banking Association's "Client Mobility" Standard enabling individuals to make easy transfers from one bank to another. The Standard obliges banks to arrange the formalities connected with transferring standing payment orders from the original bank to a new bank for clients within seven days. Accession to this Czech Banking Association Standard is voluntary.

– Česká spořitelna received two significant awards in recognition of its social responsibility: the Top Philanthropist 2009 prize in the Partnership with Employees category for the project "Helping Employees Help" and first place in the Company of the Year competition: Equal Opportunities 2009.

– As of early November, children between the ages of 8 and 15 had the option of customising their new accounts. Owing to the new Private Account Junior, our youngest clients can choose from a wide variety of products and services, just like Private Account holders.

– Payment card misuse insurance was considerably expanded starting in November. Česká spořitelna decided to better accommodate clients, adding ancillary risks to the new payment card misuse and personal effects insurance (thus, the new coverage includes, inter alia, transit passes, prescription eyeglasses or the SIM card blocking fee for a lost or stolen mobile phone).

December

– In 2009, Česká spořitelna added 14 new branches to its branch network; 18 branches were moved to more suitable locations and 45 were modernised. The new branches included eight with weekend or extended daily hours, bringing the total number of branches with extended hours to 19.

– Česká spořitelna clients can quickly and easily open or increase an authorised overdraft at the Bank's ATMs.

– For the second time, Česká spořitelna was named best bank in the Czech Republic by London-based magazine The Banker.

Foreword by the Chairman of the Board of Directors and CEO

Gernot Mittendorfer
Chairman of the Board
of Directors and CEO

Dear Ladies and Gentlemen, Clients, Colleagues and Shareholders,

As we look back on 2009, we see another year in which every aspect of life was affected by the economic crisis. Still, I can proudly state that Česká spořitelna and its financial group more than rose to the challenges presented by the difficult market conditions. For this, we have the hard work of our team at Česká spořitelna – in this and previous years – to thank.

Operating profit increased nearly 15% and we effectively kept costs well in hand while continuing to focus on improving products and services for our clients. This is absolutely key for us – to satisfy the financial needs and wishes of our clients as best as we possibly can. Attracting clients is easy; the difficult part is retaining them, forging long-term relationships and becoming a full-fledged partner in their financial affairs. This is the Česká spořitelna credo and it drives everything we do.

The crisis notwithstanding, we refused to compromise when it came to customer service in 2009. More and more people are using our products; over – the Clever credit card is used by more than 150,000 of our clients are "Smart" credit card holders, while the number of SERVIS 24 and BUSINESS 24 direct banking users reached 1.2 million. Another key product for our retail clientele – the Česká spořitelna Private Account – had some 1.5 million users in August 2009. For our clients' convenience, we opened 14 new branches and extended operating hours at our busiest locations.

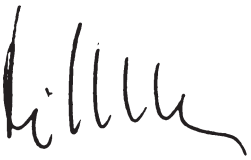
Above all, we value the trust of our clients. As of last March, the volume of deposits from individuals exceeded CZK 500 billion for the first time in our history.

The numerous awards bestowed on Česká spořitelna in 2009 are an indication of our commitment to excellence. The three most prestigious ones include: Bank of the Year in the Fincentrum Bank of the Year 2009 competition; Most Reliable Bank in 2009 in a public poll in the same competition; and recognition as the best bank in the Czech Republic from the London-based magazine The Banker.

We would not enjoy such success were it not for the dedication and outstanding efforts of our employees. Without them, we would not have been able to achieve all that we did in such a turbulent year.

In the last annual report, I said that it was my wish to present a positive report on Česká spořitelna in one year's time. I trust that the following pages will convince you that my wish has come true. Česká spořitelna is successfully adapting to the new market conditions and, despite very difficult times for the Czech economy, has maintained its financial health and stability. I believe that the annual report for 2010 will provide even more reason for optimism.

April 2010



Gernot Mittendorfer

Board of Directors

as of 31 December 2009

Gernot Mittendorfer

Born on 2 July 1964
Chairman of the Board of Directors and CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Mittendorfer studied law at the University of Linz and is a graduate of Webster University in Vienna (Master of Business Administration, specialization in finance). He joined Erste Österreichische Spar-Casse Bank AG in 1990. In 1997, he was appointed to the Board of Directors of Sparkasse Mühlviertel West Bank AG. In 1999 he was appointed as a member of the Board of Directors of Erste Bank Sparkassen (CR), where he was responsible for retail banking. From July 2000 he has been the member of the Board of Directors of Česká spořitelna, responsible for corporate banking. He resigned from all his functions in Financial Group of Česká Spořitelna as of 31 July 2004 after accepting the offer to become the CEO of Salzburger Sparkasse, a member of the Erste Bank Group family. He resigned from this function and as of 31 May 2007 he became the Chairman of the Board of Directors and CEO of Česká spořitelna.

Membership in other companies: vice president of Czech banking association.

Dušan Baran

Born on 6 April 1965
Vice Chairman of the Board of Directors and First Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Baran is a graduate of the Mathematics and Physics Faculty of Charles University in Prague; an International Executive MBA program at Katz Graduate School of Business, University of Pittsburgh together with CMC Graduate School of Business in Čelákovice and a banking course at the Graduate School of Banking, University of Colorado, Colorado, USA. From 1991 to 1993 he worked for Agrobanka, a. s., in the treasury function. He joined Česká spořitelna in November 1993, where he held various managerial positions in Treasury and Risk Management division. He was appointed a member of the Board of Directors and Deputy CEO of Česká spořitelna in May 1998 and was promoted to Chairman of the Board of Directors and CEO in March 1999. On 4 July 2000 he was elected Vice Chairman of the Board of Directors of Česká spořitelna and appointed the First Deputy CEO. He is also the Chief Financial Officer of Česká spořitelna. Mr. Baran is a member of the Czech Institute of Directors and a member of the Board of Directors of the European Savings Banks Group (ESBG) in Brussels.
Membership in other companies: none

Daniel Heler

Born on 12 December 1960
Member of the Board of Directors and Deputy CEO
Reference Address: Evropská 2690, Prague 6, Czech Republic

Mr. Heler is a graduate of the Prague University of Economics, Faculty of International Trade. He held internships with J. P. Morgan, Goldman Sachs, S. Montagu, UBS, N. M. Rothschild, Shearson and Bayerische Hypobank. He has also attended a number of courses focused on global banking, profitability in banking, retail banking strategy, treasury and risk management. He has worked in the banking sector since 1983. First he held various positions in the Department of Foreign Exchange and Money Markets and then, in 1990, he became the Director of the Financial Markets Division of Československá obchodní banka Praha. In 1992 he was appointed as Treasurer and member of the Board of Directors of Crédit Lyonnais Bank Praha. In 1998, he was appointed as a member of the Board of Directors of Erste Bank Sparkassen (CR) and assumed the responsibility for the Financial Markets. In 1999, he became the Vice Chairman of the Board of Directors of Erste Bank Sparkassen (CR) and since 1 July 2000 he has been the member of the Board of Directors of Česká spořitelna responsible for asset management and retail investment products, corporate finance and investment banking, treasury sales and trading, capital markets, balance sheet management, financial institutions and corresponding banking.

Membership in other companies: Burza cenných papírů Praha, a. s., Erste Corporate Finance, a. s., Investiční společnost České spořitelny, a. s., REICO investiční společnost, a. s., GRANTIKA České spořitelny, a. s.

Petr Hlaváček

Born on 19 November 1955
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Petr Hlaváček graduated from the Prague University of Economics and the University of Toronto. He has been active in the banking sector since 1984. After nine years of work for the Canadian Imperial Bank of Commerce, he joined the Czech National Bank as an advisor to a member of the Banking Board in 1993. In 1994 he joined Česká

spořitelna where he held the post of Director of the Capital Investment Division. In June 1999 he was appointed as the member of the Board of Directors of Česká spořitelna responsible for the preparation of privatisation and investment banking. In 2000 he joined the Senior Management Team and became Director of the Transformation Program "Naše spořitelna". In his capacity as a Board member, he is responsible for project management and IT area.

Membership in other companies: Informatika České spořitelny, a. s.
Mr. Hlaváček resigned upon his function as of 31 December 2009.

Heinz Knotzer

Born on 8 April 1960
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Heinz Knotzer is a graduate of the University of Vienna (JUDr. – Doctor of Jurisprudence). He started his career in banking after one year practicing at courts in Austria. He worked in Investkredit and joined later Girozentrale und Bank der Österreichischen Sparkassen AG which, after a merger in 1997, became a part of Erste Bank. In 1995 he joined Creditanstalt and was 1996 seconded to Creditanstalt, a. s., Prague, assumed the position Manager of Corporate Customers Dividion. In 1998, within the framework of the merged Bank Austria Creditanstalt Czech Republic, a. s., he became the director of the Division for Corporate Customers II. In June 1999 he joined Erste Bank Sparkassen (CR), a. s., and was appointed as a Member of the Board of Directors and Executive Director. After the privatization of Česká spořitelna by Erste Bank Group AG, he worked for ČS where he became a Member of Senior Management Team. In August 2004 he was appointed as member of the Board of Directors and a Deputy CEO of Česká spořitelna, since July 2007 he is responsible for Risk Management.

Membeship in other companies: Factoring České spořitelny, a. s., s Autoleasing, a. s., REICO investiční společnost, a. s., Stavební spořitelna České spořitelny, a. s.

Pavel Kysilka

Born 5 September 1958
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Kysilka is a graduate of Faculty of Economics of the University of Economics in Prague; in 1986 he passed internal postgraduate research there. In 1986–1990 he worked at the Institute of Economics of the Czechoslovak Academy of Sciences.

In 1990–1991 Mr. Kysilka worked in the Ministry for Economic Policy as the Chief economic advisor to the Minister for economic policy. In the 1990s he held various positions up to the post of Executive Governor in the Czech National Bank, where he also managed the splitting of the Czechoslovak currency in 1993. At the same time in 1994–1997 he acted as an expert of International Monetary Fund and he participated in implementation of national currencies in several East European countries. In the 90's he was President of Česká ekonomická společnost. Before joining Česká spořitelna Mr. Kysilka worked in Erste Bank Sparkassen (CR) in Prague as Executive Director responsible for IT, Organization, Human Resources, and Services. He started to work for Česká spořitelna in 2000 as Chief Economist and Member of the Senior Management Team. On October 5, 2004, the Supervisory Board of Česká spořitelna appointed him a Member of the Board of Directors. Mr. Kysilka is responsible for Operations, Financial Market Analyses and EU Office and since 1 January 2010 also for IT and project area.

Among others he is member of the Scientific Board and the Managing Board of University of Economics in Prague.
Membership in other companies: none

Jiří Škorvaga

Born on 26 April 1963
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Jiří Škorvaga is a graduate from the Institute of Chemical Technology in Prague and from the post-gradual studies at Czechoslovak Academy of Sciences. He joined Česká spořitelna Financial Group in 1994, as a project manager. In 1998 he took over the position of Card Center Head and in 1999 he was appointed as a Head Manager of retail banking. Since 2000 he was responsible for business management of retail business and was a member of Senior Management Team. In November 2006 Mr. Škorvaga became a member of the Board of Directors and a Deputy CEO of Česká spořitelna. He is responsible for retail banking.

Membership in other companies: Stavební spořitelna ČS, a. s., Investiční společnost České spořitelny, a. s., Pražské jaro, o. p. s.

Česká spořitelna's Supervisory Board and Audit Committee

as of 31 December, 2009

Manfred Wimmer

Born on 31 January 1956
Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Wimmer graduated the Law Faculty of the University of Innsbruck, where he was awarded the Doctor of Law degree. From 1978 to 1982, he worked as an Academic Assistant in Private Law. From 1982 to 1998, he worked in the International Division of Creditanstalt. In 1998, he joined the International Division of Erste Bank der österreichischen Sparkassen AG. In February 2002, Mr. Wimmer was appointed Head of the Strategic Group Development Division in Erste Bank. In August 2005, Mr. Wimmer became Executive Director of Group Architecture and Group Program Management. Between 2007 and 2008 Mr. Wimmer took over the position as CEO of Banca Comerciala Romana, having been previously a member of the Bank's Management Board. In September 2008, Mr. Wimmer was appointed to the Management Board of Erste Group Bank, taking over the role of Chief Financial Officer.

He has been a member of the Supervisory Board of Česká spořitelna since 2000.

Membership in other companies: Erste Group Bank AG, Erste Bank Hungary Nyrt., Banca Commerciala Romana SA, Erste Bank der österreichischen Sparkassen AG, EGB Ceps Holding GmbH, EGB Beteiligungen GmbH

Bernhard Spalt

Born on 25 June 1968
Vice Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Spalt graduated from the Law Faculty of Vienna University where he specialised in European law.

During his studies in 1991, he joined DIE ERSTE österreichische Spar-Casse Bank AG, where he started to work in the Legal Department. From September 1994 to June 1997, he performed various positions in the Work Out Department. Following the sale of Erste Bank Sparkassen (CR), a. s., to Česká spořitelna, a. s., Mr. Spalt took over the responsibility of the Work Out Department in Česká spořitelna, a. s. In June 2002, he returned to Erste Bank, Vienna where he was responsible for Strategic Risk Management until Oct. 2006. In Nov. 2006 he was appointed to the Managing Board of Erste Bank der österreichischen Sparkassen AG with responsibility for Group Risk Management.

Mr. Spalt was elected into the function of a Supervisory Board member as of 2003, in June 2008 he was elected Vice Chairman of the Supervisory Board.

Membership in other companies: Erste Reinsurance S.A., Joint Stock Company Erste Bank, Erste Bank Hungary Nyrt., Banca Commerciala Romana SA, ecetra Central European e-Finance AG, ecetra Internet Services AG, Slovenská sporiteľňa, a. s., s Haftungs- und Kundenabsicherungs GmbH., Erste Group Bank AG, Österreichische Clearingbank AG, Erste Bank der österreichischen Sparkassen AG

Eliška Bramborová

Born on 4 December 1953
Member of the Supervisory Board
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Ms. Bramborová is a graduate of the Law Faculty of the Charles University. She started her professional career in ČKD; in 1992 she joined Česká spořitelna as a lawyer. Presently, she is a head of Corporate Banking Legal Support Dept. She represents ČS in the Legal Commission of the Czech Banking Association. She is also a FCB ambassador and a member of the Internal Committee of the Ladies Investment Club of Česká spořitelna, a. s.

Ms. Bramborová was elected to ČS Supervisory Board by employees as of October 2008.

Jolana Dyková

Born on 23 July 1966
Member of the Supervisory Board
Reference Address: Malé nám. 219, Rokycany, Czech Republic

Mrs. Dyková is a graduate from the secondary technical college for machinery in Kladno and completed a term at the Czech Technical University in Prague. She started her professional career in 1985 at Czech Radio where she worked as an assistant to the editor-in-chief. Then she held the position of a deputy manager in the company Západočeské kamenolomy (West Czech Stone Quarries) for two years. In 1991 she joined Česká spořitelna as a bank officer, later she became the head of the branch in Zbiroh. Since 2002 she has been a manager at the advisory branch in Rokycany and since October 2007 a manager of microregion Rokycany.

Mrs. Dyková was elected to the Supervisory Board by ČS employees as of November 2007.

Maximilian Hardegg

Born on 26 February 1966
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Hardegg graduated from Agricultural Sciences in Weihenstephan, Germany. In the period 1991–1993, he worked at AWT Trade and Finance Corp, which is part of the Creditanstalt Group. He also worked as an advisor to the Czech Ministry of Agriculture in respect of the privatisation of agriculture.

Since 1993, he has been engaged in agriculture management. He has participated in the Phare, Sapard and Leader + titles projects, which are designed to support the cooperation among agricultural systems within the EU. He is also a member of lobbyist groups in Austria and the EU, which are focused on supporting sustainable development in land use and agriculture. He was elected a member of Česká spořitelna's Supervisory Board on 22 May 2002 and re-elected in April 2005.

Membership in other companies: DIE ERSTE österreichische Spar-Casse Privatstiftung, Sparkassen Pruefungsverband and Erste Foundation

Zdeněk Jirásek

Born on 31 July 1950
Member of the Supervisory Board
Reference Address: Masarykova 645, Kutná Hora, Czech Republic

Mr. Jirásek is a graduate of the Czech Technical University in Prague and a post-graduate study at the School of Economy in Prague. He started his professional career in 1974 at ČKD Kutná Hora, where he worked in several interesting positions in distribution, sales and finally as a foundry manager. He joined Česká spořitelna in 1994 where he held managing positions until 2000; when Spořitelna joined Erste Bank Group he moved to a non-manger position as a sales skills trainer. At the end of 2007 he was elected Chairman of the Bank's Trade Union Committee.

Mr. Jirásek was elected to ČS Supervisory Board by employees as of October 2008.

Herbert Juranek

Born on 13 November 1966
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Juranek graduated from the Commercial College in Austria – Bruck/Leitha. He began his banking career in 1990 in Girozentrale der österreichischen Sparkassen in the area of securities business. From 1994 to 1996 he headed the department "Derivative Clearing & Technical Support" at GiroCredit. During the years 1996–1998 in Reuters Ges. m. b. H., he lead all sales and risk management activities of Reuters Austria. 1999 he took over the position as Executive Director of Treasury & Securities Operations in Erste Bank der österreichischen Sparkassen AG. As the CEO of "ecetra Central European e-Finance" and "ecetra Internet Services AG" he took overall responsibility for the online broker and internet bank of Erste Bank Group. From March 2003 he assumed the assignment as Executive Director of Group Organization & IT of Erste Group. In July 2007 he was promoted to Chief Operating Officer

and Member of the Executive Board of Erste Group responsible for Organisation, IT, Facility Management, Operations and Processing within the entire group. Since 2008 the Group-wide responsibility includes also Card Management and Procurement.

Mr. Juranek was elected by the General Meeting into the function of a Supervisory Board Member as of April 2005.

Membership in other companies: Banca Comerciala Romana SA; Dezentrale IT – Infrastruktur Services GmbH, ecetra Central European e-Finance, Informationstechnologie Austria GmbH, s IT Solutions AT Spardat G. m. b. H., s IT Solutions SK, spol. s r. o., Slovenská sporiteľna, a. s., Informations- Technologie Austria SK, spol. s r. o., Erste Group Bank AG, Erste Steiermärkische bank d. d. Rijeka, Informations- Technologie Austria CZ, s. r. o.

Heinz Kessler

Born on 19 August 1938
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Immediately after finishing his studies, in 1964 Dr. Kessler became employed by Nettingsdorfer Papierfabrik AG, became a member of the Board from 1974 and Chairman of the Board from 1982.

Mr. Kessler was elected by the General Meeting into the function of Supervisory Board Member on April 2007.

Membership in other companies: DIE ERSTE österreichische Spar-Casse Privatstifung AG, Erste Group Bank, Nettingsdorfer Papierfabrik AG & Co KG, Bauer & Co. Gesselschaft m. b. H., Rath AG

Andreas Klingen

Born on 18 August 1964
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Klingen is a graduate of Technische Universität in Berlin with specialization in physics and philosophy and a graduate of Rotterdam School of Management. His professional career started as a researcher in Festkörper – Laser – Institut in Germany. During years 1993–1998 he worked as an analyst and associate in Lazard Freres, afterwards until 2005 as senior Associate and senior Vice President of JP Morgan in London. He joined Erste Bank der österreichischen Sparkassen AG in 2005 as a General manager for Strategic Group Development.

Mr. Klingen was elected by the General Meeting into the function of Supervisory Board Member in April 2007.

Membership in other companies: Open Joint Stock Company Erste Bank, Erste Bank Hungary Nyrt., Erste Bank AD Novi Sad, Public Company Erste Bank

Members of Managing and Supervisory Boards declares not to be aware of possible conflict of business, private and other interests or duties.

Audit Committee

Maximilian Hardegg

Chairman
Born on 26 February 1966
Address: 2062 Seefeld-Kadolz, Austria

Mr. Hardegg studied agricultural sciences in Weihenstephan, Germany. From 1991 to 1993, he worked at AWT Trade and Finance Corp., part of the Creditanstalt Group. He also served as an advisor to the Czech Ministry of Agriculture during the agriculture privatisation process.

Since 1993, he has worked in agricultural management and participated in the Phare, Sapard and Leader + titles projects designed to foster cooperation among agricultural systems within the European Union. He belongs to lobby groups in Austria and the EU whose focus is the support of sustainable land use and agricultural development.

He has been a member of the Česká spořitelna Supervisory Board since May 2002.

Heinz Kessler

Vice chairman
Born on 19 August 1938
Address: 1030 Wien, Landstrasser Hauptstrasse 65, Austria

After completing his studies at Vienna University, where he majored in political science, Mr. Kessler joined Nettingsdorfer Papierfabrik AG in 1964. In 1974, he was appointed to the Board of Directors of this paper company and has served as its Board of Directors chairman since 1982.

Mr. Kessler has been a member of the Česká spořitelna Supervisory Board since 2007.

Mario Catasta

Born on 6 September 1954
Address: Sankt Veit-Gasse 11, Austria

Mr. Catasta completed his studies at the University of Economics in Vienna in 1980. After his dissertation work was accepted in 1982, he joined an audit firm affiliated with the Austrian National Bank as an independent auditor. He has worked at Erste Bank since 1987, first as an internal auditor and then, from 1993, as head of compliance. In 1994, he assumed the position of internal audit department head. After the merger of Erste Österreichischen Sparkassen and GiroCredit, he became head of the corporate client department. He has been the internal audit director at Erste Group Bank since 2003.

Zlata Gröningerová

Born on 4 July 1957
Address: Počernická 3226/2f, Prague 10

Ms Gröningerová completed her studies at the University of Economics in Prague, where she assumed the role of academic assistant in the Faculty of Finance and Credit after graduating in 1982. In the years 1991–1993, she was deputy CEO of the company SUEZ INVESTIČNÍ, a. s., specialising in advisory and consulting in enterprise search and acquisition. In 1995–2004, she held several senior positions (director of the equity investment financing department, acting director of the department of credit transactions and business specialists) and was a member of the Board of Directors and Banking Counsel of the Czech Consolidation Agency. From 2005 to 2007, she was the CEO and Board of Directors chair of Technometra Radotín, a. s. Since 2007, she has been a financial and administrative consultant. Professional residencies and courses include a Management Development Programme, a corporate finance residency at universities in Paris and Lyon and a corporate financial management residency at a faculty of finance and accounting.

Andreas Klingen

Born on 18 August 1964
Address: 1080 Vienna, Josefstaedter Str. 76/6, Austria

Mr. Klingen is a graduate of Technische Universität in Berlin, where he majored in physics and philosophy. He is also a graduate of the Rotterdam School of Management. He began his professional career as a researcher at the Festkörper-Laser-Institut in Germany. In the years 1993–1998, he worked as an analyst at Lazard Freres. He then served as senior associate and senior VP at JP Morgan in London until 2005, at which time he assumed the position of strategic development manager at Erste Group.

Mr. Klingen has been a member of the Česká spořitelna Supervisory Board since 2007.

Macroeconomic Development in the Czech Republic During 2009

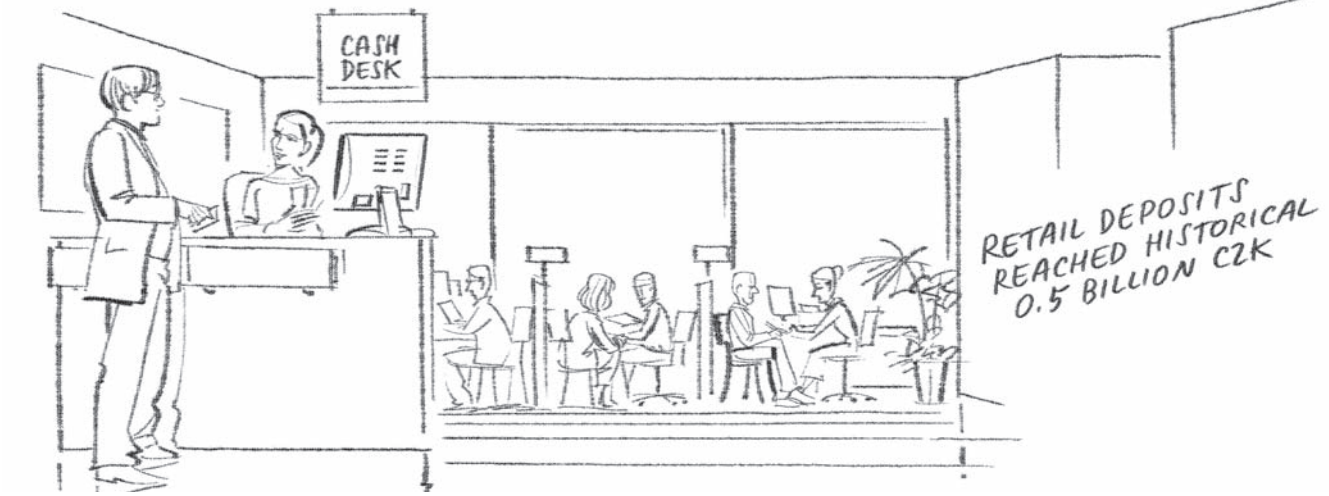
The Czech Republic saw GDP shrink by 4.1% in 2009 due to the impacts of the global crisis on the small, open Czech economy.

Inventories, which saw a year-on-year increase in 2009 after three quarters of decline, played a key role in the initial fall-off of economic activity. This was reflected in unprecedented negative future expectations, with companies emptying their warehouses in preparation for a crisis of Great Depression proportions. The slump was then impacted by fixed investment, which took roughly two percentage points from growth in the first half of the year due to a rapid drop in demand and leading to an increase in unused production capacities and moderate pressure on additional investment. Though more resilient than expected, household consumption still proved to be a drag on growth in 2009, dropping slightly by 0.2% year-on-year. Despite the positive contribution to year-on-year growth in the 2009 fourth quarter, net exports made a negative contribution to overall growth for the year. Government consumption was the only favourable factor in growth.

A quick and constant rise in unemployment started taking a toll on household consumption in the second quarter of 2009. Unemployment grew by more than 2 percent year-on-year, representing an additional 120–130 thousand individuals. In all, more than 250 thousand people lost their jobs since summer 2008, when the unemployment rate hit bottom. In 2009, household consumption slowed by 0.2% year-on-year. For 2010, the Bank projects marginal economic growth of 1.8% due to a surge in new inventory orders; in contrast, household consumption and fixed investment will post a year-on-year decline.

Unfavourable foreign developments made it impossible to prevent a decline in the export and industry dependent Czech economy. In a country in which a considerable portion of domestic demand is satisfied from abroad and where government budget income is falling while the budget deficit increases, massive fiscal expansion would have proved ineffective, and was therefore a move the government understandably avoided. The Czech National Bank alone was in a position to react cheaply and quickly, cutting interest rates from a high of 3.75% in summer 2008 to 1%, which is likely to be the bottom in this cycle. In 2010, rates are sure to rise, albeit slightly, with no sharp increases forecast. The economy is not expected to return to pre-crisis levels any sooner than 2012, with interest rates reflecting this development.

The Czech Crown also saw turbulent times. The massive panic that led to sell-offs in the 2009 first quarter resulted in a 30:1 Crown to euro exchange rate, though the root cause lay outside the Czech Republic's economic fundamentals. Despite the fact that its budget is a weakness, the Czech economy went into the crisis with a minimum of macroeconomic imbalances, which cannot be said, for example, about Poland or Hungary. By autumn 2009, however, the exchange rate returned to 25:1, a value that corresponds to the state of the Czech economy. Nonetheless, the autumn brought with it renewed nervousness driven by increased government deficits and poorly structured finances, a situation best exemplified by Greece. Persisting nerves held the Crown at CZK 25.50–26.50 to the euro for most of the latter part of 2009. Nonetheless, the Crown should gain against the euro in 2010, reaching CZK 24.20 by year end. The balance of payments current account should develop without any problems; market nerves should dissipate as direct foreign investment starts to pick up. The risk in this situation continues to be a possible slowing of convergence with western nations, though these should come out of the crisis with their own structural difficulties. Another potential risk is presented by the EMU periphery, which would clearly put a damper on enthusiasm for the Czech Crown, as the currency of an EMU hopeful.



Report on Performance and Business Activities

Consolidated Results of Operations

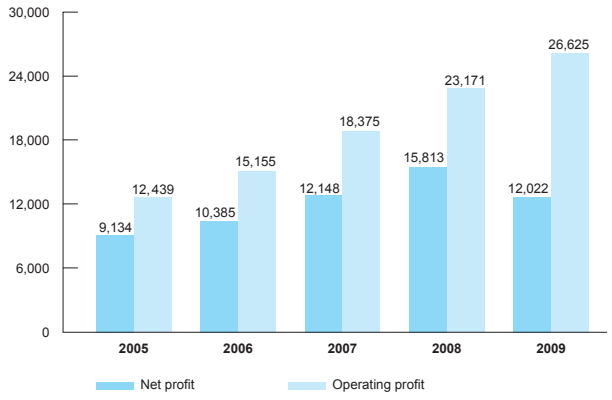
In a demanding economic environment, **Česká spořitelna maintained its financial strength, its stability and the trust of its clients.** The Bank achieved its excellent results through a combination of client satisfaction, a high degree of employee professionalism, a well-balanced business policy, a consistent, responsible loan provision strategy, stable client deposits and continually growing operating profits supported by transparent cost management.

Profit and Loss Account

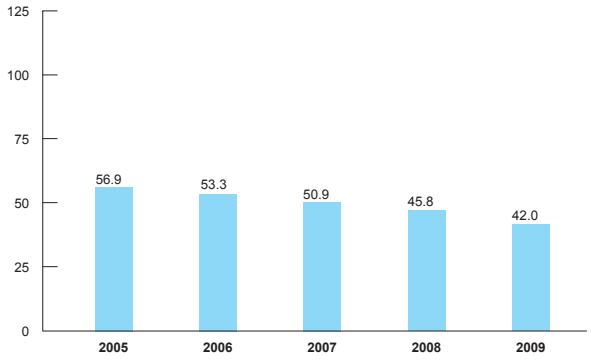
For the year ended 31 December 2009, Česká spořitelna reported consolidated net profit of CZK 12,022 million attributable to the parent bank's shareholders in accordance with International Financial Reporting Standards. This represents a 24% decrease year-on-year, as net profit was CZK 15,813 million in 2008. However, after eliminating non-recurring profit from insurance activities discontinued in 2008 in the amount of CZK 4,460 million, net profit actually increased 6% year-on-year.

The important return on equity (ROE) indicator was 19.3% in 2009 compared to 26.3% in 2008 (19.2% after eliminating discontinued activities). The return on assets (ROA) indicator is 1.4% for 2009. **Pre-tax profit increased 8% to CZK 15,178 million.**

Net and operating profit (CZK million)



Cost/Income (%)



The Bank's results for 2009 are primarily affected by double digit operating profit growth supported by reduced costs, on one hand, and increased provisioning for credit risk and the revaluation of real estate funds' assets, on the other.

Operating profit, the difference between operating income and expenses, reported significant growth of CZK 3,446 million to CZK 26,625 million, a 15% increase. Total operating income comprising net interest income, net fee and commission income and net trading profit grew 7% to CZK 45,894 million. **Operating income growth is driven by outstanding trading results.** Operating expenses comprising staff costs, other administrative expenses and depreciation/amortisation charges on tangible and intangible assets decreased 1% to CZK 19,269 million owing to the prudent management of expenses.

Increased operating income and reduced operating expenses meant a significant drop in the important **cost/income** ratio indicator to **42.0%,** a year-on-year improvement of 3.8 percentage points.

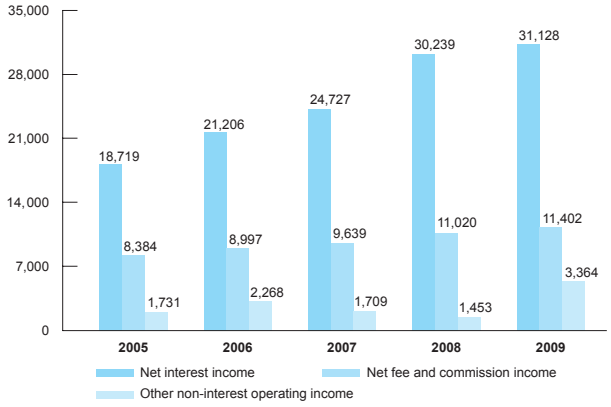
The favourable operating result was in large part attributable to net interest income despite market interest rates that reached historic lows. Short-term interest rates expressed as the average 3M PRIBOR dropped to 2.2% from 4.0% in 2009. Net interest income totalled CZK 31,128 million for 2009, a 3% increase year-on-year.

The increase came primarily in net interest **income from cli-**

ent transactions due, in large part, to loan transactions. Total loan volume increased 2% year-on-year, while loans with a higher interest margin increased at a faster pace. Client transactions accounted for 75% of interest income. At the same time, rental income from investment properties owned by real estate funds increased and interest expenses on bond offerings decreased due to a drop in interest rates. On the other hand, net interest income from interbank transactions decreased due to lower market interest rates and a lower average volume of loans advanced to banks. Dividend income decreased significantly owing to the economic recession.

The net interest margin in relation to interest-earning assets improved slightly to 4.2% from 4.07% at the 2008 year end due to the favourable impact of sales growth in products with a higher margin, lower resource costs and the effective management of assets and liabilities.

Operating income composition (CZK million)



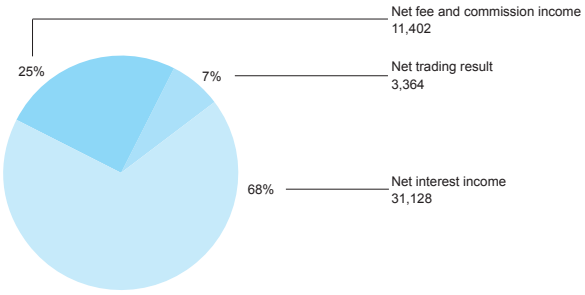
Net fee and commission income totalled CZK 11,402 million, a 3% increase year-on-year. Net **fee and commission income from loans and advances reported favourable development** due to their growing volume and **the sale of supplementary insurance services**. The ratio of new loan insurance coverage, particularly payment protection insurance, has remained above 70%.

Net income from payment transactions also increased due to both rising numbers and volume. In domestic payment transactions, the number of incoming and outgoing payment transactions within the Bank grew 2% year-on-year (5% in foreign payment transactions). Life insurance and other supplementary insurance services have increased in popularity, which is reflected in growing net income from the sale of insurance. However, net income from security transaction fees has decreased due to a dip in customer demand for securities investment and a lower volume of assets in custody. Net fee and commission income from construction savings decreased as a result of the reduced income from newly concluded contracts.

The share of net fee and commission income in total operating income is gradually falling; while it was 31% in 2004, it dropped to 25% in 2009.

Net trading result increased by a **massive** 132% to CZK 3,364 million year-on-year; **this growth was driven by all basic transaction types**. Income from foreign currency transactions increased as a result of higher client trading volumes, profits from securities trading (due primarily to the improved financial markets situation) and the interest income from bonds in the portfolio of held-for-trading assets. Interest derivatives transactions played a significant role in the favourable trading result.

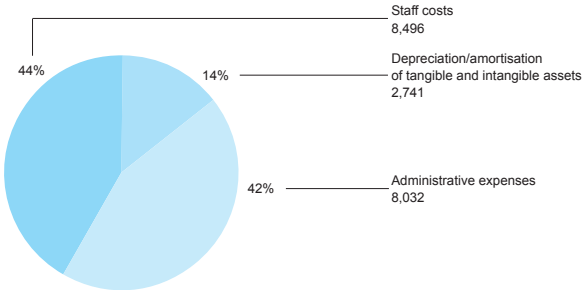
Structure of operating income (CZK million)



General administrative expenses **(operating expenses) fell** 1% year-on-year **thanks to the prudent management of expenses**. General administrative expenses totalled CZK 19,269 million.

Other administrative expenses (purchased outputs) **dropped 2% to CZK 8,032 million**. There was a significant drop in spending on marketing, advisory, trading and other services in the internal structure of purchased outputs. In contrast, the share of data processing and office space expenses increased. The single largest item in administrative expenses is data processing (information technologies) at 39%. Other significant expenses pertain to office space (22%) and trading expenses (17%), which include material consumption, monetary circulation, chip cards and group procurement outsourcing.

Structure of operating expenses (CZK million)



Staff costs remained stable year-on-year due to reduced staff headcount and the relocation of some activities out of Prague. Per-

sonnel expenses account for CZK 8,496 million of the aggregate volume of general administrative expenses. **Depreciation/amortisation of tangible and intangible assets decreased 4% to CZK 2,741 million** as a consequence of lower asset amortisation charges, especially for software. The outsourcing of selected activities also had a favourable impact.

The net charge for provisions and reserves for credit risk reported a balance of CZK 8,624 million, which represents a significant increase year-on-year. **The reason for the inter-year increase**, closely tied to deteriorating client solvency due to worsening macroeconomic conditions, **is the higher charge for provisions on loans, in particular loans** to corporate clients and consumer loans to individuals.

The balance of other operating expenses, which was CZK −2,823 million at the 2009 year end, **recorded significant improvement over 2008**. This was attributable to a number of factors. The improvement was primarily driven by the results of the revaluation and sale of securities in the fair value and available-for-sale asset portfolios in line with the recovery of the financial markets in the 2nd – 4th quarters of 2009. Other operating expenses included the revaluation of real estate owned by real estate funds given current and projected market developments, the creation of reserves for factoring receivables and the elimination of the clients' share of Penzijní fond ČS profit.

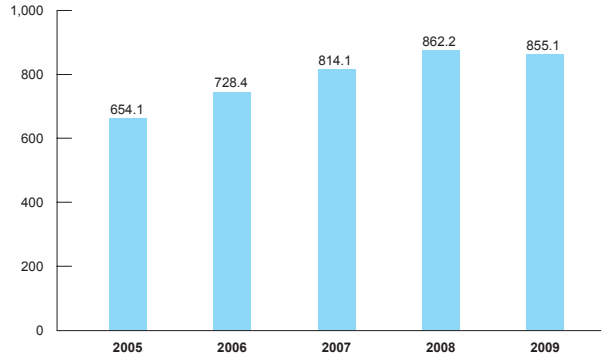
Compare to the 2009, the 2008 results include net profit from discontinued activities comprising Pojišťovna České spořitelny profit/loss and net income from its sale to the company Vienna Insurance Group at an aggregate total of CZK 4,460 million.

The Česká spořitelna Financial Group tax liability for 2009 was CZK 3,362 million, which represents an effective tax rate of 22.2%. This amount comprises tax payable of CZK 3,167 million and quantified changes in deferred tax in an aggregate amount of CZK 195 million.

Statement of Financial Position (Balance Sheet)

The consolidated balance sheet total at 31 December 2009 was CZK 855.1 billion, representing a slight year-on-year decrease of 1% from CZK 862.2 billion. **In balance sheet liabilities, there was an increase in customer deposits**, the volume of subordinated debt and the volume of issued bonds, as well as a reduction in liabilities from interbank trading and derivatives with negative fair values. **Balance sheet assets showed growth in the volume of interbank receivables and client loans** and a decline in all portfolios of securities and derivatives with positive fair values.

Balance sheet total (CZK billion)



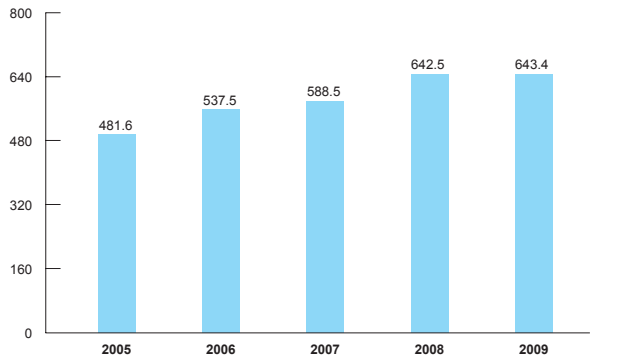
Liabilities

Traditionally, client **(primary) deposits have been the key source of funding for Česká spořitelna's lending**; these comprise 75% of all liabilities, meaning that Česká spořitelna is considerably free from interbank funding. Client deposits totalled CZK 643.4 billion, i.e. remained relatively stable year-on-year. The high volume of client deposits contributes to the Bank's strong liquidity position.

The year-on-year growth in the volume of customer deposits testifies to client confidence in the Bank. **Customer deposits**, including deposits with fair value options, recorded further growth of 2% and **exceeded the milestone of half a trillion crowns** (CZK 502.2 billion). The greatest growth was in term placements (especially the highly popular Gold deposit and the new savings product Smart savings, which together amassed CZK 29.7 billion) as well as contributions to supplementary pension insurance and construction savings. In contrast, volumes of passbook and Giro account deposits declined.

Deposits from corporate clients increased 8% to CZK 99.0 billion, primarily on current accounts. The impact of the reduced volume of repo transactions and term placements meant a decline in the volume of public sector client deposits by one fourth to CZK 46.3 billion. Foreign currency deposits comprise some 3% of total client deposits.

Client deposits (CZK billion)



The balance of payables to financial institutions comprising loans, term deposits and current account balances decreased 18% year-on-year to CZK 47.4 billion at 31 December 2009. Of this amount, loans extended as part of repo transactions represented

CZK 13.9 billion. The proportion of interbank transactions of Česká spořitelna and leasing companies in the group decreased.

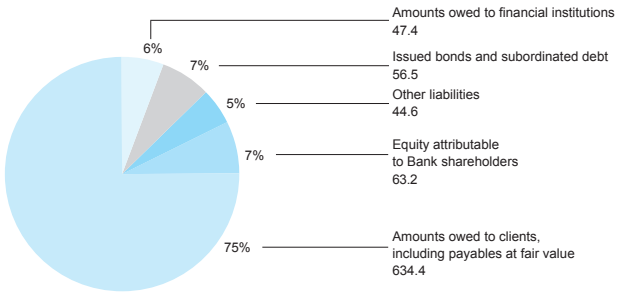
The total volume of issued bonds reported in the consolidated balance sheet increased 10% compared to 2008 to CZK 43.1 billion, excluding issued structured bonds at fair value. The increase is due to issued mortgage bonds in connection with growth in the mortgage loan and bond portfolio. The total **volume of mortgage bonds, as a stable and long-term source of funding for mortgage transactions** in the consolidated balance sheet, **represents CZK 34.3 billion**. Issued bonds and depository bills total CZK 6.4 billion and CZK 1.5 billion, respectively.

Česká spořitelna had two subordinated bond offerings in 2009 to strengthen its capital base. At 31 December 2009, subordinated debt totalled CZK 13.4 billion.

The Bank's equity attributable to shareholders, comprising basic capital, share premium, the legal reserve fund, valuation gain or loss (particularly with respect to the portfolio of available-for-sale securities and derivatives for hedging), retained earnings of previous years and current year profit/loss, decreased 3% to 63.2 billion year-on-year primarily due to the impact of dividend payments for 2008 in an amount of CZK 15.5 billion. In contrast, equity increased as a result of profit generated.

Consolidated and separate **capital adequacy** calculated in compliance with the Basel II Directive **improved significantly** – consolidated by 230 base points to 12.24% and separate by 200 base points to 12.30%.

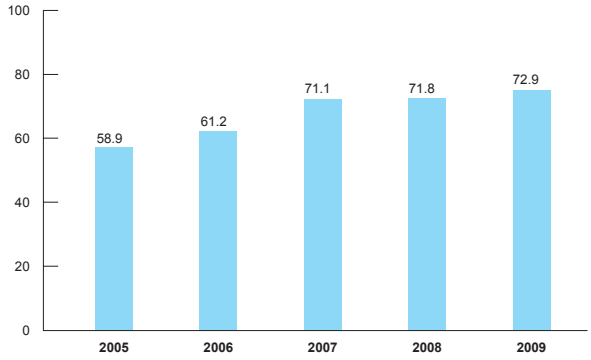
Structure of liabilities (CZK billion)



Assets

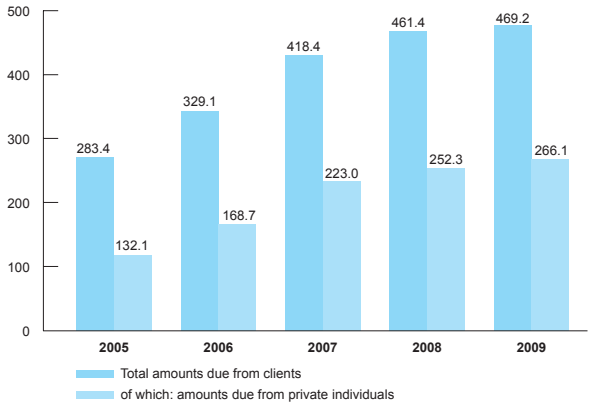
The key component of lending transactions, which generates the largest portion of operating income, **is loans and advances to clients**. Lending growth continued despite the difficult economic climate, though this growth was less robust. **The total volume of loans and advances to clients for 2009 increased 2% to CZK 469.2 billion.** The proportion of client loans relative to client deposits held at a conservative 72.9%. Net loans and advances to clients account for 53% of all lending transactions, while at the 2003 year end their share was only 32%.

Proportion of client loans and advances relative to client deposits (%)



Loans to private individuals (including mortgage loans) totalled CZK 266.1 billion, an increase of 5% year-on-year. **This excellent result was attributable mainly to consumer loans and construction savings loans.** Consumer loans including credit cards and overdraft loans on Giro accounts increased 10% to CZK 84.0 billion. Bridging loans and construction savings loans provided by Stavební spořitelna ČS grew 6% to CZK 45.5 billion. The marginal growth of the retail mortgage loan portfolio by 1% to CZK 121.2 billion reflected the decline in real estate market activity and, to a lesser extent, market saturation. The proportion of loans to private individuals is continually growing; relative to total client loans, it increased from 47% in 2005 to 57% in 2009.

Total amounts due from clients (CZK billion)



Loans provided to the public sector, including mortgage loans, reported a significant increase of 33% to CZK 19.6 billion due to the financing of public projects co-funded by European funds. Mortgage loans advanced to the public sector total CZK 2.4 billion.

Česká spořitelna reported a 6% decrease in loans to corporate entities to CZK 183.4 billion, which was affected to a significant extent

by the ongoing economic downturn and lower demand, especially from the corporate segment. However, mortgage loans provided to corporate clients reported positive growth of 1% to CZK 52.7 billion. The portfolio of loans to large corporate clients (exclusive of mortgage loans) represented nearly CZK 56.1 billion at the 2009 year end, a 13% decrease. In contrast, **loans to small and medium-sized enterprises (the SME segment) increased 5% to CZK 57.7 billion.**

The portfolio of mortgage loans to private individuals, corporate bodies and the public sector increased in the aggregate by 1% to CZK 176.3 billion; **mortgage loans account for 38% of all loans in the portfolio.**

Compared to the 2008 year end, the quality of the Financial Group's loan portfolio worsened as expected due to the economic downturn. The proportion of loans overdue for more than 90 days increased from 2.2% to 3.4%. However, the **Bank is rigorously adhering to its responsible provisioning strategy, actively monitoring the quality and return of the portfolio**, and successfully working with external partners in the process of selling risky loans and recovering amounts owed. The quality of the portfolio reflects a proactive approach to corporate clientele and the first positive results of the new telephone centre tasked with debt recovery and restructuring.

Loans and advances to financial institutions increased by a significant 36% year-on-year to CZK 126.5 billion. In particular, the volume of reverse repo transactions with the Czech National Bank and, to a lesser degree, with other financial institutions, grew to 69.2 billion. Placements with financial institutions comprise CZK 55.8 billion of the total balance of loans and advances to financial institutions. **The growth in loans and advances to financial institutions is attributable to the need to manage the bank's balance sheet assets and liabilities**, the maintaining of higher liquidity and the reallocation of assets from the securities portfolio.

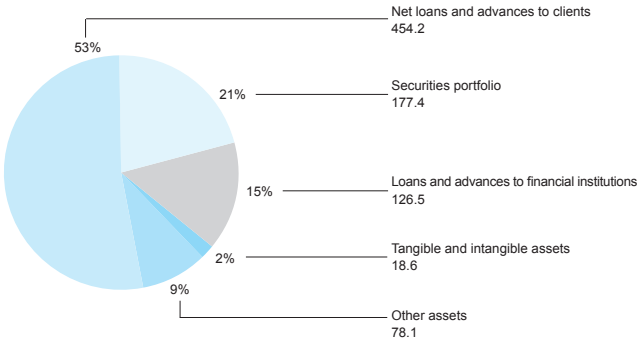
The aggregate balance of the portfolio of securities at fair value, available-for-sale securities and held-to-maturity securities decreased 15% year-on-year to CZK 177.4 billion. The decline in the securities portfolios is attributable to the allocation of sources to client and interbank loans and advances.

The proportion of bonds in the securities portfolios has gradually increased, from 94% in 2007 to 98% at the 2009 year end. The portfolio structure has at the same time changed considerably as **Česká spořitelna prefers to purchase bonds issued by Czech government institutions. Their total percentage has increased from 57% in 2007 to 73% in 2009. Bonds issued by foreign financial institutions** make up 17% of the portfolio and bonds issued by financial institutions in the Czech Republic 6%. Other bonds are issued by prominent corporate enterprises in the Czech Republic and abroad.

Investment property, including property under construction, decreased by 12% year-on-year to CZK 17.1 billion. The decline was attributable primarily to changes in the fair value of real estate. Real estate financing is a key area of interest for Česká spořitelna. The Bank also invests in real estate investment funds (operating as part of the Financial Group) for institutional investors focused on the Czech and Slovak markets. Property investment is aimed at achieving rental income or capital appreciation.

The aggregate balance of tangible and intangible assets decreased 3% year-on-year to CZK 18.6 billion, of which land and structures comprise 70%. The balance of intangible assets decreased 13% to CZK 3.3 billion; software is chiefly responsible for this decline. The balance of tangible assets held steady at CZK 15.4 billion. The aggregate proportion of tangible and intangible assets relative to total assets is 2%.

Structure of assets (CZK billion)



Business Activities and Operations

Česká spořitelna is proud to be one of only a few banks to successfully increase client satisfaction in 2009 despite a difficult market. Data on client satisfaction are evaluated twice annually by an independent agency.

The Fincentrum Bank of the Year 2009 contest, in which Česká spořitelna won all three prestigious prizes, is another testament to our clients' satisfaction. In the public's opinion, the Bank was the sixth Most Reliable Bank of the Year, while an expert panel of judges ranked it Bank of the Year, and Česká spořitelna's Chief Executive Officer was named Banker of the Year.

The recognition Česká spořitelna receives from clients – be it the general public or expert panels – attests to its reputation **as a customer-oriented, modern and competitive bank by European standards**, providing financial services that enable its clients to fulfil their wishes and needs.

Such recognition also represents an important motivational tool moving forward because **enhancing service quality and raising the level of customer satisfaction are key components of the Bank's long-term strategy**. All members of executive management have defined individualised performance indicators focused on service quality and client satisfaction.

Private Clientele

Česká spořitelna is a universal bank serving all client segments, though the most important client group – and not just in terms of service scope – is represented by the citizens of the Czech Republic, students, entrepreneurs, small business people, the self-employed and foreign clients residing in the Czech Republic.

The world financial **crisis taught** clients **a fundamental lesson: Do not buy anything without first knowing all the risks** and possibilities for loss and clearly understanding the product or service. Česká spořitelna wishes to impart this principle to its clients, and is **therefore making financial advisory a priority**. Indeed, clients themselves have long been clamouring for this service. The aim of this advisory service is to ensure that clients understand and know exactly what the Bank is selling them. However, this does call for extraordinary investment in staff training and education on the part of the Bank.

In July 2009, Česká spořitelna successfully launched the **Savings and Investment Programme, which helps, informs** and advises **clients** through consultation **on how best to allocate and prioritise their money** given their financial position and future wishes and plans. The optimal monthly allocation of available funds to specific Savings and Investment Programme products enables clients to take maximum advantage of all government benefits and tax incentives, to ensure they have a financial reserve should the unforeseen arise, to better prioritise their money and optimise its availability in order to meet their goals while maintaining their standard of living and protecting themselves (and their families) from future difficulties.

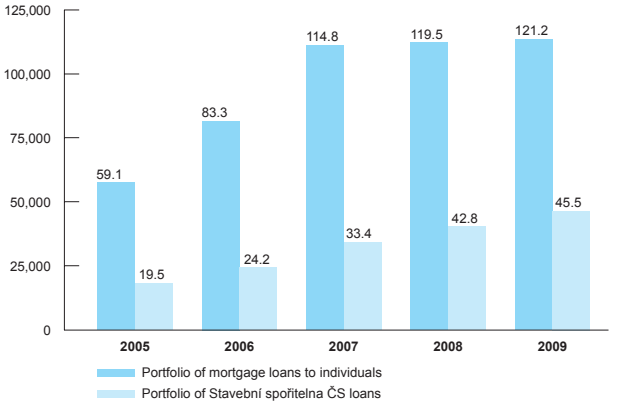
Česká spořitelna has also been offering financial advisory services for more than a year to clients with assets of more than CZK 1 million **through the Personal Financial Plan**, which offers a greater variety of investment opportunities (including investment advice) than the Savings and Investment Programme. The Personal Financial Plan offers long-term financial planning and solutions tailored to the client's needs. Česká spořitelna also offers a private banking service to clients with assets in excess of CZK 5 million.

Financing Housing Needs

The number of new mortgages provided to private individuals by Česká spořitelna sent a positive signal to the Czech mortgage market in 2009. Generally, the mortgage market saw the number of new mortgages drop by roughly 40% year-on-year due to the recession and a certain degree of market saturation. However, Česká spořitelna felt this impact to a lesser extent, with **growth reported in the latter months of 2009 attributable to the new Ideal Mortgage** with favourable interest rates, the product chosen by roughly half of all mortgage loan clients. Annual business of CZK 14.8 billion in new private mortgages ensured an increased market share for Česká spořitelna compared to 2008, with its share of the new mortgage market reaching 22% in the last quarter of 2009. The average maturity of a new mortgage loan has dropped slightly to 23.1 years; the average amount remained stable at CZK 1.7 million. The important indicator of average loan value to real estate value was in case of new mortgages 61.3% and in case of whole portfolio 64.7%.

In its loan policy, Česká spořitelna **stresses mortgage loan quality.** The close connection between the quality of provided mortgages, the type of some external partners and individual loan transaction risk parameters ultimately led to a limitation on co-operation with problematic outside agents. Up to 70% of new mortgages are now sold through the Bank's own branches. The remaining 30% are sold by reliable outside agents. At the same time, Česká spořitelna began to show a preference for its own clients with a known history. Loans

Portfolio of mortgage loans (CZK bil.)



provided to clients with a known history are both higher in quality and less risky.

A higher quality, less risky and more profitable process ensued from changes in mortgage lending procedures and the increased degree of existing portfolio insurance. At Česká spořitelna, **more than 60% of new mortgage holders purchase mortgage insurance**.

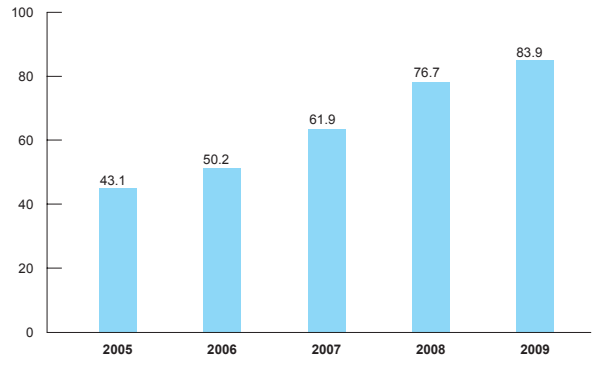
The total portfolio of mortgages to private individuals increased by 1% to CZK 121.2 billion.

Within the Česká spořitelna Financial Group, clients make extensive use of Stavební spořitelna České spořitelny services to finance their housing needs. **The total portfolio of bridging loans and construction savings loans,** advanced in close co-operation with the parent bank, **recorded year-on-year growth of 6%** to CZK 45.5 billion, with bridging loans making up more than 70%. The total number of loans at the 2009 year end exceeds 200 thousand.

Financing the Needs of Private Individuals

In 2009, consumer loans were the fastest growing loan segment. The balance of the portfolio of this type of loan, including credit card and overdraft loans on Giro accounts, increased nearly 10% year-on-year to CZK 83.9 billion and comprised more than 2.5 million loans. In 2009, the Bank strengthened its leading market position by advancing a total of CZK 29.8 billion in new consumer loans. The average consumer loan totalled CZK 116 thousand and the average maturity was 75 months.

Total volume of consumer loan portfolio in CZK billion



Of the consumer loans advanced to clients, the greatest interest has always been shown in **traditional cash loans**, which grew in total by 11% in 2009 to CZK 61.6 billion. This successful result is a reflection of Česká spořitelna's orientation toward lending to clients with a known history, which enables the Bank to offer pre-approved loans and thus minimise loan processing time.

Cash and consumer loans collateralised by real estate, known as **American mortgages**, have continued to grow, which is reflected in a 3% volume increase to CZK 8.9 billion. At the same time, the process of providing American mortgages has been simplified and accelerated. Moreover, as opposed to the classic consumer or cash loan, American mortgages have the benefit of a lower interest rate and longer maturity.

Despite the overall drop in the number of credit cards, attributable to the cancellation of inactive cards, the volume of credit loans increased by 27% year-on-year to CZK 4.7 billion at the 2009 year end.

Česká spořitelna has prepared **a new way to offer overdraft facilities** on Giro accounts at ATMs. The process generally takes just a few minutes, and less than one minute when increasing an existing overdraft. The number of Giro account overdraft loans has passed the 1 million mark. Total overdraft loan use at the 2009 year end showed an increase of more than 3% to CZK 6.1 billion.

The balances of the portfolio of social loans provided in the past continued to decrease, dropping by 14% to CZK 2.7 billion. The slow volume reduction in social loans is due to their nature, as the residual portfolio comprises long-term loans for investment housing construction.

Private Account

The Česká spořitelna Private Account enables clients to freely choose the services they need. The Bank has continued to develop and improve the Private Account since its introduction in the summer of 2007.

In February 2009, the Bank launched the **Česká spořitelna Private Account Student** for full-time students aged 15 to 30. The concept of a private account with the option to freely choose services met with success among students, too, and this new type of account was in use by more than 122 thousand students at the 2009 year end. Additionally, the **Česká spořitelna Private Account Junior** was introduced in December 2009 for children between the ages of 8 and 15.

Both new types of Private Account for students and children are based on the standard offering of Private Account services, which, among other things, allow free-of-charge ATM withdrawals and deposits to be set up. These accounts allow three services chosen by the client to be offered with no monthly fee. Thanks to the Private Account, students can receive an annual contribution to their ISIC card in an amount of CZK 200 and an overdraft with a newly increased limit of up to CZK 25 thousand.

Accident insurance has been newly included among the additional Special-level services offered with the Private Account. Insurance services, including travel insurance and payment protection insurance for regular expenses, are becoming increasingly popular with clients. At the end of 2009, more than 200 thousand Special services are recorded.

Via a new **Česká spořitelna Benefits Programme, the Bank has begun to reward clients** who are active users of the Private Account and other Česká spořitelna Financial Group services.

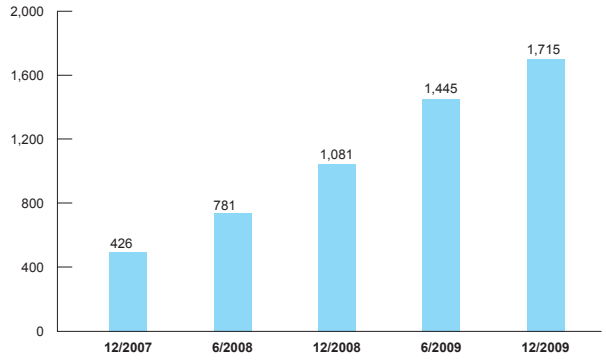
Private Account holders thus receive an account administration fee discount of up to 100% based on their overall deposit volume or total balance with the Česká spořitelna Financial Group. This includes monies placed in all Financial Group deposit and investment products, e. g. construction savings or supplementary pension insurance, the Private Account, other deposit products or loan or mortgage balances. A basic 10% discount is provided starting with three Private Account transactions in a given month.

At the 2009 year end, the Benefits Programme was in use by 200 thousand clients, with 25 thousand more clients taking advantage of this benefit every month. The average Private Account monthly administration fee discount is around 50%.

In an internet client survey, the **Česká spořitelna Private Account with the Benefit Programme** was the winner of the **Banking Innovator of 2009 competition** organised by Hospodářské noviny newspaper and Economia publishing house.

A downscaled version of the Česká spořitelna Benefits Programme may be used with the Česká spořitelna Private Account Student and Private Account Junior, so that young clients may also enjoy the benefit of having more than three standard free-of-charge services.

Number of Private Accounts in CZK thousand



At the 2009 year end, the **Česká spořitelna Private Account was used by more than 1.7 million clients**, which means a year-on-year increase of more than 600 thousand. The volume of cash deposits increased by 58% year-on-year to a total of CZK 94.9 billion.

At the 2009 year end, the **Bank recorded some 2.84 million Giro accounts** (including Private Accounts) **with a balance of CZK 188.5 billion**. Giro accounts are the product with the highest volume of client deposits in the entire financial group. An ever increasing number of clients are using products associated with the Giro account: 36% have an overdraft facility, 60% have a Private Account and 94% use payment cards tied to their Giro account.

Investment Products

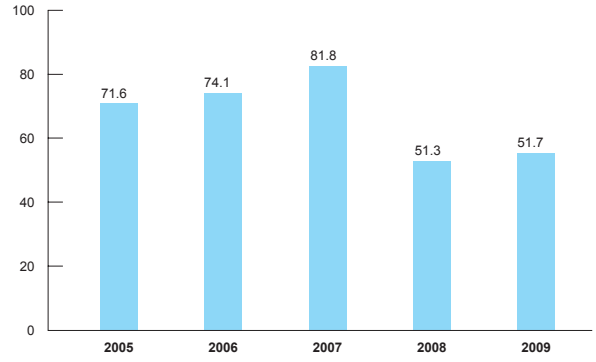
The precipitous stock market decline caused by the financial crisis culminated in March 2009. As a result, investors pulled their money out of mutual funds in the first quarter. However, March also brought one of the sharpest market returns in memory and stock markets and other risky assets, such as corporate bonds, ended 2009 with returns in the high double digits. Owing to this sharp increase in investor confidence, mutual fund withdrawals soon levelled off. **The situation started to reverse in the third quarter of 2009, and the influx of money began to gradually increase.** Investors slowly began to return to money market funds, especially Sporoinvest.

The excellent performance of equity funds unfortunately failed to attract new investors, while equity investors preferred to wait and see how their positions developed after the prior declines. Their patience was rewarded, as **investors in Sporotrend**, the equity flagship of Investiční společnost České spořitelny, **saw a 156% return on their investment in 2009**.

In this very difficult time, regular investment, i. e. making deposits on a regular basis proved itself an excellent investment tool. **Many regular investors realised highly attractive returns at the end of 2009** thanks to advantageous regular purchases during the market downturn. This practice bore out the theory that says to invest regularly is the best possible approach. At the 2009 year end, Česká spořitelna recorded more than 100 thousand regular investors, and their numbers continue to grow.

Total assets in Investiční společnost ČS managed funds stabilised in 2009 at CZK 51.7 billion.

Volume of assets managed by funds of Investiční společnost ČS in CZK billion



The year 2009 saw a pronounced move toward hedged products and Česká spořitelna **clients preferring fixed yield bonds**. Investors could choose from bonds with varying long-term maturities of one to eight years. With an annual volume of nearly CZK 9.0 billion, Česká spořitelna is a banking leader in assuring bond distribution to retail clients. As an alternative to fixed yield bonds, clients could also choose the short-term Gold Deposit product.

For investors wishing to participate in returns on equity, commodity and currency markets with a principal guarantee, Česká spořitelna

offers **premium deposits or premium bonds**. These products also met with significant interest from investors, who invested a total of CZK 2.0 billion. At the 2009 year end, the product portfolio was expanded to include euro-denominated annual premium deposits. These enable clients to put aside available cash in a foreign currency for a short period and, even when interest rates become extremely low, to enjoy the possibility of a better interest rate.

A more select group of investors is interested in direct equity investment. Those who do not wish to carry out their transactions online can do so (inclusive of limit transactions) at Česká spořitelna branches or by telephone. The Bank has also made foreign stock markets more accessible for these investors. Total turnover for share purchases transacted in this manner exceeded CZK 2.5 billion.

In collaboration with its subsidiary REICO investiční společnost ČS, Česká spořitelna offers retail clients the possibility of investing in commercial real estate through the ČS real estate fund, an open-end mutual fund. The **ČS real estate fund maintained its position as the largest real estate fund for retail clients in the Czech Republic** in terms of both capital (CZK 1.2 billion at the 2009 year end) and the number of properties in the portfolio.

The fund's portfolio comprises six properties, five in the Czech Republic and one in Slovakia. As a result of the global downturn in real estate that depressed market values, the fund's annual performance was −13.8%. Nevertheless, the ČS real estate fund portfolio is financially healthy, with most properties reporting an occupancy rate above 95% and bringing in stable rental income. In 2009, the fund collected more than CZK 20 million in rent. **The current values of buildings in the portfolio are well positioned from a long-term perspective and have future growth potential.**

Savings Products

Although 2009 was characterised by the partial return of investment products to client portfolios, **interest rate guarantee and deposit insurance continued to play the most important role in client decision-making**. With its clients' preferences in mind, Česká spořitelna prepared several new offerings in the area of deposits.

The first of these is the Česká spořitelna **Perfect Deposit designed for one-time deposits**. The Perfect Deposit is unique on the deposit products market in that **half of the return is paid to clients up front**, making it a sort of upside-down deposit. The interest rate is guaranteed for the entire life of the product with no initial fee or administration charge. The Česká spořitelna Perfect Deposit is insured by law.

The second new product is **Smart savings for regular cash deposits**. The unique concept of this savings product helps clients learn how to save on a regular basis using funds separate from their regular expenses. In return, they get a favourable interest rate and financial liquidity. Smart savings was launched in July 2009 and quickly became a hit, **attracting** 111 thousand clients **in less than half a year** who deposited a total of CZK **12.7 billion**. The success of Smart savings proved that regular savings, even in small amounts, is just as important to clients as one-time cash deposits.

In May 2008, the Bank began offering clients the Česká spořitelna **Gold Deposit**, whose **success exceeded all expectations**. It is an account that **combines a two-year deposit and investment product, but always provides a guaranteed interest rate**. More than 70 thousand accounts were opened; deposits increased by 50% to CZK 16.9 billion year-on-year.

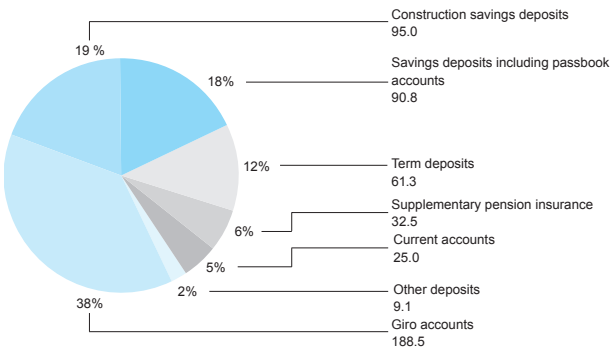
Constructions savings deposits with Stavební spořitelna ČS constitute the most significant savings product by volume. Although deposit growth slowed slightly, total client deposits on construction savings accounts grew by 2% compared to the prior period, with CZK 95.0 billion being deposited by nearly 1.1 million clients. In 2009, clients entered into nearly 180 thousand deposit contracts with a total target amount of CZK 30.0 billion.

Supplementary pension insurance is among the most popular and steadily growing forms of long-term savings. In 2009, Penzijní fond České spořitelny reported a 10% increase in supplementary pension insurance deposits to CZK 32.5 billion. The number of clients grew by more than 83 thousand, which accounts for one half of all market growth. The number of clients at the 2009 year end was 833 thousand. **Supplementary pension insurance with Penzijní fond ČS** won 1st place in the Pension Funds category of the **Zlatá koruna competition**.

While the number of passbook accounts and volume of deposits in them are consistently dropping (by 9% year-on-year), at the 2009 year end Česká spořitelna nevertheless recorded more than 1.7 million registered passbook accounts with an aggregate balance of CZK 78.1 billion.

Term deposits in foreign currencies total CZK 5.1 billion; preferred currencies are the euro and US dollar.

Savings of individuals in CZK billion



Clients – Independent Professionals

Česká spořitelna works closely with professional chambers for freelance professionals including a general partnership with the

Czech Medical Chamber and partnerships with the Czech Chamber of Dentists, the Czech Chamber of Pharmacists, the Czech Bar Association and the Chamber of Tax Advisors. These longstanding partnerships help Česká spořitelna understand the individual financial needs of independent professional clients and flexibly respond to these needs with specific products.

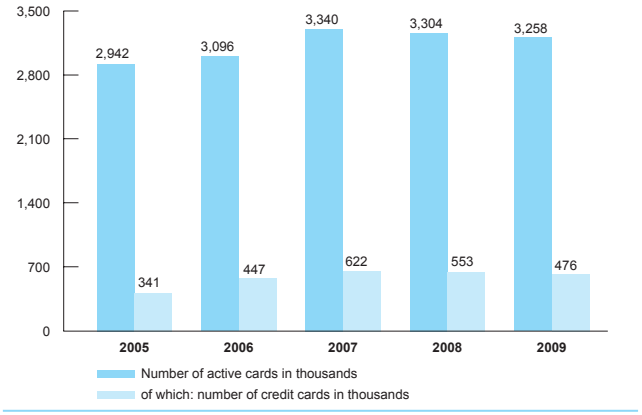
Services for independent professional clients are personalised by advisors specialised in assisting these individuals. Professionally trained advisors provide clients with comprehensive information about private and corporate finances.

In addition to its standard products, the Bank offers independent professionals a host of specialised financial products including special types of current accounts. However, **the Professional programme provides comprehensive financial management**, which is attractive primarily owing to its variability, favourable price structure and possibility of combining products based on individual client needs, including professional consultation. The number of Professional programmes increased by 3% year-on-year to a total of CZK 1.4 billion.

Card Programme

In 2009, the total number of active payment cards dropped slightly by 1% to 3.3 million: 2.8 million debit cards and 0.5 million credit cards. Although the number of payment cards stagnated, **Česká spořitelna has maintained its dominant position in this** important **market**, which is illustrated by significant growth in the number and volume of card transactions.

Number of active cards in thousands



The migration of the existing portfolio of payment cards to chip cards was successfully completed in 2009. Improving and expanding the range of services provided is an ongoing priority for Česká spořitelna. Clients now have the opportunity to use the Card Unlocking / Locking service. Simply by calling the information line 800 207 207 or using S24/B24 Telebanking, the client can set temporary limits on payment cards, cash withdrawals or internet payments. The client also chooses how long a given limit will apply. After this time elapses, the limit automatically returns to its original amount. **The service is ideal for those times when clients need to pay higher** than usual **amounts with their** card and would be concerned if their limits remained high **or who want** maximum **security when making online payments**.

In November 2009, the Bank introduced payment card misuse **insurance and also changed its name to Insurance for cards and personal objects**. This better describes the new scope of the product, which continues to **cover all unauthorised transactions** performed with a payment card including PIN transactions up to the insured amount **and** at the same time **expands coverage to include** an entire **range of personal objects**, such as car registration papers, prescription glasses, handbags, MP3s and more.

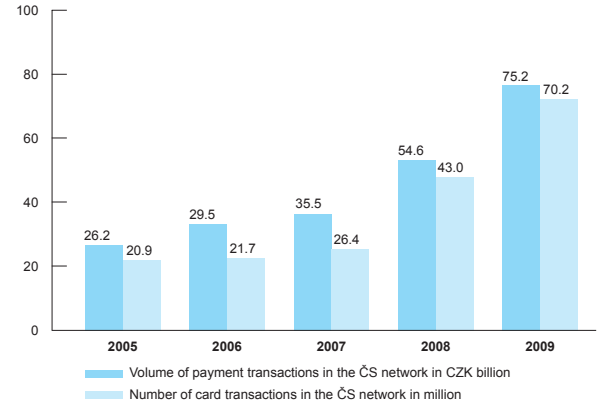
The requirements of the new Payment Act entered into force in November, by which time the Bank had updated its business terms and conditions. The most important changes include **free card blocking** and client updates of transactions entered into up to 1 month later in a free-of-charge summary available at any branch of the Bank. For card transactions abroad, the client is now informed of the exchange rate used by the Bank. Client liability for unauthorised card transactions is reduced from CZK 4,500 to EUR 150, and the original time limit for client liability limitation – 48 hours before card blocking – has been abolished.

In early 2009, the **Bank began expanding the range of payment cards for students** as part of the new Česká spořitelna Private Account Student. Students may choose from the same extensive menu of card options as adults, i. e. electronic, embossed and gold cards. Students 15 and older have access to all types of cards with no special conditions. Moreover, for embossed and gold cards they can take advantage of discounts when using their payment card as part of the Partner discount programme. With the Česká spořitelna Private Account Junior, the Bank also offers **new payment cards for children**. Instead of the existing Junior Xkonto ATM cards, the Private Account Junior provides a choice between the Visa Electron international electronic chip card and the Maestro card. The cards are available for children 8 and older.

Česká spořitelna has expanded its payment card acceptance services to include new locations – **there are now more than 16 thousand co-operating establishments**. Among the most important business partners with which Česká spořitelna entered into co-operation in 2009 are Kaufland Česká republika with 90 commercial locations, Lázně Františkovy Lázně with 13 locations, Koberce K+K and the clothing chain EXE with 34 stores.

Interest in non-cash payments continues to grow among vendors. For two years running, the number of transactions conducted at Česká spořitelna payment terminals increased by more than 60%, surpassing 70 million in 2009. **Transaction volume increased 38% to CZK 75.2 billion**. Tuesday, December 22, 2009 was a record day for the volume and number of Česká spořitelna payment terminal transactions; clients made 447 thousand payments totalling CZK 501.3 million.

Card transactions in the ČS

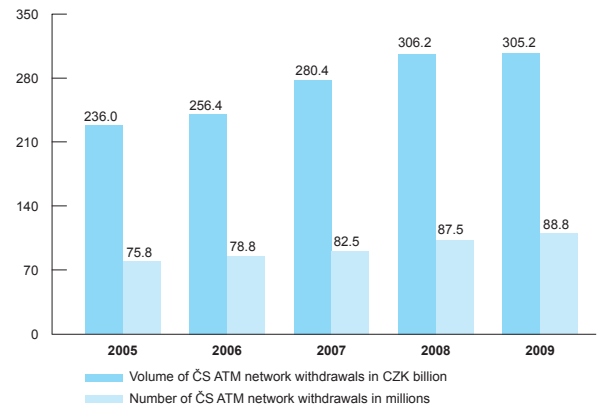


Česká spořitelna has long been the market leader in terms of ATM network size. The Bank increased the number of ATMs by 54 to a total of 1,218, which represents some 32% of the market. **In the process of expanding its network, Česká spořitelna has been working with the prominent retail chains** Tesco, Kaufland, Lidl, Globus and Billa. There are 52 special ATMs equipped for use by the blind. The Bank is continuing to upgrade the functionality of its ATMs (e.g. with bar code readers) and gradually introducing new machines; in 2009, 96 ATMs were replaced with newer models.

All ATMs are equipped with chip technology, **meet the maximum security requirements** to eliminate the risk of skimming and enable clients to withdraw cash, check their balances free of charge, change their card PIN, arrange a non-recurring payment order, add minutes to their mobile telephone, activate a payment card, find out the number of their Bonus loyalty programme points, save and retrieve successful payment orders (the "My payments" service in the Personal menu) and check payment card limits.

Deposit ATMs are another new addition to the Česká spořitelna ATM network. Aside from standard services, these allow clients to make cash deposits to accounts with Česká spořitelna as well as other Czech banks. The Bank had 6 deposit ATMs in operation at the 2009 year end.

ČS ATM network withdrawals



Cash withdrawals in the Česká spořitelna ATM network totalled CZK 305.2 billion in 2009, which is virtually the same as in the preceding year, while the number of withdrawals increased by 1% to 88.8 million.

Internet payment card transactions (e-commerce) processed by Česká spořitelna increased in number in 2009 by 59% to 876 thousand and a volume of CZK 1.1 billion.

More than a year's **experience selling the Cool Card has confirmed that clients prefer** the option of creating a **financial product tailored to their needs** and only paying for those services they actually want. Cool Card holders not only get to choose the card's appearance from more than 100 available designs or to make their own design, but can also select from up to ten optional services. In 2009, the Bank introduced a regional Cool Card that has a characteristic design for each region and enables card holders to make advantageous purchases at local vendors. The Česká spořitelna **Cool Card** is gradually replacing previously issued private credit cards and **becoming** a client **favourite for making more advantageous purchases**, a fact illustrated by the more than a quarter of a million cards that have been issued. Cool Card holders have been most pleased with the free use of the card, advantageous Bonus programme, the Sphere discount programme and the Penzijní fond České spořitelny bonus contribution. **The Cool Card was awarded 2nd place** in the card category of the Zlatá koruna competition. In all, Česká spořitelna credit cards were in use by more than 476 thousand clients at the end of 2009.

In mid-2009, the **Bonus programme celebrated its 6th year of existence**; by year end, it had 537 thousand members, of which 125 thousand have the Česká spořitelna Cool Card, allowing them – among other benefits – to collect bonus points more quickly. There is no question of the Bonus programme's attractiveness, especially given the 266 thousand bonuses that were ordered last year.

Additional Products and Services

It is because **Česká spořitelna strongly emphasises comprehensive solutions to the financial needs of clients** that the Bank's network is being expanded to include the sale of additional products and services, in particular by working with the Kooperativa and Pojišťovna ČS insurance companies to sell insurance products such as life insurance, property insurance, payment protection insurance for loan products, travel insurance, regular expense insurance, legal protection for the Private Account and others.

It became clear in 2009 that **clients are impressed by payment protection insurance** and the other complementary products being offered, which is borne out by the high rate of purchased loan insurance that has remained stable at around 70%. In response to the current economy, payment protection insurance, which includes a kind of job loss insurance, has become even more popular.

In January 2009, the share of this insurance was 20%; by the year end, it had increased to 50%.

For clients who have purchased **job loss insurance** and actually lose their jobs, the Bank has created the new "Job Care" service, offering them help in this difficult situation. Clients may take part in a programme that provides them, through a personnel agency, with one-on-one assistance and help preparing a resume, motivation letter and more. The client may also work with a co-operating employment agency to find a job using its postings. The personnel agency has offices throughout the Czech Republic, making this service readily accessible to clients.

Commercial and Corporate Clientele, Public and Non-profit Sector

Commercial and corporate clientele comprise yet another important market segment to which the Česká spořitelna Financial Group devotes careful attention. The Financial Group's range of offerings includes traditional products for account administration and loan provision, special projects focussing on investment loans, export, capital participation, leasing, factoring, real estate financing, syndicated loans and more. The Bank is a great help to commercial clients wishing to use guarantee funds or subsidies from EU funds.

The quality of the services and products that Česká spořitelna offers to commercial and corporate clientele is illustrated by the excellent **second place finish of the Bank's commercial banking practice** based on an evaluation performed by finance directors from the most prominent firms in the Czech Republic in the prestigious **MasterCard Commercial Bank of the Year** competition that evaluates banks with the best products for corporate clientele.

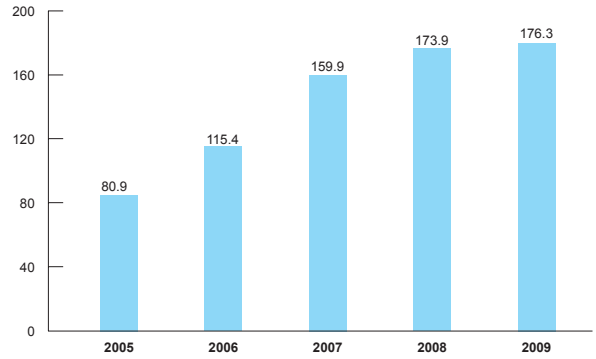
Real Estate Financing

Despite the problems caused by the considerable decline in real estate market activity throughout 2009, Česká spořitelna ranks among those banks that are most active in real estate financing, real estate investment and mortgage transactions and is one of the best banks in terms of overall individual, commercial and municipal mortgages provided on the Czech market.

The aggregate balance of the Česká spořitelna mortgage portfolio, comprising mortgages to individuals, business entities and municipalities, is CZK 176.3 billion after having increased by 1% year-on-year. **Since 2001, Česká spořitelna has continuously maintained its position as the Czech Republic's largest mortgage bank.**

The main task in real estate project financing in 2009 was to sustain the quality of the residential and commercial real estate mortgage portfolio. This meant not only carefully selecting new projects for financing, but also extending greater support for developers and investors in adapting to the new conditions. The resultant qualitative parameters for 2009 confirmed that the Bank hit the mark when formulating its long-term approach to real estate financing.

Total mortgage loan portfolio in CZK billion



Česká spořitelna completed the development of its specialised **Developer centre network**, which provides real estate project financing and comprehensive services for real estate clients in eight cities throughout the Czech Republic. Amid the difficult conditions that prevailed in 2009, these **Developer centres**, proved themselves **to be** an effective and **viable concept based on local market knowledge and a personalised approach** to clients directly in their respective regions. The centres garnered high praise from clients and the network as a whole greatly exceeded expectations.

In 2009, Česká spořitelna provided business entities with CZK 5.0 billion in new mortgage loans. Compared to 2008, the portfolio of mortgage loans provided to business and municipal entities reported a slight increase; at 31 December 2009, the portfolio totalled CZK 52.7 billion in value. **The portfolio has long been of excellent quality.**

The priority in real estate funds and investments was to maintain the quality of assets placed in real estate funds. REICO investiční společnost ČS is the exclusive manager of ČS nemovitostní fond, the nation's largest open-end real estate fund enabling retail clients to invest in real estate.

The Bank also held onto its share in real estate investment funds for the institutional investors CEE Property Development Portfolio and Czech & Slovak Property Fund. Both funds are concentrated in the Czech and Slovak markets and are closed-end funds. The managers of these funds are major real estate groups operating in central Europe. The Bank also invests in closed-end real estate funds – The Endurance Fund, Discovery Group Fund – and has partnered with the company Office Center Stodůlky. **The planned investment cycle of these funds is sufficiently long to overcome the current temporary market decline.**

The Bank also engages in non-commercial real estate market activities and continues to be a general partner of the Real Estate Market Development Association – a prestigious organisation for real estate professionals, CEDEm – the most significant central Eu-

ropean real estate market conference, and the Best of Real Estate competition, which recognises and rewards the Czech Republic's best development projects. The Bank is also a long-term partner of the Czech Architecture yearbook. In 2009, another of the Bank's activities was its partnership in the Building Forum in which some of its own experts took part.

Small Businesses and Entrepreneurs

In the client segment comprising commercial clientele with turnover of up to CZK 30 million, Česká spořitelna provided more than 25 thousand new loans totalling CZK 10.1 billion in 2009. In total, the Bank administers nearly 43 thousand loans with a portfolio balance of CZK 21.5 billion, representing a substantial year-on-year increase of 14%.

The integrated menu of services **in the Profit and Profit Light programmes is** primarily **targeted at entrepreneurs and small and micro businesses**. While the Profit Programme is based on a modular approach, where clients choose the services that best fit their needs, the Profit Light Programme is a package based on a robust price advantage for a fixed set of products and services. The number of Profit and Profit Light programmes increased by a significant 20% over the last year to more than 65 thousand. Clients had a total of CZK 13.7 billion deposited in current accounts associated with the Profit and Profit Light programmes at the 2009 year end, which is a 12% increase. The proportion of entrepreneurs and firms using debit cards and direct banking services grew significantly.

Entrepreneurs and micro firms have a broad range of standard products and services available to them, including loans in the Mini Profit series (the Mini Profit overdraft account and Mini Profit term loan) and 5 Plus series loans (the 5 Plus investment loan, 5 Plus operating loan, 5 Plus American mortgage), which are simple, fast and readily available.

Small and Medium-sized Enterprises

A sales network comprising 15 commercial centres located in every region of the Czech Republic is available to small and medium-sized enterprises (SME) with annual turnover between CZK 30 million and CZK 1 billion. **Commercial centres provide these enterprises with the comprehensive services of the entire Česká spořitelna Financial Group.**

In terms of all products in the aggregate, in 2009 Česká spořitelna provided small and medium sized enterprises with new loans totalling CZK 23.5 billion. The total loan portfolio increased by 3% year-on-year to CZK 57.7 billion.

In 2009, the **TOP Podnik programme fulfilled its aims**, i. e. to allocate at least CZK 1.5 billion to small and medium-sized enterprises in the form of interest support. For this reason, the programme was brought to an end. A total of 812 projects were financed via the programme and loans totalling CZK 14.5 billion were provided.

Carrying on the tradition of offering advantageous investment loans, Česká spořitelna launched the **TOP Podnik II** programme, which provides investment loans with a 5 or 7 year maturity and an embedded option derivative, enabling an interest rate ceiling to be fixed at a defined value. Clients can thus utilise the benefits of a variable interest rate while being sure that the final interest rate will not exceed a pre-set level.

Since the Czech Republic's accession to the European Union, Česká spořitelna has offered programmes designed to help clients who are implementing projects supported by EU structural funds – the **EU programme business** for entrepreneurs and companies and the **EU region programme** for cities, municipalities and non-profit organisations. **Both programmes offer comprehensive services** connected with the preparation of subsidy applications and related services such as subsidy management, i. e. monitoring the performance of all obligations arising from subsidy contracts between the client and the subsidy-granting agency. These services are offered by the subsidiary GRANTIKA ČS.

Česká spořitelna is continuing its multiyear **co-operation with the European Investment Bank (EIB)**, which is focused on supporting small and medium sized enterprises and financing the needs of the public and non-profit sectors. Specific activities are the "global loan" and the involvement of Česká spořitelna in the associated European Commission Municipal Infrastructure Facility grant programme. In 2009, **Česká spořitelna was allocated some EUR 400 million of the global loan**. In all, the EIB confirmed financing for 357 projects **for small and medium sized enterprises and municipalities** from the programme's launch through the 2009 year end. Given the success and interest this type of financing has garnered, preparations are underway for its continuation in the coming years.

The **TOP Energy Programme**, developed based on successful co-operation with the IFC (International Finance Corporation), funds energy projects via the **Finesa** programme. It also offers comprehensive advisory support for project preparation, subsidy application drafting and more. Česká spořitelna applies knowledge management principles when creating project know-how and concentrates this information in a single location accessible to all employees who need it.

In 2009, Česká spořitelna continued its support of investment in the production of **renewable energy sources**, financing more than 70 projects for the construction of photovoltaic power plants, biogas stations, wind power plants and small hydro-electric power plants in an aggregate amount exceeding CZK 6.0 billion. Česká spořitelna is first among Czech banks in this area.

Česká spořitelna is continuing to develop the product **@FAKTURA 24**, and was the first bank on the Czech market to offer invoice issuers the option of sending e-invoices via the SERVIS 24 online banking application. The billing process was connected to the payment process based on an automatically generated one-time pay-

ment order. **At the 2009 year end, the Bank has registered more than 20 thousand users** who had activated the e-invoice service. Česká spořitelna is still the only bank that offers a solution based on the consolidation principle, and the only bank that additionally offers the possibility of exchanging documents, especially e-invoices, between enterprises. **Electronic billing affords** companies **the benefit of secure** electronic **invoice transmission and** appreciable **savings** of time and **expense**.

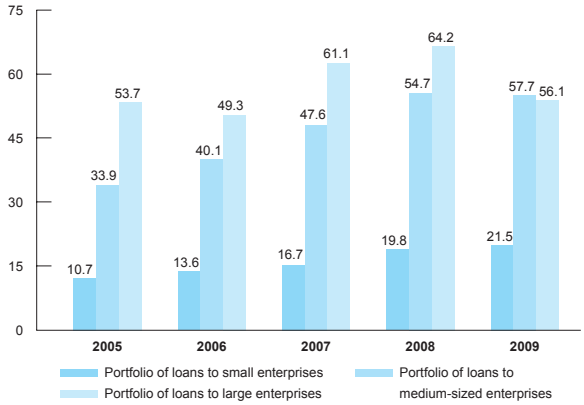
The Česká spořitelna contact and information centre **German Desk** is for German companies or German speaking representatives of companies from other countries. Activities designed to support foreign investors in the Czech Republic were further expanded to include support for Czech firms undertaking foreign expansion. The **International Desk** now provides support to Česká spořitelna clients in countries in which the Erste Group Bank owns subsidiaries, enabling clients to set up selected products of affiliate banks remotely without having to travel to the given country.

Corporate Clientele

Although the effects of the worldwide financial crisis were manifest in the results of every company and financial institution in 2009, **the Bank managed to successfully stave off its impacts in the corporate customer segment**. The Bank advanced new loans totalling CZK 11.9 billion; in total loans provided reached CZK 56.1 billion at the 2009 year end.

In 2009, **the market for syndicated loans and club loans** lagged initially, only to **recover appreciably in the second half** of the year. The market more frequently saw smaller club loans or syndicated transactions on a "best effort" basis than large syndications and syndications subscribed in advance by banks. In 2009, Česká spořitelna confirmed its leading position in structured syndicated and club financing among banks operating in the Czech Republic and took part in a majority of the large transactions financed with syndicated or club loans. The volume of syndicated and club loans increased year-on-year by 10%; the number of loans in which Česká spořitelna served as agent increased by 13%.

Corporate loan portfolio in CZK billion



The Bank also continued to develop the **GCIB** (Group Corporate and Investment Banking) **concept**, which expanded geographically to cover commercial and investment banking in all the countries in which Erste Group Bank operates.

Services for the Public and Non-profit Sector

Banking transactions conducted by Česká spořitelna with public and non-profit sector clients achieved record values in 2009. **The leading position held by Česká spořitelna** among Czech banks **in the public and non-profit sector segment was confirmed by the excellent results** in both passive and active transactions, especially with treasury products and other financial market transactions. In comparison to 2008 the volume of deposits, despite the economic recession and its impact on public budgets, increased by some 3% to more than CZK 82.0 billion. Loan volume increased by 21% to nearly CZK 22.0 billion.

Česká spořitelna played a major role in financing public projects co-funded by European funds in the areas of transportation infrastructure, water management, public healthcare, civic amenities (including recreation) and more. As a factor favourably affecting quality of life and having a positive impact on the growth of GDP, productivity and national wealth, **public infrastructure financing** continues to be a key component of the Česká spořitelna strategy.

In 2009, **Česká spořitelna** also **strengthened its partnership with non-profit sector clients**, primarily its collaboration with housing co-operatives and apartment owner associations. Financing for these clients predominantly involved loan transactions to fund the modernisation and repair of apartment buildings and make them more energy efficient. This relates to the **active involvement of Česká spořitelna in the new** State Environment Fund **Green Savings programme**. Česká spořitelna is also a long-time partner of other non-profit organisations such as civic associations, foundations, endowment funds, semi-budgetary organisations and professional chambers. The Bank's business undertakings in this area are complemented by the work of the **Česká spořitelna Foundation**.

A team of public and non-profit sector specialists operating throughout the Czech Republic **provides** clients **with qualified financial and advisory services**, including help drafting documentation to receive Czech and EU subsidies. Team members work together with their colleagues from the Česká spořitelna subsidiary **GRANTIKA ČS**, which **offers clients comprehensive subsidy and project advisory** throughout the project implementation life cycle. The combination of specialised advisory and customised financing helps clients successfully execute their projects.

PPP Project Advisory Department specialists assist the government, regions and municipalities prepare **Public Private Partnership** projects. As a founding member of the PPP Association, Česká spořitelna advocates for the increased use of public private partnerships in the Czech Republic. The team of PPP experts chiefly prepares projects in healthcare, justice, public administration and transportation infrastructure.

Financial Markets

The year 2009 may be characterised as one in which the impacts of the financial crisis were somewhat mitigated. Owing to the unprecedented co-ordination of rescue and stimulus measures in the USA, European Union, Russia, China and other countries, which opted to travel an untested path toward addressing the financial crisis by flooding the world economy with liquidity, the financial markets were stabilised. Stock market developments in 2009 showed that these measures fostered a greater sense of security among investors and renewed their willingness to invest in risky assets. Indeed, 2009 proved to be an extraordinarily successful year from the point of view of investing and interest in investment products.

Despite marked financial markets volatility and the increased lack of confidence exhibited, in particular, by retail investors, **Česká spořitelna confirmed its position as an important bank and key player on capital markets** in the Czech Republic as well as the central and eastern European region. In investment banking, Česká spořitelna provides specialised and highly effective acquisitions advisory services and advice for issuers preparing for share and bond offerings, and will even handle the actual share or bond offering for the client. The Bank also offers and provides services and advice to small and institutional investors interested in investing in securities, open-end mutual funds or other capital market instruments in Czech or foreign currencies. Moreover, clients have access to information from **Česká spořitelna's EU Office** and other reports and analyses prepared by the Bank's chief economist department.

Sale of Financial Markets Products to Corporate Clients

The economically difficult year had a significant impact on the export and import opportunities of corporate clients and on the **structure of financial market products sold**. The precipitous drop in Česká spořitelna client orders meant a reduced offering of the Bank's once traditional currency and commodity hedging products. On the other hand, **historically low interest rates** combined with the increasing indebtedness of companies **led to a significant increase in the offering of interest rate hedge instruments**. There was an increased demand for electricity hedging, which led to the development and introduction of products that clients could use to manage their energy costs.

The volatile environment places stringent demands on hedging policy at many corporations, and **Česká spořitelna, due to its high quality analytical knowledge base, can provide** not only reliable execution, but also the documentation and related **advice necessary for responsible decision-making** when it comes to optimal hedging strategy and timing. Česká spořitelna's long-term strategy, focussed on offering a wide range of well priced, customised products, has proven itself over time and, despite difficult economic conditions, has generated a slight increase in transaction volume and assured customer satisfaction with the provided services.

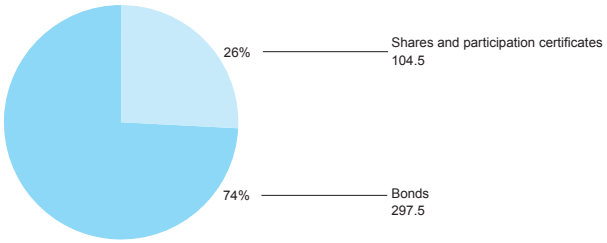
Capital Markets

Stock markets have also been subject to extreme volatility and falling volumes, with share transactions on the Prague Stock Exchange dropping sharply by 46% to CZK 463.9 billion. The main index of the Prague Stock Exchange saw more than 5 years of profits wiped out in the first two months of 2009, starting the year at 858.2 points and dropping to 628.5 points by the end of February. Despite continued dramatic sell-offs in the first quarter of 2009, the year ended up at 1,117.3 points, for year-on-year growth of 30% and of 78% from the February low.

Although the stock markets did not favour primary offerings in 2009, **Česká spořitelna played a successful role in the placement of an Erste Group Bank capital increase** totalling EUR 1.7 billion. Despite the sharp declines and high volatility of international financial markets, in the first quarter of 2009 **Česká spořitelna** continued its successes of previous years and further **strengthened its dominant position** as a key player **on the regional capital market**. This is due, in particular, to an exceptional trading model combining deep analytical know-how, transaction structuring and timing, distribution ability to institutional and retail customers and services pertaining to the period just after a product's market introduction and during secondary market trading.

Bond trading on the Czech capital market was not exempt from the high market volatility and uncertainty in 2009. Structured products and new issues virtually disappeared, and only Czech government bonds were traded in the first quarter of 2009. Still, **Česká spořitelna once again maintained its position** as the largest government bond trader and **primary dealer** and was one of only a few banks capable of trading government bonds during the culminating crisis and drop in market liquidity.

Volume of Prague Stock Exchange transactions in 2009 in CZK billion



With the largest share of total Prague Stock Exchange trading volume, Česká spořitelna was once again a key figure on the capital markets this year. The Bank executed transactions totalling CZK 402.0 billion in 2009, making it first in trading volume.

Initial Share Offerings

The volume and number of initial share offerings in the Czech Repub-

lic was impacted by the global financial and credit crisis. However, **Česká spořitelna** defended its solid position on the market for initial bond offerings, **participating in the prevailing majority of significant transactions** in the Czech Republic, whether executed by Česká spořitelna directly or via transactions arranged by Erste Group Bank. Major achievements in 2009 included the creation of a head co-manager position responsible for international offerings of Czech Republic bonds of EUR 1.5 billion as well as a head co-manager position for two benchmark offerings of ČEZ Eurobonds, each for EUR 0.6 billion, and a ČEZ crown offering totalling CZK 3.0 billion.

Financial Institutions

In 2009, Česká spořitelna strengthened its leading position as a provider of value added services to financial institutions. Česká spořitelna understands cash management as the anchor for the more specialised products that banks, insurance companies, investment firms, pension funds and other financial institutions require. **The number of clients/international banks using cash management services in 2009 grew by more than 15%.** Compared to the 2008 year end, the Bank reported a significant increase in the number of non-bank financial institutions. This is connected with growth in the volume of monies managed by and deposited with Česká spořitelna.

In 2009, Česká spořitelna continued improving conditions for foreign banks in standard currencies, increasing the scope of less common currencies and strengthening custody services in order to afford a wider range of investment opportunities for clients. The volume of funds in the Bank's custody held steady for most of 2009, finally reporting a 26% year-on-year increase in the fourth quarter.

Assets Management for Institutional Clients

Česká spořitelna manages more than CZK 65.0 billion in assets for institutional investors, including financial institutions such as pension funds, life and non-life insurers and health insurers, the foundation sector, government organisations, municipalities and large enterprises. **In terms of assets managed for non-group clients, Česká spořitelna is the clear market leader** with a market share of more than 48%. Managed assets increased in volume by nearly 17% in 2009.

In 2009, the Bank offered a number of innovations to institutional investors. These included the creation of a special fund to manage client liquidity reserves (ISČS Likviditní fond), the further fine-tuning of the system for selecting medium-term investment strategies and new reporting system functions.

In 2009, the Bank was also a mutual fund investment advisor for some mutual funds managed by fellow subsidiary Erste Sparinvest in Austria. These funds, which have attained a volume exceeding CZK 3.5 billion, are intended for Czech crown investments and thus cater to the requirements of local Czech investors.

Depositary

In 2009, Česká spořitelna also maintained a strong position in the provision of depositary services to investment companies and their mutual funds, investment funds and pension funds. In the course of the year, 7 new funds were added and 4 funds were dissolved by merger. At the end of 2009, the Bank was providing these services to a total of 40 funds, primarily the open-end mutual funds of Investiční společnost České spořitelny. These managed assets reached a volume in excess of 88.3 billion for 8% year-on-year growth.

Erste Private Banking

Česká spořitelna Erste Private Banking (EPB) is in its third year of offering services to selected Česká spořitelna clients whose financial assets exceed CZK 5 million. **In 2009, Erste Private Banking reported a dynamic increase in the number of clients** opting to valorise their assets through the private banking services of Česká spořitelna. Thus, in an environment of uncertainty and slow global economic recovery, a number of high net worth clients welcomed the possibility of having their assets managed by a bank known for its stability and reliability.

In 2009, EPB clients preferred conservative investment solutions based on instruments with a guaranteed principal or fixed interest-rate products. Some clients gradually abandoned more conservative instruments for riskier ones, such as shares or commodities, in the latter half of 2009.

Products that clients preferred in 2009 included new government and corporate bond offerings, mortgage certificates, special structured bonds or premium deposits. Clients enjoyed success subscribing subordinated bonds issued by Česká spořitelna or the Erste Group Bank participation capital offering. **In the course of the year, numerous clients opted to invest in special private banking vehicles (AR funds)** and take part in the gradual capital markets recovery. More experienced investors went with share funds or direct purchases of share positions.

Česká spořitelna brought its private banking **services to more regions**, i. e. Pardubice / Hradec Králové, České Budějovice and Liberec. Private banking services are now available in ten regions in the Czech Republic. The Bank also expanded its private banking team and offered interesting opportunities to existing clients to get to know the team at sporting and cultural events.

When it comes to investment products, Česká spořitelna has long focused on its clients' needs. To this end, an investment training system was adopted in 2009. **Advisors in all sales positions underwent in-house certification** to acquire the requisite investment knowledge. This certification meets the requirements of the Capital Markets Act and the CNB regulation on the provision of services in the field of investment products. Česká spořitelna emphasises high quality, easy-to-understand solutions and their benefit for the client.

Distribution Channels

Branch Network

With its 660 branches, Česká spořitelna is one of the Czech Republic's largest banking networks offering good regional coverage and

easy accessibility for all its clients. **The branch network continues to be the basic executive component of the Bank's multi-channel sales model.** The branch network provides a broad and comprehensive menu of Česká spořitelna Financial Group services and products to private clients, small and medium-sized enterprises and individual entrepreneurs. The Bank's specialised advisory services respond to the needs of municipalities and offers solutions for both corporate and private financial needs of independent professional clients.

Česká spořitelna has introduced a **new sales process** in its branch network whose **advisory-based philosophy** affords clients a broad overview of their financial position and enables them to choose the solution that best suits their needs. This new process also helps strengthen and advance those phases of the sales dialogue that lead to successful transaction execution. **Sales standards** are part of the sales process. These fulfil the Česká spořitelna vision and mission, express the procedures that the client can reliably expect in the sales dialogue and **guarantee the right client solution is found** and that the client enjoys a greater degree of satisfaction. The sales standards are complemented in the customer service process by the quality standards already in place. **The new** standardised **sales process** is a response to the current financial market situation and to the **long-term expectations of clients** who require their bank to advise them and address their priorities.

To optimise regional branch network coverage, **14 new branches were opened** in 2009 and another 18 were moved to locations that are more attractive to clients given their contemporary lifestyle, i. e. primarily to shopping malls or new residential districts. Almost 50 branches throughout the Czech Republic, in large and small towns alike, have been modernised or extensively renovated.

All of the newly opened, relocated or modernised branches have been created based on a new concept. **Clients will find open-area advisory centres**, air-conditioned, glassed-in areas that are decorated in appealing colours and have self-service zones. New information tools have been installed in waiting areas: plasma screens provide clients with important information and reports and a call system better organises client service. Branch visits have also been made more appealing with children's play areas, magazines and drinking water.

Take-a-number ticket dispensers were modernised at 130 of the most high profile branches with installed call systems, and now include a touch screen enabling priority service for the handicapped or those with children. The machines also give estimated wait times for individual services and their buttons now come in four language options. For better customer orientation and branch visibility, exterior navigation was installed for a further 55 branches, bringing the total number to 105.

Branch operating hours reflected client needs at a given location. Operating hours have increased overall by some 700 hours year-on-year. **Weekend hours have been introduced at 19 branches**, mainly supermarket locations. The number of branches open on weekends will continue to rise.

The Bank equipped 26 of the largest branches with induction loop hearing systems that enable clients who use hearing aids to communicate more easily by directing speech into earphones and suppressing ambient noise.

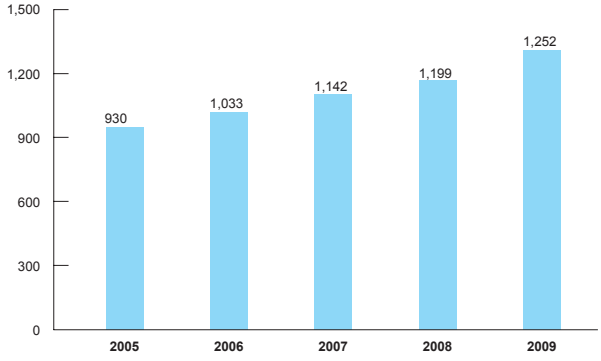
Direct Banking

Česká spořitelna **is continuing its rapid development of direct banking**; the number of clients using on-line services grew by 10% to 1.3 million. The **greatest interest has been shown in SERVIS 24 internet banking**, which is already being used by more than a million clients. Direct banking is used for 80% of transactions with the remaining 20% comprising traditional in-branch transactions. In absolute numbers, this represents 73 million on-line financial operations. Interest in telephone services continues: **the Client centre in Prostějov handled 4.5 million client calls**. Nearly half of the clients obtained information or conducted transactions using the automatic call system and the other half used the more personal telephone banker service.

Česká spořitelna introduced a number of innovations and new functions to direct banking services. The most significant of these are **e-invoice and SMS information**. Twenty thousand clients activated the service that sends electricity and gas bills directly to SERVIS 24 internet banking. Firms collaborating on e-invoicing include ČEZ, EON and RWE. SMS information, i. e. instant messaging about account changes such as when clients make or receive large payments, has become the most popular new service. Clients received approximately 120 million such messages in 2009.

Login SMS messages have been introduced to increase internet banking security. Clients can now opt for login for the SERVIS 24 Internet banking and BUSINESS 24 services. **Login SMS message security is enhanced** thanks to the client's ability to use a mobile phone. Other innovations include the option of setting up a tailored information service from the Bank, getting

Number of active SERVIS 24 and BUSINESS 24 clients in thousands



Note: Clients using multiple SERVIS 24 channels are only counted once.

a pre-approved Česká spořitelna Cool Card without having to visit a branch or the ability to download card account e-statements free of charge and check Smart savings account balances on-line. **Česká spořitelna** also **upgraded to a more robust type of client security certificate** for the SERVIS 24 Internet banking and BUSINESS 24 services.

Since 2008, **the on-line sale of products and services** has been a direct banking priority. While 109 thousand products were sold over the internet or by telephone in 2008, just one year later this figure was 267 thousand. Personal loans have garnered the most interest. Clients borrowed CZK 1.4 billion without ever having to visit a branch. In 2009, ATMs were modified to allow on-line sales, making Česká spořitelna the only bank in the Czech Republic employing its ATMs to offer services such as the possibility of arranging and using an overdraft facility. Clients just press a few buttons to request a withdrawal and receive their money in minutes.

Direct banking services are also used by companies of all sizes and in all sectors. As part of the development of services for its corporate clientele, in 2009 Česká spořitelna focused on modifying security elements with the aim of increasing compatibility and enabling simplification of the use and management of these elements. Another significant development was the implementation of the legislative changes arising from the New Payment Act. The Bank also successfully completed the **implementation of the BUSINESS 24 Databanking** service into the **Pohoda** economic and information system, which allows more clients to use selected BUSINESS 24 internet banking functions directly from their own accounting systems.

The Bank recorded more than 3 thousand clients using the **MultiCash** service at the 2009 year end, in particular large international enterprises that carried out more than 12 million domestic payment system transactions through this direct banking system (at a total volume of nearly CZK 1,000 billion) and 124 thousand foreign payment system transactions. Some 7.8 million domestic payment system transactions were carried out via the BUSINESS 24 Internet banking application for small and medium sized enterprises in 2009 at a total volume of CZK 554 billion, as were more than 28 thousand foreign payment system transactions. In 2009, the **Bank reported a 15% year-on-year increase in the number of clients using the BUSINESS 24 service**; this service was available to more than 11 thousand clients at the 2009 year end.

External Sales and Co-operation

External sales represent an integral part of the Česká spořitelna Financial Group distribution model. Through external partners, the Bank provides products and services of the Financial Group and strategic partner Vienna Insurance Group to clients who prefer to be served outside the branch network, thus complementing the branch network service offering.

An important event in the transformation of the entire **external network of** Česká spořitelna was the establishment of a **new subsidiary PARTNER České spořitelny**, which manages external sales via external partners/individuals who work exclusively for the ČS Financial Group. PARTNER ČS had more than 1,100 working partners at the 2009 year end.

In 2009, the Bank carried out further steps to implement the external sales strategy for the years 2009 through 2011. The strategy's aim is to build a long-term commercial relationship with external partners who, together with Česká spořitelna, are interested in quality client service and professionalism, whether in the exclusive PARTNER ČS network or selected prominent financial advisory companies on the Czech market.

Non-commercial Activities

People

The Bank's employees are its most important resource in determining the Bank's direction and ensuring its success in this highly competitive environment. **Employees are in direct contact with clients and therefore have the greatest impact on client satisfaction.** Česká spořitelna considers employees that are qualified, high-quality, satisfied, professional and always motivated to perform to the best of their abilities as its competitive advantage. It thus offers its staff fair employment conditions, a friendly workplace and educational opportunities.

The foundation of Česká spořitelna employee education and development is a comprehensive education system comprising in-house and outsourced courses, workshops, seminars and a wide range of e-courses. **In 2009, education focused on employee development in compliance with the** Česká spořitelna **2009 competency model**, talent management, developing management skills and increasing education effectiveness.

Employees could choose from an offering of nearly 60 personal development courses in the catalogue of external courses. Topics included teamwork, self-assessment, stress management and business skills. The course offerings included diversity training.

The Bank takes a systematic approach to talent management. A **comprehensive development and career growth programme for high-potential employees** was launched in 2009 at both Česká spořitelna and Erste Group Bank. Additional long-term development programmes were carried out for key risk management and financial management division employees as well as for general management throughout the branch network, where emphasis is placed on developing managerial skills.

Once again this year, Česká spořitelna provided its employees with language training in group and private lessons, while the number of intensive resident language courses both at home and abroad increased.

Preparations were made to launch the EDU portal, a universal e-training education management application. A number of new topics were made into electronic courses. In all, 52 thousand elec-

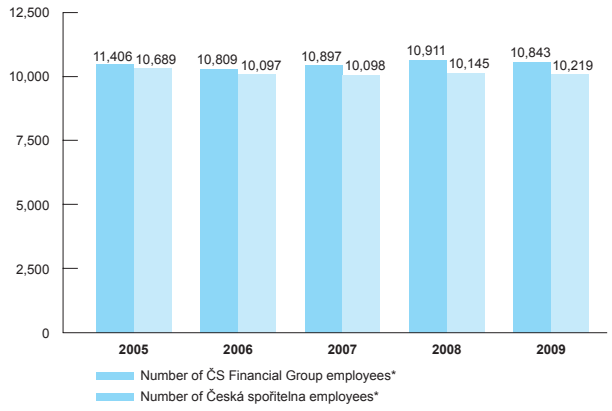
tronic courses were conducted in 2009 and more than 95 thousand electronic tests were administered.

The catalogue of in-house courses offered more than 90 course topics and had 40 thousand participants. In-house training was expanded to include mentoring, with more experienced staff **helping their new colleagues adapt socially and professionally.** Owing to this new hire mentoring system, in one year new hire turnover dropped by 2 percentage points to 3%.

The Bank also continued its activity designed to support inter-departmental co-operation and communication, developing partnerships between the headquarters and branch network and conducting a series of successful Get To Know the Bank seminars that introduce employees to the work done by other departments.

The average employee headcount for the entire Financial Group **dropped slightly** to 10,843. Almost 24% of the parent bank's employees are university educated. More than 26% of employees are men and the average employee age dropped slightly to 39.1. Some 45% of employees have been with Česká spořitelna for at least 10 years, which represents a drop by 3 percentage points compared to 2008.

Number of employes



* Average adjusted figure including employees of other Erste Group companies ("expats").

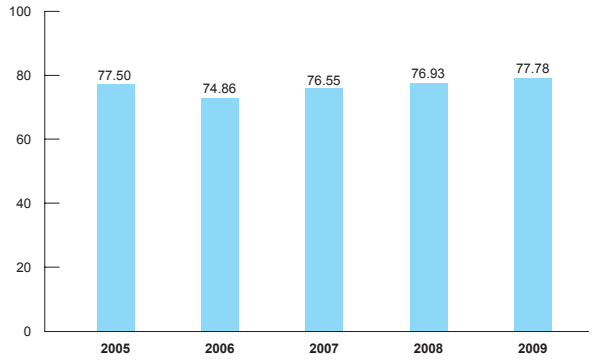
The aggregate average pay of parent bank employees, including company performance-based bonuses, amounted to CZK 44,451 in 2009, which is essentially unchanged from 2008.

Service Quality

In 2009, Česká spořitelna emphasised **the human dimension of the Bank's performance**. From the point of view of service quality, this meant making the Bank's strategic goals more transparent, fostering more synergies between headquarters departments and focussing the branch network on improving client satisfaction. The results were seen in the rise in client satisfaction. **Service quality specialists deserve the most credit for the excellent result**. They were present at larger branches, where client satisfaction increased by 3.16 percentage points.

How clients perceive Česká spořitelna services was ascertained, just as in previous years, by a measurement of client satisfaction expressed in a CSI (Customer Satisfaction Index). **Overall, Česká spořitelna client satisfaction increased compared to 2008.** The greatest gains were seen in the "wait time" and "acting in the client's, and not the Bank's, interest" parameters. Clients also registered an improvement in the "internet banking reliability and security" parameter.

Client satisfaction



CSI index in points, spring-autumn average

For the tenth consecutive year, a team of ombudsmen was available to Česká spořitelna clients through various communication channels. Clients can call the "blue line" at 844 117 118 or e-mail ombudsman@csas.cz, come in for a face-to-face conversation or send letters. Team members resolve client issues in Czech, English and German every business day from 8:30 to 17:00.

The ombudsman team received and resolved some 5 thousand customer submissions in 2009. These included opinions, requests to make changes, complaints, claims, suggestions for improvement, questions and praise. A single submission may comprise a combination of forms and topics. It is in the Bank's interest to record every one of these submissions in order to have a clear idea of specific client wishes.

The Bank made a number of service improvements and system changes in response to client comments. Bank branches are easier to find thanks to added local navigation or GPS, new customer service methods are systematically controlled and adapted to make their use as simple and intuitive as possible, and first-time internet banking clients are now guided in an introductory conversation so their first login goes as smoothly as possible. Topics and answers to client questions were published in the updated handbook How to Borrow Wisely. Regular contributions are also made to Info Plus magazine and the website www.csas.cz.

Branches opened their doors on two occasions not for business as usual, but so clients and potential clients could have a look at what goes on behind the scenes. Clients received basic information on the level of Česká spořitelna's service quality, had an informal look

at how the branch operates, asked about anything that interested them, offered their suggestions to improve services and visited areas that are usually off limits.

Internal client satisfaction remains key to the Bank's ability to provide quality services to its external clients. The quality of the internal services that departments provide to one another is measured semi-annually using the SLI (Service Level Index). **Česká spořitelna continued to improve the quality of its internal services**; the index average for 2009 increased slightly year-on-year from a value of 80.26 to 80.43. A KCI (Key Client Index) was introduced to facilitate further progress and improvement. This index expresses the satisfaction level of selected key internal service customers with the service-providing departments. The KCI average value for 2009 dropped slightly year-on-year from a value of 82.46 to 81.59.

Economic and Strategic Analysis

The Economic and Strategic Analysis Team's responsibilities are divided into three areas. The first is strategic planning and banking sector analysis. These analyses and associated documentation become an integral part of the drafting and review of the Česká spořitelna Financial Group plan. The area of equities analyses was expanded to include one of three sectors: real estate, media and oil and gas. In all, some fifteen companies are subject to analysis. The third area comprises macroeconomic analyses resulting in prognoses of foreign exchange and interest rate developments. The equities and macro groups also offer investment strategy advice to clients.

Analyses are, inter alia, **published on the Bank website** in the analytical reports section and on-line data service **(www.csas.cz/analyza)**. The set of regular analytical reports issued with daily to quarterly frequency in Czech and English now comprises fifteen different products. Analysts and strategists are available to a select group of Česká spořitelna Financial Group clients via in-person or telephone consultation.

EU Office of Česká spořitelna

The Česká spořitelna EU Office continued in its 7th year of monitoring, analysing and reporting on key current events in the European Union for internal and external clients and the general public.

The year 2009 was unique from the perspective of the **EU Office as it played a strong role in fulfilling the practical obligations of the Czech Republic's EU Council presidency** in the first half of the year. EU Office representatives participated in a number of events as lecturers and moderators in the Czech Republic, Brussels and other EU locations.

The EU Office also prepared a series of publications and other conference and congress lectures on the theme of the EU presidency or the fifth anniversary of EU accession. Additionally, a range of one-off information materials, quizzes and competitions was prepared for Financial Group employees providing them with insight into the many complicated matters addressed at the EU level. Erste Group continued development of the EU Affairs Working Group platform, for which the EU Office is the project's main information provider.

Co-operation with Czech regions on the creation of their strategic priorities for the forthcoming EU Cohesion Policy programme period was stepped up and EU Office representatives continued their work on the EuroTeam platform, an independent task force affiliated with the European Commission.

Project Management

Česká spořitelna successfully implements its strategic goals through project management. Individual projects have as their primary goals to enhance services and increase client satisfaction, create greater process efficiency and develop support activities within Erste Group.

The Legacy Enhancement project is just one of the Bank's projects focussing on client benefits. New products such as Smart Savings and the Private Account Junior have been introduced as part of this project. The **CIC project** implemented changes in the SERVIS 24 and BUSINESS 24 applications, which, among other things, enhanced the security of internet banking SMS login and upgraded the PKI security certificate. The **Consumer Lending Factory** project launched a new ATM service that offers clients the option of opening an overdraft facility on the spot. In November 2009, Česká spořitelna voluntarily pledged to enable easy client transfers from one bank to another including simple transfers of standing payment orders and approvals. The **Client Mobility** project brought more changes to banking processes. In December 2009, the **Wealth Creation** project implemented the new Personal Financial Plan application, which helps investment advisors serve their high net worth clients by facilitating and improving the quality of their business discussions with them.

One major **project aimed at increasing process efficiency** is the Partner24 Application Restructuring project, which successfully launched a new version of the Partner24 application. The system assures secure Česká spořitelna communication with outside parties; the project outputs also yield savings in the implementation costs of further module and communication channel development. This was confirmed in the further development of the **Partner24 Platform Development** project platform, which prepared the new Employer portal module to manage contributions in accordance with Penzijní fond ČS requirements. Its double aim is to assure effective communication with the employer and simplify administrative work. The universality of the Partner24 platform and possibility of parallel development was demonstrated by the concurrent development of a third **Real Estate Valuators** project module serving for communication with external real estate appraisers performing expert activities relevant to the Financial Group. These applications have made the mortgage provision process more effective and reduced loan risk.

In 2009, the **Housing Operations** project completed the process of scanning and taking documentation on secured loans to a central

location in Hradec Králové. The **Learning Management System** project launched a trial run of the EDU portal education application. A new office for the centralised processing of current receivables was opened in Ostrava as part of the **Early Collection** project. Since the office went into operation, receivable collection has become more effective, thereby reducing the need for provisioning, covering a greater portion of the debt portfolio and increasing recovered amounts. The **Succession programme** reported several successes: in October, the centralisation of universal accounting office processes was completed and in November adjustments were made in compliance with the new Payment Act that transposes the European Parliament's Payment Services Directive.

No less importantly, the Bank is working on projects of **benefit to the entire Erste Group**. The long-term goal of the project for **Data Centre Relocation (DCT)** to Vienna is to optimise Česká spořitelna IT infrastructure operation and establish conditions for further synergies at the Erste Group level. **The Proof of Concept project** successfully moved the CRM and DWH applications to the data centre in Vienna, while the Tuxedo system was expanded in that location. The **AIX project** ensured relocated the Starbank, CSCAN and Swift applications to the new location. Another DCT programme project was the **Mainframe project** to transfer the Mainframe platform to the new environment. Aside from basic infrastructure services such as data back-up and archiving, other business applications such as Giro account, Passbook and Payment and clearance system were also moved in this phase.

The **Enterprise Service Bus** project is yet another example of successful co-operation within Erste Group. Thanks to the support of Česká spořitelna, a new integration platform for data exchange between individual applications was launched at Erste Bank Ukraine.

Information Technology (IT)

The primary objective in IT was **to actively support all the Bank's key development plans** enabling further development of a flexible and stable IT environment to facilitate implementation of the Bank's business strategy while **optimising investment and operating expenses**. This environment supports the implementation of legislative requirements, internal changes and key strategic projects of Erste Group.

Key new functions successfully implemented in product systems included: Wealth Creation, legislative requirements for payment system transactions and the further development and implementation of key business requirements for the Private Account Junior, Smart savings, on-line payment card fraud prevention in the TP2 system, corporate multi-purpose loans, and the sale of Cool Cards through SERVIS 24 internet banking. The on-line fraud detection system was upgraded. All the new functions were rolled out in tandem with ongoing technological changes such as the upgrading of mainframe computer application compilers and the ZMERI change management system.

With IT cost optimisation as the goal, several systems **were centralised in Erste Group computer centres**: CRM/DWH operations, mainframe computer applications (e. g. Giro account, Passbooks etc.) and Starbank (current accounts, loans). Several other suitable systems were subsequently chosen and are now being readied for centralisation, e. g. Symbols (system of corporate clients) and DON (capital market). All other systems were successfully transferred to the new, state of the art Česká spořitelna computing centre in Prague.

The **Customer Data Hub** project was prepared with the aim of improving and simplifying the process of updating client data in all Bank systems. The first phase of this project covering the Bank's main systems will be launched in spring 2010.

Key changes in functions of alternative distribution channels covering internet banking products include **upgrading SERVIS 24 and BUSINESS 24 internet banking login security** when using the login SMS, simplifying PIN changes for PKI cards to be newly sent out by mail, Wealth Creation and legislative changes, loan monitoring, the provision of an overdraft via ATMs, the e-box, a new external vendor module (EPAK) and a map of Bank branches published on the extranet. A hardware upgrade was started in the interest of further increasing the robustness and stability of alternative distribution channel systems.

The year 2009 saw the launch of the pilot **project Solution Management representing a new trend in IT management and organisation**. The project establishes the accountability rules for IT solutions delivery and IT operations in one place. In 2010, it is expected these rules will be applied in all IT areas that enable the optimisation of IT service quality and cost.

IT process centralisation is ongoing throughout Erste Group with the aim of further optimising IT costs by creating a single unified IT platform effectively supporting the stated Erste Group business objectives.

Security Policy

Česká spořitelna attaches a great deal of importance to its security policy. The Bank operates an independent security department charged with overseeing the investigation of operational risks and maintaining IT and physical security. **Bank operations** are chiefly **focussed on preventing all adverse events** and inappropriate conduct **that jeopardises the security of clients**, employees or the assets of ČS Financial Group companies.

The Česká spořitelna security policy oversees the mitigation of operational risks. Any criminal activity of Bank clients or employees constitutes a priority reference point when evaluating and administering warnings in software applications, assessing methodological procedures and grading new Bank development projects.

Heightened attention was paid in 2009 to improving security monitoring. A series of effective technical and organisational measures was adopted with the aim of mitigating risks in connection with the

latest security threats and risks that primarily arise in connection with the growing use of alternative distribution channels.

In 2009, the financial crisis did not give rise to a surge in violent crime. The number of robberies overall has remained static or even dropped slightly in the medium term, though the reverse situation has developed in the banking sector. In co-operation with criminal and prosecuting authorities, the Bank has helped to shed light on cases of robbery and other crimes in general, and thus preventively protect its own assets and those of its clients. The Bank has been successful here primarily owing to its years of extensive investment in security technologies and its efforts to work closely with the police. Generally, the results achieved in the area of physical security rate very highly within the Czech banking sector.

Internal Audit

Internal audit is an independent and objective assurance and consulting activity designed to add value and improve Bank processes. Internal audit helps the Bank achieve its goals by affording a systematic approach to evaluating and improving the effectiveness of the risk management system, management and control processes and Bank management and administration. Internal audit is carried out in every department of the Bank and monitors processes and activities, including monitoring of the level, functionality and effectiveness of the management and control system and verification that measures arising out of performed audits and reviews are carried out. In 2009, Internal audit provided the Bank's management, Board of Directors, Supervisory Board and Audit Committee with reports, information and assurances concerning the risks that the Bank faces.

Strategic Plans for the Future

Strategic Objectives

In 2009, Česká spořitelna successfully completed the tasks assigned to it by the shareholders despite the extraordinarily difficult external conditions elicited by the worldwide economic downturn. The successful execution of key Bank strategies could be seen, inter alia, in increased client satisfaction, continued transaction growth and the receipt of numerous awards in competitions judged by the banking industry and the public.

Česká spořitelna thus established a good basis for further growth in the coming years. Although 2010 will not be an easy year for the Czech or world economies, Česká spořitelna projects relatively stable growth based on a reliable and tested business model that prioritises retail banking, a favourable client structure and a high degree of client loyalty.

Česká spořitelna's primary strategic aims for the coming period may be defined as follows:

- rigorously manage business risks and operating costs;
- work to maintain the Bank's status as an Employer of Choice, including continued development of the corporate culture;
- further streamline the Bank's processes and optimise their set-up and orientation;
- improve the quality of services and how all clients are served.

Macroeconomic Forecast

The events of 2009 showed that despite the anticipated worsening of most macroeconomic indicators, the Czech Republic has the potential to absorb the negative impacts of the worldwide economic downturn. However, the immediate future will call for long-deferred problems to finally be addressed (pension reform, funding of healthcare and education, growth in public budget deficits), which will adversely affect individuals and businesses and, consequently, key macroeconomic indicators.

Česká spořitelna's 2010 budget is based on the following macroeconomic projections:

- sight recovery in the pace of economic growth in the Czech Republic estimated as approximately 2% GDP growth year-on-year;
- increasing inflation;
- decreasing personal consumption;
- growing unemployment;
- interest rate stagnation; and
- a slight strengthening of the Czech crown against major currencies.

Outline of Business Policy and the Projected Economic and Financial Position in 2010 and Outlook for Later Years

In 2010, the Bank's business divisions will have the following business priorities:

Retail Banking

The retail banking strategy is formulated in the medium-term "BAROKO" project, which is based on four pillars (product distribution, client satisfaction, product evaluation and process improvement). The new differentiated strategy for managing the customer experience based on knowledge of client needs provides for an improved and targeted customer approach in key areas. The quality of newly provided loans and rigorous administration of past loans will be emphasised in order to minimise potential default risks.

In the SME and independent professions segments, the Bank will focus on new client acquisition. Alternative distribution channels will be supported in all client segments in order to satisfy client demand both during and outside of regular business hours.

Corporate Banking

The strategic aim in corporate banking is to continue developing services for SMEs and large corporate customers based on comprehensive servicing of these clients, familiarity with their needs and the offering of tailored solutions.

In the SME segment, the Bank will continue developing a comprehensive client service strategy and differentiated approach based on knowledge of each sub-segment's needs. The Bank will not only sell traditional products, but will also offer other financial and non-financial services such as client advisory support in the utilisation of European Union funds. The Bank intends to capitalise on its experience funding energy savings and renewable energies projects and continue to enhance its already prominent position in this field. Service quality and client service proc-

ess improvements will be emphasised. Process management will become a key part of a corporate banking upgrade.

In the corporate banking segment, the Bank will continue to broaden its menu of cash management and comprehensive financial solutions for clients on Erste Group Bank markets. The Bank will be heavily involved in advisory services, mergers and acquisitions and long-term commodity, foreign exchange and interest rate risk hedging.

In real estate, the Bank will continue to offer comprehensive services for real estate developers and investors commensurate with current market conditions, including support for regional clients directly in their respective regions via the Developer Centre Network. The standard offering of residential project funding will now include a guarantee service providing buyers with assured cash flows. We also project a resumption of growth in real estate funds for the public and for qualified and institutional investors. In providing services to the public and non-profit sector, the Bank's aim is to increase cooperation with strategic clients, enhance its strong regional presence and step up its acquisition activities. Česká spořitelna will take an active approach to funding projects, providing advisory and offering products and services with higher added value.

Financial Markets

The goal of financial markets trading is to maintain a leading position in all key financial market areas. Česká spořitelna will continue to focus on developing services for corporations and financial institutions and will enhance its position as a significant regional financing partner through the placement of bonds and equities. The Bank will also continue to be guided by its philosophy of offering a broad range of financial market products with an emphasis on comprehensive solutions for the client and the automation of selected products. In addition to traditional foreign exchange and interest rate risk hedging products, commodity and electricity price hedging is a developing area.

The Bank will focus on the sale of investment products to retail clients, strengthening its market share in open-end mutual funds and increasing the volume of investment products in custody while emphasising the quality and comprehensibility of presented solutions and the benefits for the client. In private banking, Česká spořitelna will continue building a strong Erste Private Banking team.

Anticipated Economic and Financial Position

Despite successfully coping with unfavourable economic developments in 2009, Česká spořitelna will by no means have an easy time in 2010, primarily for these reasons:

- The negative impacts of the preceding economic downturn will continue to be felt – for at least the first half of 2010 – as increased pressure on risk cost growth, primarily in the general population sector;
- Persisting low market interest rates will negatively impact net interest income, as the main component of operating income;
- continuing efforts to minimise operating expenses will run counter to the need to support and implement group projects and the need to create long-term opportunities for further financial services development; and
- government efforts to limit further public budget debt growth will take the form of a number of legislative changes negatively impacting the financial position of individuals and businesses and having consequent impacts on the banking services sector.

The planned financial objectives of Česká spořitelna for 2010 must be assessed in light of the high degree of uncertainty and marked volatility of external conditions. Nevertheless, the Bank believes it will continue to achieve solid operating results. Operating income could increase year-on-year, due in particular to an increase in transactions and volumes in active and passive trading. Despite the Bank's ongoing savings program, operating expenses will nevertheless be affected by the implementation of certain group initiatives. The cost/income ratio should just slightly exceed 40%. The Bank projects marginal year-on-year growth in consolidated total assets based on a slight uptick in client loans and deposits. The client receivables / client payables ratio will hold steady at its current level.

Risk Management

Risk management processes are a key element of the Bank's internal management and control system. As a result of its business and other activities, Česká spořitelna is inevitably exposed to a variety of credit, market, operational and liquidity risks. The Bank's attention to risk management is commensurate with its size and the complexity and volume of its products, business activities and other operations. Česká spořitelna has a Board of Directors approved risk management strategy in place comprising risk management principles that include risk identification, monitoring and measurement processes, and the setting of limits and restrictions. By adopting these principles, the Bank has kept its risk exposure at an acceptable level, enabling it to maintain effective management processes.

These Česká spořitelna departments play a role in managing risk:
- Central Risk Management Department: primarily responsible for market and operational risks and for consolidated risk management for the entire Česká spořitelna Financial Group;
- Credit Risk Management Department, Credit Risk Controlling Department and Portfolio Management Department: assume responsibility for credit risk management on a Group-wide basis; and
- Balance Sheet Management Department: manages net banking book (investment portfolio) interest risk and liquidity risk based on decisions of the Assets and Liabilities Management Committee.

The activities of these risk management departments are complemented by the work of the:
- Security Department: responsible for risk management in respect of physical security, IT security and early warning system management; and
- Legal Services and Compliance Department: responsible for managing compliance risk and anti-money laundering measures.

The Board of Directors shares risk management related approval authority with the following committees:
- Assets and Liabilities Management Committee;
- Česká spořitelna Board of Directors Credit Committee;
- Financial Markets and Risk Management Committee; and
- Compliance, Operational Risk and Security Committee (CORB) – a body of the Bank's Board of Directors that makes decisions concerning the management of operational risk, compliance risk and security.

Credit Risk

Česká spořitelna is exposed to credit risk, i. e. the risk that a counterparty will be unable to pay amounts in full when due. In managing credit risk, Česká spořitelna applies a standardised methodology adopted on a Group-wide basis that sets out applicable procedures roles and authorities. The lending policy includes:
- Prudent lending process guidelines, including rules for the prevention of fraud and money laundering;
- General client segment acceptability guidelines based on principal activities, geographical location, maximum maturity period, the product and the purpose of the respective loan;
- Basic framework for the rating system and the determination and review of debtor ratings;
- Basic principles of the system of limits and structure of approval levels;
- Loan collateral management rules;
- Structure of basic product categories; and
- Methodology for provisioning and risk-weighted asset calculations.

Collection of Key Risk Management Information

In managing credit risk, the Bank draws not only on its own portfolio information, but also on the portfolio information of other members of the Česká spořitelna Financial Group. The Bank additionally uses information obtained from external sources such as the Credit Bureau or Central Loan Registry or ratings provided by reputable ratings agencies. The extensive database available for credit risk management purposes serves to model credit risk and support debt recovery, value receivables and calculate losses.

Internal Rating Tools

Rating is considered to be a key risk management tool. The Bank uses a client's rating to measure its counterparty risk profile. The client rating reflects the likelihood of debtor default in the subsequent 12 month period. The debtor evaluation and internal rating determination are part of every loan approval or of significant changes in lending terms and conditions. Debtor evaluation reflects the client's financial position and non-financial characteristics. For corporate debtors, this primarily involves an analysis of strengths and weaknesses,

e.g. management quality, competitiveness, etc. For retail debtors, the analysis chiefly entails demographic and behavioural indicators. As a part of risk management, the Bank categorises its clients as "non-performing" and "performing". The Bank uses an 8-grade rating scale for "performing" clients / private individuals (i.e. non-entrepreneurs) and a 13-grade rating scale for other clients. For all "non-performing" clients, the Bank uses a single rating grade – "R" – which is further broken down based on the reason for the default.

All information essential for the above mentioned assessments is gathered and stored centrally. The Bank performs regular internal rating reviews (at least annually). The internal rating methodology is validated based on historical data using statistical models. In accordance with regulatory requirements, the Bank ensures independent entity oversight of the internal rating methodology validation process.

Exposure Limits

Exposure limits are defined as the maximum exposure acceptable for the Bank in respect of an individual client or group of economically related persons. The system is set up to protect the Bank's income and capital from risk concentration.

Structure of Approval Authorities

The structure of approval authorities for loans provided is based on the principle of the materiality of the impact of any loss on the Bank's financial performance and the risk profile of the respective loan transaction. The Supervisory Board Credit Committee and Board of Directors Credit Committee have the highest approval authorities. Lesser approval authorities are scaled according to Credit Risk Management Department staff seniority.

Česká spořitelna uses its own internal models to determine risk parameters such as probability of default (PD), loss given default (LGD) and credit conversion factors (CCF), i.e. coefficients used to transfer off balance sheet items to the balance sheet. All models comply with the Basel II requirements. Monitoring and predicting historical risk parameters forms the basis for quantitative portfolio management. Česká spořitelna currently uses risk parameters to monitor credit risk, manage the non-performing loan portfolio and assess risks. The active use of risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments to both internal and external changes.

Provisions for Loan Losses

Česká spořitelna uses a provisioning methodology that complies with International Financial Reporting Standards (IFRS). Portfolio provisions are determined for portfolios of receivables in which no individual impairment has been identified. The level of portfolio provisions is established using models based on the Bank's historic experience. The PD and LGD risk parameters are a significant component of these models. Receivables where impairment has been identified are provided for individually. Impairment of non-retail and retail receivables with a value exceeding CZK 5 million is measured using the discounted cash flow method. The degree of impairment of other retail receivables is determined statistically on the basis of experience with the recovery of a similar type of receivable. Provisions against all receivables are re-assessed on a monthly basis.

Concentration Risk and Risk-weighted Assets

Česká spořitelna manages loan portfolio concentration risk through a system of large exposure limits. Large exposure limits are established as the maximum exposure that the Bank may accept in respect of an individual client or economically related group of clients with a given rating and underlying collateral. The system is set up to avoid excessive risk concentration in a portfolio owing to a small number of clients. The system is based on the maximum level of economic capital that may be allocated to one group of clients.

Česká spořitelna complied with the conditions for the use of the IRB approach when calculating the credit risk capital requirement, and since July 2007 risk-weighted assets and the capital requirement have been based on the internal rating and the Bank's own estimates of the PD, LGD and CCF parameters. Risk-weighted assets are calculated monthly. The standard calculation is regularly supplemented by stress testing, i.e. modelling of the, chiefly macroeconomic, impacts of sudden changes in the market.

Improving the Process of Timely Recovery

In 2009, the Bank increased its focus on the process of timely recovery and detection of problematic clients. In the area of corporate banking, a department was created to assume responsibility for monitoring performance of the non-financial terms of loan contracts with corporate clients. The aim of this project is to improve the monitoring of the Bank's loan portfolio and reduce its loan risk exposure.

In retail banking, a project was completed whose aim is to centralise and improve the process for timely recovery of retail receivables. All activities relating to the recovery of delinquent receivables are now concentrated in the new call centre and more of the Bank's human resources were committed to the process of timely recovery. In addition to the projected favourable impact on the volume of delinquent receivables, the Bank's aim is to provide greater assistance to clients in difficulty that may have trouble meeting their obligations to the Bank. The utilisation of call centre capacities for other Česká spořitelna Financial Group entities is planned in 2010.

Market Risks

Market risks assumed by Česká spořitelna relate principally to financial market transactions that are traded in both the trading and banking (investment) books, and interest rate risk associated with banking (investment) book assets and liabilities. Trading book transactions on the capital, money and derivative markets can be broken down into the following areas:

- Client quotations and transactions and the execution of client orders;
- Interbank market quotations;

– Active trading on the interbank market; and
– Distribution of financial market products to small clients.

Since 1 February 2008, Erste Group Bank has used a new group business model for financial markets trading called "Group Capital Markets". Risks from executed client transactions are transferred through identical transactions to portfolios of Erste Group Bank and quotations on the bond, derivative and foreign currency markets are transferred to the Group. Annually Erste Group Bank distributes the proportionate share in the Group result arising from trading in accordance with the approved model. Česká spořitelna retained executed transactions and quotations on the money and equity markets.

Derivative transactions are also used to hedge banking (investment) book interest rate risk and to refinance the difference between foreign currency assets and liabilities.

The Central Risk Management Department monitors and measures trading and banking (investment) book market risk. This department is entirely independent of the Financial Markets Division to avoid conflicts of interest and to ensure that reports submitted on the Bank's risks are sound and free of bias.

The Central Risk Management Department ensures that an independent evaluation of all financial market transactions for both the Group and client portfolios administered by the Group is conducted. The department is also responsible for managing operational risks associated with financial markets trading and managing market risks. It focuses on control activities and reconciliations to ensure that complete and accurate records of instruments in the Bank's portfolios exist.

Limits for market risks are determined separately for the trading book and the banking (investment) book. All trading book limits (specifically, VaR limits for intra-day holding and sensitivity limits) are proposed in collaboration with the Central Risk Management Department and competent business departments and approved by the Financial Markets and Risk Management Committee. All banking book risk limits (specifically, VaR limits for intra-month holdings) are proposed in collaboration with the Central Risk Management Department and the Group Balance Sheet Management Department and approved by the Assets and Liabilities Management Committee. The set of market limits must comply with the maximum risk exposure (measured using the VaR method) as approved by the Bank's Board of Directors and must also be confirmed by the parent company, Erste Group Bank.

While the VaR for the trading book may be determined using standard, verifiable methods, the banking book of the Bank and certain subsidiaries includes assets and liabilities that cannot be represented using standard techniques. Hence, the VaR for these portfolios is calculated based on special procedures that endeavour to reflect as faithfully as possible the actual behaviour of the assets and liabilities in these portfolios.

The Bank uses what is known as the PVBP gap, a matrix of interest rate sensitivity factors of individual currencies for individual portfolios of interest rate products, in order to measure the interest rate risk exposure of financial markets transactions. These factors measure portfolio market sensitivity with a parallel shift of the yield curve of the respective currency within the predefined period to maturity. The system of PVBP limits is set for each interest rate product trading portfolio by currency. The limits are compared to the value that represents the greater of the sum of the positive PVBP values or the sum of the negative PVBP values in absolute terms for each period to maturity. This results in managing not only the risk of a parallel shift in the yield curve, but also any possible yield curve rotation. A limit for the simple sum of PVBP values is set for major currencies such as the CZK, EUR and USD. Česká spořitelna additionally monitors other special limits for interest rate option contracts, e. g. the gamma and vega limits for interest rates and their volatility.

The sensitivity of foreign currency derivatives to foreign exchange rate movements is measured in the form of delta equivalents and is reflected in the Bank's foreign currency position. Česká spořitelna monitors special limits for foreign currency option contracts, e. g. limits for delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent and limits for option contract value sensitivity to exchange rate volatility in the form of the vega equivalent. The Bank also monitors the sensitivity of the value to the period to maturity (Theta) and interest rate sensitivity (Rho), which is measured together with other interest rate instruments in the form of PVBP.

Trading book equity risk is monitored using the delta sensitivities of portfolio market values to equity price movements both by equity issue and in the aggregate for each of the markets and for the portfolio as a whole.

Trading book commodity risk is monitored using the delta sensitivities of portfolio market values to commodity price movements for individual commodities.

The Central Risk Management Department uses other sophisticated procedures to assess the value and risks of structured products including credit investment instruments whose explicit valuation is not feasible. The Monte Carlo method is most frequently used to simulate the probability distribution for the price and future development of complex transactions, including price sensitivities, to changes in market factors.

The VaR method is used to measure aggregated trading and banking book market risk. VaR values are calculated with a confidence level of 99% for the holding period of one trading day. The calculation is performed using the KVaR+ system and historical simulations based on historical data over the most recent 500 trading days. Under conditions of normal loss distribution, VaR is determined for a holding period of one month or one year and for higher probability levels (99.9%, 99.98%).

VaR limits are determined for individual trading desks or portfolios. The VaR method is augmented with what is known as back testing, which is designed to verify model correctness. This method compares daily VaR estimates to hypothetical portfolio results on the assumption that the positions within the portfolio remain unchanged for one trading day. To date, back testing results have shown that the VaR calculation model has been set correctly.

Based on Czech National Bank (CNB) approval, the market VaR method is also used to calculate the capital requirement in respect of general foreign currency risk, general and specific equity risk and risk associated with trading book option transactions. This method is also used to calculate Economic Capital for trading (investment) book and banking book market risks. VaR calculations are also used when assessing risks associated with the asset portfolios of Česká spořitelna subsidiaries (for funds of Investiční společnost ČS, Penzijní fond ČS and Pojišťovna ČS) and when assessing market risks in the banking book of Stavební spořitelna ČS using special models to map the Bank's balance sheet.

The Bank's trading book and the part of the investment book revalued at market prices undergo monthly stress testing. The following scenarios are used:

- Scenario based on 10–15 year historic data (80 year historic average return for equities) using maximum positive and negative changes (one day and ten day) for interest rates, equity prices, exchange rates and volatilities separately;
- VaR value at a 99.8% confidence level (the worst historical scenario from among the most recent 500 observed scenarios); and
- Stress scenarios on the basis of monthly Economic Analysis Department forecasts.

Stress scenario results are compared to the capital requirement from market risks. In addition to the sensitivity limits and VaR, stop-loss limits are established and monitored on a daily basis for individual trading desks. The monthly stop-loss limit is compared to the actual monthly result of the respective trading desk; the annual stop-loss limit is compared to the difference between the best result (realised and unrealised profit) of the year and the worst trading desk result. The Risk Management Department also monitors the market conformity of trades concluded on financial markets with the aim of revealing market manipulations and avoiding operational risks.

The sensitivity limits, VaR and stop-loss limits, including the manner of their determination and measures to be applied when a limit is breached, are stipulated in an internal Bank directive – the Risk Management Manual, a component of risk management strategy.

Information on the Bank's exposure to market risks and on compliance with the established limits is reported on a daily basis to the Bank's responsible managers and on a monthly basis to the members of the Board of Directors via the Assets and Liabilities Management Committee and Financial Markets and Risk Management Committee.

Interest Rate Risk

Česká spořitelna uses the following methods to manage banking book interest rate risk: net interest income simulation, simulation of net interest income sensitivity to market interest rate changes (parallel/non-parallel discrete shift in market yield curves, stochastic simulation of the yield curve), and the simulation of change in the theoretical market value of the banking book when a market yield curve shifts by +100/+200/–200 basis points (including key rate duration), and duration and gap analyses. The Bank's current interest rate risk exposure is assessed monthly by the Assets and Liabilities Management Committee within the context of overall financial markets developments, the Czech banking sector and the structural changes in the Bank's balance sheet.

The key parameter monitored in respect of Česká spořitelna's interest rate sensitivity is the relative change in the Bank's projected net interest income should market interest rates show an immediate parallel decrease/increase of +100/−100 basis points over a 36-month horizon on the assumption of a stable balance sheet structure (i. e. product structure of assets and liabilities).

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its financial commitments as they fall due or to finance its assets. Liquidity is monitored and managed based on expected cash flows and the subsequent adjustment of the liability structure.

In 2009, year-on-year growth in the volume of clients' assets from the parent bank reached 2%, primarily due to 10% growth in the volume of loans to individuals (except for mortgage loans). Mortgage loan volume grew 1%, while the volume of loans to legal persons and public sector dropped by 1%. Government bonds in the held-to-maturity portfolio increased 17% in volume year-on-year. On the liability side, the volume of client deposits grew 1% and the volume of sight deposits by 5%, while the volume of term deposits fell 15%.

The internal limit set for the current liquidity ratio value was met throughout 2009. The current liquidity ratio is defined as the proportion of highly liquid assets and highly liquid liabilities. To illustrate, the highly liquid assets of the parent bank amounted to CZK 108.9 billion at 31 December 2009 and the denominator used to calculate current liquidity included CZK 531.2 billion in liabilities.

Current Liquidity Ratio in 2008 and 2009

	31 March	30 June	30 September	31 December
Actual 2008	15.59%	14.04%	19.51%	11.88%
Actual 2009	17.06%	16.08%	19.63%	20.50%

Medium- and long-term liquidity was bolstered in 2009 by mortgage certificate issues totalling CZK 13.5 billion and bond issues in an amount of CZK 4.8 billion. The bank bought back a part from the issued mortgage bonds and funds in order to resale.

Operational Risks

In accordance with CNB Regulation No. 123/2007 stipulating the prudential rules for banks, credit unions and investment firms, the Bank defined operational risk as the risk of loss arising from the inadequacy or failure of internal processes, human error, system failure or the risk of loss resulting from external events, including legal risk. The Bank's management is regularly informed of operational risk developments and levels.

Česká spořitelna uses a Risk Book developed by the Risk Management and Internal Audit departments as a tool to standardise the identification of risks for the needs of the entire ČS Financial Group and to standardise risk categorisation with the aim of achieving consistency in risk monitoring and assessment.

Česká spořitelna manages operational risk in compliance with the requirements of the new regulatory concept of capital adequacy – Basel II. The CNB approved the use of advanced measurement approaches (AMA) for the management of operational risk and calculation of the capital requirement for operational risk effective from 1 July 2009. This concept was approved at the level of Erste Group and applies for all group entities using advanced measurement approaches for operational risk. The Bank is currently working on the further harmonisation of local and group principles in the areas of data collection and operational risk management.

The Bank uses a special software application to collect data on operational risk for the purpose of quantifying such risk and to calculate the capital requirement, but also as a database of valuable information serving to manage risk, prevent recurrences of operational risks and simplify processes for recording harmful events, including insurance claims. Information on operational risk incidents in the ČS Financial Group is assessed at regular monthly intervals with regard to the frequency and amount of financial losses for individual departments, product lines and types of operational risk. In the case of negative trends, specialist groups are called in to resolve incidents and propose suitable measures to mitigate the impacts of operational risks. The collection and assessment of data regarding improper conduct of Bank clients and the risk of human error (inappropriate employee behaviour) is of key importance to loss prevention.

Česká spořitelna does not only rely on data obtained from actual operational risk incidents to assess and manage operational risks. Expert opinions of management regarding risks in the areas for which they are responsible constitute another valuable resource. These risk assessments are collected and the expert risk scenarios are evaluated regularly.

An important tool for mitigating losses arising from operational risks is the insurance programme that Česká spořitelna has used since 2002. The programme involves not only insurance of property damage, but also of risks arising from banking activities and liability risks. Česká spořitelna has been a part of the Erste Group Bank joint insurance programme since 1 March 2004, which has greatly expanded the Bank's insurance coverage, in particular for damage that may have a material impact on Česká spořitelna's profit or loss.

With regard to managing business continuity, Česká spořitelna has introduced a methodology and procedures based on internationally recognised standards and best practice. The Bank systematically analyses key processes and threats with respect to the risk of process failure, including an evaluation of the efficiency of adopted measures and testing of existing emergency plans. Česká spořitelna also participates in the activities of the Financial Markets Critical Infrastructure Committee (KIFT) that involves key banks and is overseen by the CNB.

Careful attention is given to fraud prevention as a specific category of operational risk. The Bank focuses on the prevention of external client or third-party fraud as well as the risk of internal fraud. Serious incidents are subjected to detailed investigation followed by individual measures and system changes in the Bank's IT and business processes.

Capital Adequacy

The unconsolidated capital adequacy of Česká spořitelna exceeded 8.00% in 2009 as required by the CNB. Three events occurred in 2009 that significantly impacted both capital and capital adequacy: in March 2009, subordinated debt totalling CZK 2.0 billion maturing in 2019 was issued and sold to small clients in the course of the year; in April, a subordinated debt issue of CZK 6.5 billion maturing in 2019 was sold to institutional investors, increasing both capital and capital adequacy, and in May 2009, a dividend totalling CZK 15.5 billion was paid (CZK 15.0 billion from the previous year's profit and CZK 0.5 billion from the retained earnings of previous years), resulting in a capital reduction of CZK 0.5 billion. At the 2009 year end, unconsolidated capital adequacy according to CNB methodology was 12.30%.

	2009	2008	2007	2006	2005
Capital adequacy*	12.30%	10.31%	9.55%	9.26%	8.70%

* data according to CNB methodology

Information on Capital and Ratio Indicators Pursuant to Regulation 123/2007 Coll.

The share capital of Česká spořitelna consists of 11,211,213 priority registered shares each with a nominal value of CZK 100 and 140,788,787 ordinary bearer shares each with a nominal value of CZK 100. The shares are in book-entry form and are not traded on public markets. To enhance its capital base, the Bank issued 4 offerings of subordinated bonds that are added to the additional capital Tier 2 in an aggregate amount of CZK 13.4 billion. Česká spořitelna determines capital on an unconsolidated and consolidated basis.

Consolidated and Unconsolidated Information on Capital and Ratio Indicators:

Data on capital

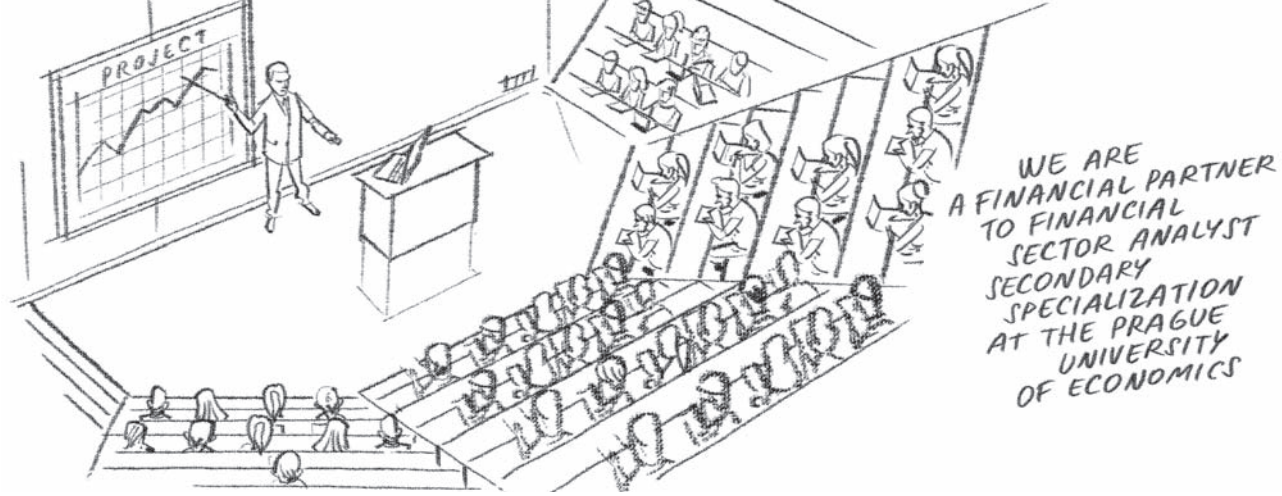
In CZK thousand	Consolidated data		Unconsolidated data	
	31. 12. 2009	31. 12. 2008	31. 12. 2009	31. 12. 2008
Capital	55,894,154	47,541,204	51,112,377	42,956,190
Aggregate amount of original capital (Tier 1)	48,428,730	48,237,828	43,613,840	43,560,808
Paid up share capital recorded in the Commercial Register	15,200,000	15,200,000	15,200,000	15,200,000
Share premium	1,688	1,688	1,688	1,688
Obligatory reserve funds	3,292,749	3,284,253	3,040,462	3,040,462
Other funds from the allocation of profit	205,700	205,700	0	0
Retained earnings brought forward	33,064,301	32,975,852	28,462,617	28,984,611
Minority shares	262,619	548,319	0	0
Other than consolidation goodwill	−9,649	−9,649	0	0
Financial foreign exchange differences arising from consolidation	−181,360	−178,511	0	0
Intangible assets other than goodwill	−3,407,317	−3,718,142	−3,090,928	−3,594,272
Participation securities issued by a person with a qualified investment in the Bank	0	−71,682	0	−71,682
Additional capital (Tier 2)	13,403,794	5,196,793	13,403,794	5,196,793
Capital to cover market risk (Tier 3)	0	0	0	0
Deductible items from original and additional capital (Tier 1 + Tier 2)	−5,938,370	−5,893,417	−5,905,257	−5,801,411
Capital investments over 10% in banks and other financial institutions	−820,000	−805,000	−820,000	−805,000
Lack in coverage of anticipated loan losses in IRB	−5,118,370	−5,088,417	−5,085,257	−4,996,411

Data on Capital Requirements

In CZK thousand	**Consolidated data**		**Unconsolidated data**	
	31. 12. 2009	**31. 12. 2008**	**31. 12. 2009**	**31. 12. 2008**
Total capital requirements	36,540,867	38,296,809	33,243,673	33,330,569,
Total capital requirement for credit risk	30,911,678	32,525,216	28,566,087	28,468,757
Total capital requirement for credit risk in STA	4,676,633	6,455,551	2,273,268	2,891,552
Total capital requirement for credit risk with STA in IRB to exposures	4,676,633	6,455,551	2,273,268	2,891,552
Total capital requirement for credit risk with IRB	26,235,044	26,069,665	26,292,820	25,577,205
Total capital requirement for credit risk with IPB to selected exposures	26,092,011	26,038,842	26,149,763	25,546,382
Capital requirement for credit risk with IPB to equity exposures	2,085	30,823	2,109	30,823
Total capital requirement for credit risk with IPB to securitised exposures	140,948	0	140,948	0
Capital requirement for settlement risk	1,294	162	1,294	162
Capital requirement for position, currency and commodity risk	408,693	661,805	320,815	457,303
Total capital requirement for operational risk	5,219,202	4,874,182	4,355,476	4,168,903
Capital requirement for risk of trading book exposure	0	235,444	0	235,444

Ratio Indicators

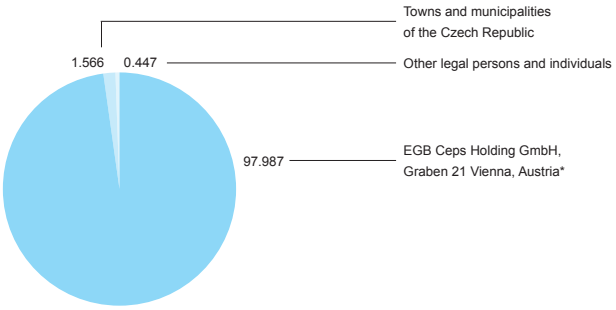
	Consolidated data		**Unconsolidated data**	
	31. 12. 2009	**31. 12. 2008**	**31. 12. 2009**	**31. 12. 2008**
Capital adequacy (%)	12.24	9.93	12.30	10.31
Return on average assets (ROAA) (%)	1.4	1.8	1.5	2.1
Return on average equity Tier 1 (ROAE) (%)	24.8	32.4	26.3	35.7
Assets per employee in CZK thousand	80,016	79,770	70,510	69,192
Administrative expenses per employee in CZK thousand	1,622	1,559	1,488	1,488
After tax profit or loss per employee in CZK thousand	1,124	1,388	1,079	1,422



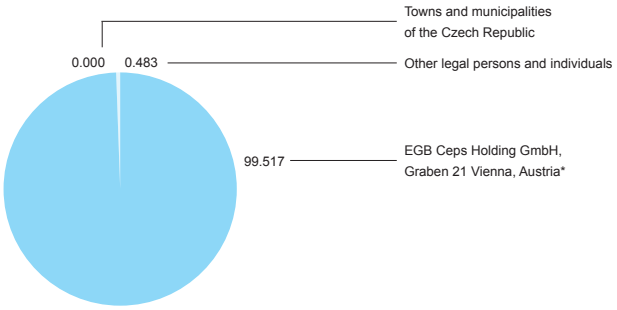
Other Information for Shareholders

Pursuant to § 118 of Act No. 256/2004 Coll. on Doing Business on the Capital Market, Par. 4, Letters b) Through k) and Par. 5 Letters a) Through k)

Česká spořitelna shareholder structure at 31 December 2009, share in basic capital



Česká spořitelna shareholder structure at 31 December 2009, share in voting rights



* EGB Ceps Holding GmbH is a wholly-owned subsidiary of EGB Ceps Beteiligungen GmbH, itself a wholly-owned subsidiary of Erste Group Bank AG. The ownership structure change that occurred in 2009 was a part of the technical optimisation of the Erste Group Bank shareholder structure and was duly approved by the Czech National Bank.

Česká spořitelna, a. s., with its registered office at Prague 4, Olbrachtova 1929/62, 140 00, Company ID: 45244782, is the legal successor of the Czech State Savings Bank and was registered as a joint stock company in the Czech Republic on 30 December 1991 in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry No. 1171.

§ 118 Par. 4 Letters d) and Par. 5 Letters a) Through d)

The structure of the consolidated and individual equity of Česká spořitelna is presented in the consolidated or standalone annual financial statements on page 66–67 of the annual report or on page 156 of the annual report, respectively.

Česká spořitelna, a. s., Shares

- **Class:** Ordinary and preference shares
- **Type:** 140,788,787 ordinary bearer shares, i. e. 92.62% of basic capital, 11,211,213 preference registered shares, i. e. 7.38% of basic capital
- **Form:** Book entry
- **Number of shares:** 152,000,000
- **Total issue volume:** CZK 15,200,000,000
- **Nominal value per share:** CZK 100
- **Share marketability:** Shares are not traded on any public market

The transferability of preference shares is restricted to towns and municipalities of the Czech Republic; transfers of preference registered shares to other entities are subject to Česká spořitelna Board of Directors approval. A preference right to receive dividends is attached to preference shares. Holders of preference shares are entitled to preference dividends every year that the General Meeting adopts a decision to distribute profit, even if other shareholders will not be paid dividends in the given year based on the General Meeting's decision. A right to vote at General Meetings is not attached to the Company's preference shares. Holders of preference shares have all other rights attached to shares. Additional information on shareholders' rights is presented in Item B. Company Relationships with Shareholders in the Česká spořitelna. Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 52 of the annual report).

§ 118 Par. 5 Letters g) and h)

The election and recall of Board of Directors members lies within the remit of the Supervisory Board. Board of Directors members are elected and recalled by acclamation (a show of hands) at Supervisory Board meetings; in this case, any agreement to take a vote in writing or via remote means of communication outside of the Supervisory Board meeting is unacceptable. The Supervisory Board has a quorum if an absolute majority of its members is present. The Supervisory Board decides by resolution; adopting a resolution re-

quires a majority vote of the Supervisory Board's members. In the event of a tie, the chair shall cast the deciding vote. The General Meeting decides on any changes to the Company's Statutes in compliance with the relevant Commercial Code provisions.

The Board of Directors is a statutory body that manages the activities of Česká spořitelna and acts on its behalf. The standard powers and responsibilities are set out in Article 12, sections 6 and 7 of the Česká spořitelna Statutes. Members of the Board of Directors have no special powers in the meaning of par. 5 letter h).

§ 118 Par. 5 Letter i)

Česká spořitelna has executed ISDA Master Agreements, which include the condition that if the ownership of either party changes, the other party shall have the right to terminate the agreement. The foregoing applies to agreements entered into with these counterparties: BNP Paribas, Paris; CALYON, Paris; ING Bank, Amsterdam; JP Morgan Chase Bank, New York; Morgan Stanley & Co. (International); Royal Bank of Canada, Toronto; and UBS, London.

Information arising from § 118 of Act No. 256/2004 Coll. on doing business on the capital market, par. 4 letters b), c), e) and j), is included in the Česká spořitelna. Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 52 of the annual report).

Information arising from § 118 of Act No. 256/2004 Coll. on doing business on the capital market, par. 5 letters e), f), j), and k), is not applicable as the Company does not have any shares traded on an open market.

Controlling Entity

Erste Group Bank AG is the controlling entity of Česká spořitelna, a. s., via EGB Ceps Holding GmbH and EGB Ceps Beteiligungen GmbH. Measures designed to prevent the controlling entity from misusing its control arise from the Commercial Code and primarily include a ban on misusing a majority of votes in a company (§ 56a par. 1 of the Commercial Code), a ban on the abuse of a controlling entity's influence by forcing the adoption of a measure or execution of a contract that could cause damage to the property of a controlled entity, unless such damage is compensated by the end of the accounting period in which the damage was incurred, at the latest, or a contract is signed stipulating a reasonable period and method for the compensation to be paid by the controlling entity (Section 66a par. 8 of the Commercial Code), the obligation of the Company to prepare a Related parties Report in compliance with § 66a par. 9 et seq. of the Commercial Code (see page 233 of the annual report), the obligation of the controlling entity to pay damages to the controlled entity in compliance with § 66a par. 14 of the Commercial Code and guarantees provided by members of the statutory body of the controlling entity and controlled entity in compliance with § 66a par. 15 of the Commercial Code.

Česká spořitelna is a universal bank and is not dependent on other Česká spořitelna Financial Group or Erste Group Bank entities.

Information on the Acquisition of Treasury Shares and Erste Group Bank Shares

In 2009, Česká spořitelna neither traded nor held any treasury shares. It acted as a market maker in respect of the shares of its controlling entity, Erste Group Bank, on the Prague Stock Exchange. To this end, Česká spořitelna purchased, under standard market conditions, 13,787 thousand shares at an aggregate purchase price of CZK 6,826 million and sold 13,788 thousand shares at an aggregate selling price of CZK 6,833 million. The minimum and maximum price per share in 2009 was CZK 196.80 and CZK 799, respectively. In early 2009, Česká spořitelna held no shares; at the 2009 year end, the number of shares in the Česká spořitelna portfolio was −1 thousand shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the 2009 year end.

Information on the Guarantee Fund Contribution

As a securities trader, Česká spořitelna contributes to the Guarantee Fund, which safeguards the guarantee system from which compensation is paid to the clients of a securities trader that is unable to meet its client obligations. The calculation base for the Česká spořitelna Guarantee Fund contribution for 2009 was CZK 439 million. The contribution itself amounted to CZK 9 million.

Fees Invoiced by the Audit Companies Ernst & Young Audit and Deloitte Audit to Česká spořitelna for 2009

§ 118 par. 4 letter k)

CZK mil.	Audit services	Other services	Total
Česká spořitelna	28	0	28
Other consolidated companies	4	0	4
Totals	**32**	**0**	**32**

Principles of the Remuneration of Executive Managers and Supervisory Board Members

§ 118 Par. 4 Letters f) g), h), i)

Executive Managers

At Česká spořitelna, executive management includes the chairman of the Board of Directors, who is at the same time the Company's CEO, and the members of the Board of Directors, who also serve as deputies to the CEO.

The Board of Directors is by law the statutory body managing the operations of the Company and acting on its behalf. Members of the Česká spořitelna Board of Directors exercise their powers with due diligence and professional care and act in good faith and in the best interests of the Company and its shareholders. They are skilled in managing large corporations and have international experience and the ability to work in a team. Their position calls for the ongoing development of their industry knowledge and corporate governance skills, a proactive approach to the discharging of their duties, the ability to participate in developing corporate strategy and, no less importantly, loyalty to the Company. Members of the Board of Directors adhere to high ethical standards and are responsible for ensuring that the Company complies with the laws enacted. They are personally liable for damage arising from a breach of legal obligations and, in their capacity as Board of Directors members, are responsible to the Company as represented by the shareholders.

Board of Directors members are remunerated based on a Contract for Performance of the Duties of a Board of Directors Member concluded in accordance with the valid provisions of Act No. 513/1991 Coll., The Commercial Code. The contract has been approved by the Company's General Meeting. The amount of Board of Directors members' remuneration is subject to General Meeting approval.

The fixed component of the remuneration of the CEO and deputy CEOs is paid as a salary for work performed. In compliance with the Company's Statutes, the amount of the salary is approved by the Supervisory Board and is based, inter alia, on qualified benchmarking analyses of financial sector remuneration.

The variable component of the remuneration of the CEO and deputy CEOs is derived from their performance evaluation undertaken based on the fulfilment of defined performance criteria. These criteria are aligned with the overall financial and business objectives of Česká spořitelna Financial Group and Erste Group Bank. Performance criteria are set for each calendar year and are approved and subsequently assessed by the Supervisory Board.

Based on their management and professional expertise, experience and contribution to the Company, Board of Directors members are entitled to the following remuneration arising from the positions of CEO and deputy CEO: monetary income in an aggregate amount of CZK 46.2 million, bonuses in an aggregate amount of CZK 30.8 million, income in kind in an aggregate amount of CZK 4.3 million and income (including in kind income) arising from the position of statutory body member in an aggregate amount of CZK 0.8 million. These amounts are paid out on the basis of meeting financial, qualitative, development and effectiveness criteria. In 2009, the members of the Board of Directors subscribed for 33,719 shares of Erste Group Bank.

Neither Board of Directors members nor persons close to them own shares or call options to purchase shares of Česká spořitelna. Česká spořitelna shares have not been publicly tradable since August 2002.

Supervisory Board

The Supervisory Board is the Company's controlling body, which oversees the Board of Directors' exercising of its powers in performing the Company's business activities. The Supervisory Board checks, in particular, whether the Board of Directors is performing its duties in compliance with the legislation and the Company Statutes and whether the Board of Directors members are acting with due professional care in the interests of the Company. Supervisory Board members perform their duties with due professional care and are required to possess professional skills, maintain allegiance to the Company and maintain the confidentiality of all confidential information and matters. Supervisory Board members are liable for damage arising from a breach of legal obligations and, in their capacity as members of the Company's Supervisory Board, are responsible to the Company as represented by the shareholders.

Supervisory Board members are remunerated in accordance with the provisions of Act No. 513/1991 Coll., The Commercial Code.

The amount of Supervisory Board members' remuneration is subject to General Meeting approval.

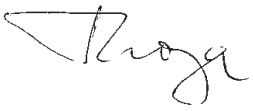
Neither Supervisory Board members nor persons close to them own shares or call options to purchase shares of Česká spořitelna. Česká spořitelna shares have not been publicly tradable since August 2002.

Members of the Supervisory Board were entitled to remuneration, including income in kind, of CZK 3.6 million for their work on the Česká spořitelna Supervisory Board in 2009.

Affidavit

The undersigned represent that, to their knowledge, the Česká spořitelna Annual Report for 2009 gives a true and fair account of Česká spořitelna and its consolidation unit's financial situation, business activities and business results achieved in the previous financial year as well as the outlook for the future trends in the financial situation, business activities and business results.

Dušan Baran
Vice Chairman
of the Board of Directors
and First Deputy CEO



Jiří Škorvaga
Member
of the Board of Directors
and Deputy CEO

Česká spořitelna – Corporate Social Responsibility

Corporate Social Responsibility (CSR), an integral part of Česká spořitelna's business, is reflected in everything we do. As a company whose origins date back to 1825, we acknowledge and proudly endorse our corporate social responsibility.

The motto of our CSR strategy for 2008–2010 is "Investing for the Future". We developed this strategy based on dialogue with key target groups and research on expectations of the Bank's conduct in connection with CSR activities. The research indicated three key areas of focus for CSR activities:

- Education, with a primary, though not exclusive, focus on training in finance;
- Helping people in need with a focus on seniors and persons suffering from drug addiction;
- Sustainable development and stewardship of the environment in which we live.

Both our corporate and CSR strategies enable us to meet our social obligations systematically and with the interests of all key groups – clients, employees, shareholders and society – in mind.

Philanthropy

The Bank's philanthropy mirrors its general approach to CSR. In 2002, Česká spořitelna launched the foundation Nadace České spořitelny, which enables us to work with the Bank's partners on long-term strategic projects. The foundation is a key tool in our social development focused corporate philanthropy, an area that other donors often overlook. Nadace ČS donated more than CZK 14 million to various projects of benefit to the general public in 2009.

Clients

We are open with our clients and honour the rules of fairness. In addition to standard feedback tools, clients can use the services of an independent ombudsman.

Last year, we launched the Lend a Hand project to help clients who have lost their jobs and become unable to cover their expenses. They are given the opportunity for a personal consultation and take part in a training seminar at a reputable personnel agency free of charge, increasing their chances of more quickly finding work and maintaining their standard of living. We have a longstanding policy of educating clients about their credit obligations through the Financial Distress Advice Bureau whose establishment we initiated. An Ostrava branch of this bureau was opened in 2009 as a complement to the headquarters in Prague.

Just one way our clients can play an active role in supporting charitable projects is through the Bonus Programme. Česká spořitelna payment card holders receive special loyalty points when using the card, which can not only be exchanged for gifts (from magazine subscriptions to airline tickets), but can also be donated to specific charitable projects. In 2009, the Bank implemented two such projects: A New Start – The Karlov Therapeutic Community and Astra Seniors' Drop-in Centre for which the programme brought in more than CZK 100 thousand.

We also promote business solutions through our corporate social responsibility undertakings – as part of the State Environment Fund's Green Savings subsidy programme we accept and process subsidy applications and provide complementary financing. This programme is designed for owners of single-family homes and apartment blocks who may receive subsidies to cover a portion of the costs of using renewable energies, e. g. for heat and hot water. The energy savings are used to cover all or part of the buildings' heating needs. Individuals – non-entrepreneurs can bring their applications to any one of our branches. A special team of staff – the Energy Team – is dedicated to serving clients, helping them prepare and implement renewable energy production projects. Through the special TOP Energy product, we finance projects in energy savings and renewable sources.

An ever increasing number of clients are using the unique product we call @FAKTURA 24, an electronic invoicing system enabling electronic invoices to be sent securely at a considerable saving of time, cost and paper consumption.

We also create special products and services for specific population groups, such as ATMs for the visually impaired.

Employees

We offer employees a range of benefits including lifelong learning and support for new mothers on maternity leave. We established the Diversitas programme to address issues such as the under-representation of women in management positions, compensation dif-

ferences, personal development and career growth opportunities, conditions for returning from maternity or parental leave and the effective balancing of one's work and personal life.

Projects directly involving employees in implementing the Bank's CSR strategy are of key importance. Through a unique project called Charity Day, employees are given an opportunity to devote two work days to a charitable activity. In 2009, 1,252 employees took this opportunity (35% more than in 2008), volunteering at more than 90 non-profit organisations across the Czech Republic. In addition to their charity work, employees may support the environmentally-friendly processing of discarded small electrical appliances, which they can collect and dispose of in special bins in Bank buildings. The Česká spořitelna Grant Programme provides ČS employees with financial assistance for non-profit organisations they work with in their spare time. Last year we supported 3 projects, donating a total of CZK 100,000.

Bearing in mind the importance of employee feedback, we introduced a system of open communication between employees and senior management to ensure that employees are kept well informed.

This is the third year that the Bank has published a standalone CSR Report, which provides a comprehensive overview of our CSR and philanthropic undertakings. This report is available on the Česká spořitelna website.

Česká spořitelna Declaration

on the Compliance of its Governance with the Code Based on OECD Principles

In compliance with the statements made by Česká spořitelna, a. s., (the "Company") in its previous annual reports, the members of the Company's Board of Directors make every effort to improve the Company's standards of corporate governance and ensure, to the extent set out hereunder, compliance with the Corporate Governance Code based on the OECD principles of 2004 (the "Code"). The Company systematically supports, develops and enhances its governance practices. No major changes adversely affecting the Company's corporate governance standards were made in 2009. Česká spořitelna complies with all key provisions, principles and recommendations of the Code, which may be viewed on either the Česká spořitelna website: www.csas.cz/vztahy k investorům or the Czech Finance Ministry website (www.mfcr.cz/cps/rde/xbcr/mfcr/KODEX_KCP_2004_pdf).

The principles of Česká spořitelna's governance standards are set out below.

A. Organisation of the Company

At 31 December 2009, the Company's **Board of Directors** had seven members. Petr Hlaváček resigned as a Board of Directors member on the same date. The Company's organisational structure was optimised subsequent to his resignation; with effect from 1 January 2010, the Bank has a six-member Board of Directors.

In accordance with the Banking Act, all Board of Directors members are also executive members. All Board of Directors members possess the requisite personal and professional qualifications to serve as Board of Directors members. Detailed biographical data of the Board of Directors members attesting to their capabilities, professional skills and practical experience is published on page 8–9 of the Annual Report.

The Board of Directors is the Company's statutory body. It manages the Company and acts on its behalf while assuming responsibility for its long-term strategic direction and operational management. The scope of its powers is defined in the Company's Statutes and internal rules as well as the Czech legal regulations. The Board of Directors exercises its powers with due care and diligence; in discharging its activities, it is accountable to the extent set out in the Czech legal regulations. All Board of Directors members are internationally experienced professionals skilled in managing large corporations and are able to work in a team. The Board of Directors members adhere to legal rules and ethical standards.

Pursuant to the Company's Statutes, the Board of Directors must obtain a Supervisory Board opinion or approval before performing a number of acts and in cases determined in a Supervisory Board decision, the Board of Directors must solicit the prior opinion of a committee established by the Supervisory Board. The Board of Directors regularly presents reports on Company activities to the Supervisory Board and its committees. In compliance with the Banking Act, the Board of Directors is responsible for establishing, maintaining and evaluating an efficient and effective internal management and control system for the Company.

Board of Directors Decision-making Procedures

The work of the Board of Directors is directed by an activity plan, which the Board of Directors drafts in advance for every calendar quarter. The Board of Directors meets as needed, but no less than twice a month. Regular weekly sessions have, however, become common practice. In 2009, the Board of Directors held 40 meetings. Board of Directors meetings are conducted in English or Czech, as required by the attending members. Board of Directors meetings are chaired by the chairman and, in the chairman's absence, by the vice chairman. Should both the chairman and vice chairman be absent, an authorised Board of Directors member shall chair the meeting. All Board of Directors members and the Company secretary take part in meetings.

The Board of Directors only achieves a quorum if more than half of all its members are present at a meeting. The Board of Directors adopts decisions in the form of a resolution requiring a majority of votes of attending members. In the event of a tie, the chairman shall cast the deciding vote. If all the Board of Directors members are in agreement, the Board of Directors may pass a resolution by a written vote or a vote taken via remote means of communication (e. g. all Board of Directors members per rollam, individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Material submitted in per rollam form is approved, if an unconditional majority of the votes of all members of the Board of Directors is in agreement with it. Voting on matters under discussion is conducted openly at Board of Directors meetings, i. e. by acclamation (a show of hands).

The **Supervisory Board** of the Company has nine members. In 2009, the General Meeting approved an amendment of the Statutes to reduce the number of Supervisory Board members from 12 to 9 and extend the term of office from 3 to 4 years. The General Meeting re-elected Manfred Wimmer as a Supervisory Board member. There were no other changes in the composition of the Supervisory Board in 2009. Maximillian Hardegg serves as an independent member of the Supervisory Board pursuant to the requirements of the Code. In compliance with statutory requirements, the Supervisory Board includes representatives of the Company's employees. They are Jolana Dyková, Eliška Bramborová and Zdeněk Jirásek. All Supervisory Board members are professionals, which guarantees the high quality of the Supervisory Board's function, and possess the requisite personal and professional qualifications to serve as Supervisory Board members. A full list of Supervisory Board members, including their professional biographies, is published on page 10–13 of the Annual Report.

The Supervisory Board oversees the execution of the Board of Directors' powers and the performance of the Company's business activities. In addition to its statutory duties and authorisations, the Supervisory Board, in accordance with the Company Statutes, has the right to opine in advance on certain acts impacting the Company's assets (including, inter alia, capital expenditures for building, plans to acquire tangible and intangible assets for the Company in excess of a designated limit, the transfer of title to Company assets, the Company's equity investments and so on). The Supervisory Board also furnishes an advance opinion on the strategic plan for Company activities and development, planning tools and regular financial information. Additionally, the Supervisory Board furnishes its advance opinion on the appointment and recall of the director of internal audit and on the selection of an external auditor. The Supervisory Board may establish committees to support its work. In 2009, the Supervisory Board met a total of four times.

Pursuant to the Company's Statutes, two thirds of the members of the Supervisory Board are elected by the General Meeting, and one third by the Company's employees. The term of office of a Supervisory Board member is four years. Members of the Board of Directors are elected and recalled by the Supervisory Board. In compliance with the Banking Act, nominees for Board of Directors membership are discussed in advance with the Czech National Bank, which assesses the professional qualifications, credibility and experience of the nominees. The term of office of a member of the Board of Directors is four years, and members may be re-elected.

Supervisory Board Decision-making Procedures

The work of the Supervisory Board is directed by an activity plan, which the Supervisory Board drafts annually in advance. Supervisory Board meetings are held on an ad hoc basis, usually in compliance with the activity plan, but no fewer than four times a year. Supervisory Board meetings are conducted in Czech or English, as required by the attending members. Supervisory Board meetings are chaired by the chairman, vice chairman or an authorised member of the Supervisory Board and, in their absence, the most senior member of the Supervisory Board in attendance.

The Supervisory Board only achieves a quorum if more than half of all its members are present at a meeting. The Supervisory Board adopts decisions in the form of a resolution requiring a majority of votes of attending members. In the event of a tie, the chairman shall cast the deciding vote. If all the Supervisory Board members are in agreement, the Supervisory Board may pass a resolution by a written vote or a vote taken via remote means of communication (e. g. all Board of Directors members per rollam, individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Voting on matters under discussion is conducted in an open manner at Supervisory Board meetings, i. e. by a show of hands. The election and recall of a member of the Board of Directors is also conducted in an open vote at a Supervisory Board meeting; in this case, no written voting submissions or voting via remote means of communication is permitted.

The Company consistently sees to it that the members of the Board of Directors and Supervisory Board are **kept up to date** at all times; the Company has in place a well administered and highly developed system supporting the execution of corporate governance. Newly elected members of the bodies are given immediate access to all information regarding the Company's principles and rules of corporate governance.

Pursuant to Act No. 93/2009 Coll. on auditors, the Bank established on 7 October 2009 an **Audit Committee** as a company body whose members are appointed by an extraordinary General Meeting. The Audit Committee shall perform the tasks assigned

to an audit committee by law or the Company Statutes. The Audit Committee is chiefly responsible for monitoring procedures used to prepare the standalone and consolidated financial statements, evaluating the effectiveness of the Company's internal controls, internal audit function and any risk management systems in place, monitoring the process of performing the statutory audit of the standalone and consolidated financial statements, assessing the independence of the statutory auditor and audit company and, most importantly, providing ancillary services to the audited entity and recommending an auditor. The Audit Committee has five members, one of whom is unaffiliated with the Company and has no fewer than three years of accounting or statutory audit experience.

The Audit Committee members are: Mario Catasta, Zlata Gröningerová, Maximilian Hardegg, Heinz Kessler and Andreas Klingen.

Audit Committee Decision-making Procedures

Meetings of the Audit Committee are chaired by its chairman, vice chairman or an authorised member or, in the event of their absence, by the senior member in attendance. The Audit Committee only achieves a quorum if more than half of its members are present. It adopts decisions in the form of a resolution requiring a majority of votes of attending Audit Committee members. In the event of a tie, the chair shall cast the deciding vote.

The Company's highest bodies, i. e. the Board of Directors, Supervisory Board and Audit Committee, have adopted binding Rules of Procedure for the bodies. These deal in great detail with administrative and procedural matters related to the activity of a given body. The Rules of Procedure of all three bodies regulate the technical process of convening meetings and the voting of the bodies, the preparation of meeting minutes, the activities of the body outside of meetings and procedures to address the potential bias of a body member. Both Supervisory Board members and Board of Directors members take part in Supervisory Board meetings. All Board of Directors members take part in Board of Directors meetings, as do the authors of presented materials to be introduced to the Board of Directors members. Representatives of the external auditor, members of the Board of Directors and Supervisory Board and, on occasion, other guests, are invited to attend meetings of the Audit Committee. Members of the Board of Directors, Supervisory Board and Audit Committee may solicit a legal opinion on individual materials under discussion from the Company's Legal Services Department or may seek the services of independent advisors. The Office of the Company Secretary organises long-term education in corporate governance and legislation for the members of administrative bodies so as to develop and enhance their knowledge and skills on an ongoing basis.

The position of **Company Secretary** has long existed within the Company. The Secretary of the Company's bodies manages administrative and organisational matters for the Board of Directors and Supervisory Board, including the organisation of General Meetings. The Secretary familiarises new members of administrative bodies with the activities of those bodies and with the Company's corporate governance process.

The Company Secretary ensures mutual co-operation among the Company's bodies. The Secretary is appointed by the Company's Board of Directors and reports directly to the CEO and Board of Directors chairman. The Secretary is responsible for due and timely distribution of invitations and materials for meetings of the Company's Board of Directors and Supervisory Board. The Company has instituted binding regulations for the submission of materials to be discussed at meetings of the Supervisory Board and Board of Directors, which stipulate the basic rules for the preparation and submission of materials, comment procedures prior to the submission of materials and conditions for the archiving of materials. The Secretary takes the minutes of all meetings of the Board of Directors and Supervisory Board in English and Czech. The Company maintains an electronic database of all minutes from meetings of its bodies; these are available to authorised persons on the **Intranet** – the Company's internal internet portal. The Company Secretary is, inter alia, a member of the Czech Institute of Corporate Secretaries (ČITOS) and of the organisation's steering committee. ČITOS's mission is to promote and support the professional development of secretaries of administrative bodies.

B. Company Relationships with Shareholders

The Company diligently ensures compliance with all the legal rights of shareholders and with the principle of equitable treatment of all shareholders. The Company's shares are held in book entry form. A list of all shareholders is maintained by the Securities Centre. In addition to ordinary shares, the Company has also issued registered priority shares. The transferability of these shares is restricted to Czech towns and municipalities; transfers to other entities are subject to Company Board of Directors approval. A preference right to receive dividends is attached to priority shares. Decisions regarding transfers of priority shares are made by the Board of Directors and are always based on detailed information about the assignee.

The Company complies with all duties to inform its shareholders and other entities to the extent imposed by law; the Company keeps shareholders updated throughout the year via the media and the Company website. The website, created mainly for the purposes of shareholders and investors (www.csas.cz/vztahy k investorům), provides information on the Company's current operating results, shareholder structure, planned events, etc. Press releases covering material facts about the Company are issued on a regular basis; Board of Directors members organise regular road shows for investors and shareholders. All material information that the Company publishes on its website is available in both Czech and English.

In compliance with law, the Company convenes **General Meetings** by means of an announcement in the press; these are published in Hospodářské noviny and Obchodní věstník. The announcement

always includes basic information for shareholders about the conditions of participation in the General Meeting and the exercising of shareholders' rights. The Company sends announcements of the General Meeting, including basic fiscal indicators, to all shareholders who have registered shares. General Meeting announcements are published on the Company website as a matter of course. Shareholders may familiarise themselves in advance (within the statutory period) with the basic materials (financial statements, Related Parties Report or proposed changes to the Statutes) that are to be subject to General Meeting discussion. The Company always organises its General Meetings at venues that are accessible to all shareholders. For several years now, General Meetings have been held at the Company's registered office.

The powers of the General Meeting extend to decisions on matters that the law or Company Statutes assign to the powers of a General Meeting. The General Meeting is held no less than once a year and no less than four months prior to the end of the accounting period. General Meeting voting is performed by ballot; details are stipulated by the Rules of Procedure of the General Meeting approved by the General Meeting. General Meeting votes are first taken on proposals presented by the individual who convened the General Meeting; if the General Meeting has been convened by request, then the proposals presented by the individual who requested that the General Meeting be convened are voted on first. If this proposal is passed, no votes shall be taken on further counter-proposals in the given matter. If the proposal is not passed, the proposals presented by attending shareholders are voted on in consecutive order according to the number of shareholder votes. The General Meeting adopts decisions in the form of a resolution requiring a majority of votes of attending shareholders, where the law does not stipulate a different majority.

Shareholders receive all supporting documents for a General Meeting at the time of their registration for the respective General Meeting. These materials always include the Rules of Procedure of the General Meeting, which the General Meeting approves. If Supervisory Board members are to be elected, shareholders are provided with detailed biographical data of all nominees attesting to their professional and personal qualifications to hold such office. The bodies of the General Meeting are set up by the Board of Directors in a manner that ensures all the bodies are able to perform their functions with due and professional care. In most cases, a notary is present at the Company's General Meetings. In compliance with the Rules of Procedure, shareholders may – in person or by proxy – exercise their shareholder rights, i. e. vote on proposed items on the agenda, solicit and receive explanations on such items and put forward proposals and counter-proposals.

The members of the Board of Directors and Supervisory Board take part in General Meetings (there must be at least as many members as are required for a quorum) as do members of the Supervisory Board committees who answer shareholders' questions. The Company provides sufficient time for shareholders to raise their questions on agenda items prior to a vote being taken. All shareholder questions and answers are recorded in the General Meeting minutes. Each item on the General Meeting agenda is subject to a separate vote taken after debate on the given item is closed. All shareholders registered in the attendance list and present at the General Meeting when the vote is being taken are entitled to vote, with the exception of those shareholders who hold priority shares. The right to vote at General Meetings is not attached to the Company's priority shares. In addition, shares whose holders' voting rights for General Meetings were suspended by a decision of the Czech National Bank are not considered voting shares; the shareholder is informed of such a suspension at the time of his/her registration in the attendance list and the Company indicates this fact (including the reasons for the suspension) in the attendance list.

C. Information Disclosure and Transparency

The Company rigorously endeavours to prevent the **misuse of insider information** that might allow persons who have special relationships with the Company to enjoy unauthorised gains in dealing with the Company's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Company or with investment instruments derived from such securities, which they perform on their own account. Erste Bank Group's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Company's Board of Directors are obliged to inform the Company's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period.

The Company has established a **Compliance** Department whose principal activities include ensuring compliance of the Company's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Company activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis. A **list of persons** with access to insider information is available with the Company's Secretary; the list is regularly updated.

The Company diligently fulfils and complies with all Czech legal regulations, principles of the Corporate Governance Code based on OECD principles and EU Commission recommendations regarding corporate governance and, on an ongoing basis, provides shareholders and investors with all material information on its

business activities and financial and operating results, ownership structure and other significant events. All information is prepared and disclosed in compliance with the highest standards of accounting and the disclosure of financial and non-financial information. Moreover, the Company discloses a great deal more information than the statutory requirements so that shareholders and investors may make informed decisions concerning ownership of the Company's securities and voting at General Meetings. The Company uses various distribution channels to publish such information, e. g. the media or the Company website, where information is published in both Czech and English to enable equal participation of foreign investors and shareholders in decisions regarding the Company's business and development.

The Company regularly publishes annual and semi-annual reports. The annual report principally includes the audited financial statements and provides a picture of the Company's financial position, business activities and operating results. The report also provides information on the **Board of Directors and Supervisory Board member remuneration policy** in compliance with the legal regulations. The level of remuneration of Board of Directors and Supervisory Board members is approved annually by the General Meeting; the remuneration of the Board of Directors members who are also Company employees – deputies, is determined by the Supervisory Board. The Company has no equity option scheme for remuneration either for the members of the Board of Directors or the Supervisory Board.

In connection with the implementation of Act No. 93/2009 Coll. on auditors, an Extraordinary General Meeting appointed the company Ernst & Young Audit, s. r. o., as the external auditor of the annual financial statements for 2009.

D. Committees of the Company's Administrative Bodies

The Company has established committees under the Board of Directors and Supervisory Board to support the Company's activities and to ensure the internal management and accountability of these bodies. The individual committees' rules of procedure define the scope of their powers and include a precise description of applicable rules, tasks and decision-making procedures.

Audit Committee

Until 7 October 2009, the Audit Committee held the position of advisory body to the Supervisory Board. As such, it played a role in steering and planning internal audit and discussed key findings and information regarding the management and control system. In 2009, the Audit Committee met on three occasions; its members were Maximilian Hardegg, chairman, and members Mario Catasta, Heinz Kessler and Andreas Klingen.

Credit Committee of the Supervisory Board

The Credit Committee is principally an advisory and confirmation body for credit exposures beyond the limits of the approval authorities of the Board of Directors' Credit Committee. The members of the Credit Committee are: A. Klingen, B. Spalt and M. Wimmer.

Committees of the Board of Directors

Board of Directors Committees are advisory bodies of the Board of Directors established by resolution of the Board of Directors. The purpose of the committees is to originate and present technical recommendations to the Board of Directors; committees comprise Board of Directors members and selected Company employees. All the committees are accountable to the Board of Directors and submit a report on their activities at least once a year.

Credit Committee

The Credit Committee is the highest body assessing and approving credit transactions and products as well as assessing and approving the business policy process, the credit risk measurement and management system and the level of the Company's credit portfolio structure for the purpose of achieving the designated level of financial objectives, i. e. achieving the designated level of profitability while adhering to the defined level of credit risk.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is the highest body assessing and approving the process of planning, managing and controlling financial flows and the structure of the Company's assets and liabilities with the aim of achieving an optimal combination of profitability and financial risk. The Committee determines the Company strategy in this area and assigns tasks to the Company's organisational units to fulfil the strategy.

Financial Markets and Risk Management Committee

The Financial Markets and Risk Management Committee is the body that deals with decisions on operational issues of risk management processes related to financial markets.

Investment Committee

The Investment Committee is a body that assesses the expediency and effectiveness of capital expenditure and purchased services.

ATM Committee

The ATM Committee is the body that assesses and makes decisions regarding ATM issues (strategies, investments, locations, servicing, income, etc.) with the aim of ensuring a standardised and comprehensive approach to ATM network development.

IT Change Management Committee

The IT Change Management Committee decides on changes to "legacy systems" (in the go-live phase), including changes resulting from projects.

Customer Satisfaction Committee

The Customer Satisfaction Committee is a body designed to improve service quality and the satisfaction and loyalty of internal and external clients and to support measures that make the Bank's processes more effective.

Česká spořitelna Financial Group Marketing and Sponsorship Committee

The Česká spořitelna Financial Group Marketing and Sponsorship Committee is an advisory body of the Board of Directors, which discusses proposed marketing and sponsorship strategies and strategic communication concepts and campaigns and deals with the brand and support of sales channels including branch merchandising.

Retail Committee

The Retail Committee is the body that assesses and approves innovations and the launch or discontinuation of retail banking products and services.

Compliance, Operational Risk and Security Committee

The Compliance, Operational Risk and Security Committee is a body of the Board of Directors whose role is to decide on issues regarding the management of operational risk, compliance risk and security in relation to compliance in the Bank.

Capital Investments Committee

The Capital Investments Committee is a body of the Board of Directors that assesses and makes decision on capital investments of the Bank in real estate funds / venture capital companies.

E. Company Policy with Respect to Stakeholders

Information on this topic is available in the section Corporate Responsibility of Česká spořitelna (see page 50–51).

F. Principles of Internal Control and Rules for Accepting Risk in the Financial Reporting Process

The Company processes its financial accounts in the SAP system, which complies with exacting requirements for the security and quality of account preparation. System inputs are entered both manually and automatically from other ancillary systems.

The accounting unit complies with all statutory and legislative requirements. Procedures pertaining to accounting documents and their circulation have been put in place as required by the Accounting Act and in a manner that serves the needs of the control function and internal company requirements. The accounting unit has established separate regulations for accounting documents and their circulation and these are subject to regular review, particularly accounting document circulation, which adheres to the "four-eyes" control principle and eliminates the possibility of unauthorised accounting transactions by defining persons authorised to approve and perform accounting entries, i. e. who may be involved in the accounting process. The editing of accounting entries is subject to the same controls. Manual and automatic controls of the completeness and correctness of SAP system outputs are performed in respect of automatic accounting between SAP and ancillary accounting systems. Accounting documents are archived systemically and manually and the archiving system has been set up to comply with statutory requirements (the Accounting Act and Archiving and Records Service Act).

The accounting unit fulfils asset valuation requirements pursuant to Part IV of the Accounting Act (in accordance with the general principle of prudence) and International Financial Reporting Standards. The accounting unit has instituted several separate internal regulations for this area that comply with these statutory requirements and principally address the setting of asset input prices, i. e. their valuation under Accounting Act requirements, changes in their valuation (in particular, provisioning), asset amortisation, depreciation, disposal and stock taking and related tax requirements.

The area of interdepartmental bookkeeping is not separately addressed by statutory or legislative regulations, with the exception of the definition of basic features required, inter alia, for transparency. The accounting unit established interdepartmental bookkeeping based on historical developments while respecting current requirements for bookkeeping and for controlling accounting unit costs. Interdepartmental bookkeeping is primarily kept in the form of sub-ledger accounts whose contents are subject to regular review. Bookkeeping operations on sub-ledger accounts are controlled for accuracy on an ongoing basis.

The accounting unit primarily recognises provisions and reserves pursuant to the basic principles stipulated by the statutory accounting and tax regulations. The accounting procedures are additionally regulated by internal rules that, in addition to the foregoing, reflect the needs of key departments in relation to the accounting system in this area (audit, reporting, controlling, etc.). The methodology and accounting for the creation and release of provisions in the Company is concentrated in a single location and carried out by a small group of staff, which is advantageous, inter alia, from the perspective of logic, operational and reconciliation controls. The controls are performed on an ongoing basis both before and after operations. Given the impact on operating results, the general creation of provisions is not monitored by individual accounting item, but in a broader context.

Consolidated and standalone financial statements are submitted to the Company's statutory body on a monthly basis. The Company's Supervisory Board has the consolidated and standalone financial statements on hand at every one of its meetings. The consolidated and standalone financial statements of the Company are subject to internal audit testing at irregular intervals. The completion of the consolidated and standalone financial statements is monitored by the Audit Committee also evaluates effectivity of company's internal control. The Audit Committee also monitors the process of the consolidated and standalone financial statements statutory audit. The consolidated and standalone financial statements are testing to a standard external audit once a year; the pre-audit work is done first and this is followed by the audit work on the consolidated and standalone financial statements and annual report.

Organizational Structure

of ČS as of 31 December 2009

Chairman of the Board and C.E.O.	Vice Chairman of the Board of Directors and First Deputy C.E.O.	Member of the Board and Deputy C.E.O.	Member of the Board of Directors and Deputy C.E.O.
Gernot Mittendorfer	Dušan Baran	Daniel Heler	Jiří Škorvaga
1001 Office of the Board and the Supervisory Board Section	**2100** Accounting and Taxes Department	**3100** CS Financial Group Balance Sheet Management Section	**5100** Business Development Section
1100 Corporate Comunication Section	**2200** Controlling and Planning Section	**3600** Investment Banking Section	**5300** Remote Delivery Section
1400 Internal Audit Section	**2300** Property Management Section	**3700** Financial Markets – Wholesale and Trading Section	**5400** Card Centre Section
1600 Human Resources Section	**2010** Investors Relations Department	**3800** Financial Markets – Retail Distribution Section	**5500** Business Processing Section
1700 Marketing Section	**2030** CS Financial Group and Capital Participations Development Dep.	**3001** Business Support Sub-department	**5600** West Region Section
1310 Service Quality Management Department			District Branches in Region
4100 Corporate Customers Section			**5700** East Region Section
4200 Commercial Banking Centres Section			District Branches in Region
4300 Real Estate Business Section			**5800** External Sales Force and Co-operation Section
4400 Municipalities Section			**5001** Support Sub-department
4010 Trade Finance Department			
4050 Business Group Large Corporates Department			

Member of the Board and Deputy C.E.O.	**Member of the Board and Deputy C.E.O.**	**Member of the Board and Deputy C.E.O.**
Heinz Knotzer	Petr Hlaváček	Pavel Kysilka
6100 Legal Services and Compliance Section	**7300** Org-IT Section	**8100** Payment System and Settlement Section
6200 Central Risk Management Section	**7500** IT Development Section	**8200** Security Section
6300 Credit Risk Management and Credit Services Section	**7600** IT Decentralized Systems Section	**8300** Clients Account Administration Section
6400 Credit Risk Controlling and Portfolio Management Section		**8400** Financial Markets Back Office Section
6001 Support Sub-department		**8010** Economic and Strategic Research Department
		8001 EU Office

Report of the Supervisory Board and Audit Committee

During 2009 the **Supervisory Board** of Česká spořitelna, a. s., regularly discharged its duties in accordance with the law and the company's Articles of Association. As the company's oversight body, the Supervisory Board monitored the Board of Directors' exercise of its powers as well as the Bank's operations, finances and the realization of its strategic plans. The Supervisory Board was kept up to date on the bank's operations, its financial situation, and other material and important Bank matters.

In accordance with the legal provision, the Supervisory Board at its meetings reviewed the individual and consolidated financial statements as of 31 December 2009 and came to the conclusion that the books and accounting records were kept in a transparent manner in accordance with accounting regulations and that the accounts and year-end individual and consolidated financial statements fairly and faithfully reflect the financial situation of Česká spořitelna, a. s., and consolidated unit as of 31 December 2009. The audit of the year-end financial statements was performed by Ernst & Young Audit, s. r. o., who confirmed that according to their opinion the financial statements give a true and fair view of the financial position of Česká spořitelna, a. s., as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. The Supervisory Board with agreement took account of the auditor's statement.

The Supervisory Board also reviewed the Report on Relations between connected persons and in accordance with the provision 66a para 10 of the Commercial Code states that it took account of this Report without comments.

In view of all above facts, the Supervisory Board recommends that the General Meeting approves the financial statements of Česká spořitelna, a. s., for the year ended 31 December 2009 and the proposed profit allocation as submitted by the Board of Directors.

Manfred Wimmer
Chairman of the Supervisory Board

Until 6 October 2009 the **Audit Committee** of Česká spořitelna, a. s., performed its activity as an advisory body of the Supervisory Board and with effect from 7 October 2009 it became a company body.

In accordance with Act No. 93/2009 Coll., on Auditors and the Articles of Association of Česká spořitelna, a. s., the ČS Audit Committee was monitoring the procedure of setting up the Annual Financial Statements and the consolidated Annual Financial Statements, was evaluating the efficiency of the company's internal control, internal audit and risk management systems; it was also monitoring the process of the mandatory audit of the Annual Financial Statements and the consolidated Annual Financial Statements, evaluated independence of the auditor and recommended that the General Meeting designate Ernst & Young Audit, s. r. o., to perform the 2009 Annual Financial Statements.

At its regular meetings held according to the Activity Plan in 2009, the Audit Committee consented to the Internal Audit Periodic and Strategic Plans, discussed the Internal Audit Strategy and Reports on Focus and Activity of Internal Audit. It also evaluated functionality and effectiveness of the internal control system in ČS.

The Audit Committee focused, among other things, on development in risk management, the bank's security, fraud management and in fulfilment of measures resulting from audits and controls. It was also discussing updates of ČS internal regulations on the internal control system and internal audit.

Maximilian Hardegg
Chairman of the Audit Committee

Consolidated Financial Statements

for the Year Ended 31 December 2009

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

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ERNST & YOUNG

Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

We have audited the accompanying consolidated financial statements of Česká spořitelna, a. s., and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on the Group, see Note 1 to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Česká spořitelna, a. s., as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Represented by

Martin Zuba
Partner

Magdalena Soucek
Auditor, License No. 1291

9 March 2010
Prague, Czech Republic

A member firm of Ernst & Young Global Limited, Ernst & Young Audit, s. r. o., with its registred office at Karlovo náměstí 10, 120 00 Prague 2,
has been incorporated in the Commercial Register administered by the Municipal court in Prague, Section C, entry No. 88504, under identification No. 26704153.

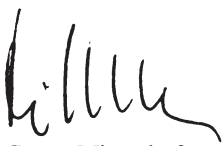
Consolidated Statement of Financial Position

as at 31 December 2009

CZK mil.	Note	2009	2008
Assets			
1. Cash and balances with the CNB	6	29,371	24,285
2. Loans and advances to financial institutions	7	126,506	93,306
3. Loans and advances to customers	8	469,192	461,433
4. Provisions for losses on loans and advances	9	(14,713)	(8,929)
5. Securities at fair value through profit or loss		37,011	55,935
(a) Securities held for trading	10	29,644	36,709
(b) Securities designated upon initial recognition as at fair value through profit or loss	11	7,367	19,226
6. Positive fair value of derivative transactions	12	17,675	27,138
7. Securities available for sale	13	28,388	35,015
8. Securities held to maturity	14	111,977	118,938
9. Investments in associates and joint ventures	5	211	235
10. Investment property	15	12,375	13,563
11. Property under construction	16	4,725	5,800
12. Intangible assets	17	3,251	3,751
13. Property and equipment	18	15,390	15,401
14. Other assets	19	13,778	16,359
Total assets		**855,137**	**862,230**
Liabilities and shareholders' equity			
1. Amounts due to financial institutions	20	47,434	57,561
2. Amounts due to customers	21	643,420	642,504
3. Liabilities at fair value	22	8,129	7,696
4. Negative fair value of derivative transactions	23	16,412	25,595
5. Bonds in issue	24	43,119	39,204
6. Provisions	25	2,040	2,219
7. Other liabilities	26	17,719	16,885
8. Subordinated debt	28	13,404	5,197
9. Shareholders' equity		63,460	65,369
(a) Equity attributable to the Bank's shareholders	30, 31	63,168	64,805
(b) Non-controlling interests	29	292	564
Total liabilities and shareholders' equity		**855,137**	**862,230**

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

These consolidated financial statements were prepared by the Bank and approved by the Board of Directors on 9 March 2010.



Gernot Mittendorfer
Chairman of the Board and
Chief Executive Officer

Dušan Baran
Vice Chairman of the Board of Directors
and First Deputy CEO

Consolidated Income Statement

for the Year Ended 31 December 2009

CZK mil.	Note	2009	2008
Continuing operations			
1. Interest income and similar income	32	40,604	43,852
2. Interest expense and similar expense	33	(9,476)	(13,613)
Net interest income		**31,128**	**30,239**
3. Provisions for credit risks	34	(8,624)	(3,544)
Net interest income after provisions for credit risks		**22,504**	**26,695**
4. Fee and commission income	35	13,791	13,260
5. Fee and commission expense	36	(2,389)	(2,240)
Net fee and commission income		**11,402**	**11,020**
6. Net trading result	37	3,364	1,453
7. General administrative expenses	38	(19,269)	(19,541)
8. Other operating expenses, net	39	(2,823)	(5,551)
Profit from continuing operations before taxes		**15,178**	**14,076**
9. Income tax expense from continuing operations	41	(3,362)	(2,765)
Profit from continuing operations after taxes		**11,816**	**11,311**
Discontinued operations			
10. Profit from discontinued operations before taxes		–	4,504
11. Income tax expense from discontinued operations	41	–	(44)
Profit from discontinued operations after taxes		**–**	**4,460**
Net profit for the year			
Profit after taxes		**11,816**	**15,771**
Net profit for the year attributable to			
12. Bank's shareholders		12,022	15,813
13. Non-controlling interests	29	(206)	(42)
		11,816	**15,771**

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

Consolidated Statement of Comprehensive Income

for the Year Ended 31 December 2009

CZK mil.	Note	2009	2008
1. Net profit for the year		**11 816**	**15 771**
Other comprehensive gains and losses			
Hedges of net investments in foreign operations	31	84	(56)
Deferred tax	41	(17)	24
2. Hedges of net investments in foreign operations, net		**67**	**(32)**
3. Translation reserve	**31**	**(33)**	**138**
Gains and losses on revaluation of financial assets available for sale	31	1,825	(2,076)
Deferred tax	41	(140)	204
4. Gains and losses on revaluation of financial assets available for sale, net		**1,685**	**(1,872)**
Cash flow hedges	31	110	(124)
Deferred tax	41	(5)	6
5. Cash flow hedges, net		**105**	**(118)**
Total other comprehensive gains and losses after taxes		**1,824**	**(1,884)**
Comprehensive income for the year after taxes		**13,640**	**13,887**
Of that attributable to			
Bank's shareholders		13,879	13,922
Non-controlling interests		(239)	(35)
		13,640	**13,887**

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

Consolidated Statement of Changes in Shareholders' Equity

for the Year Ended 31 December 2009

CZK mil.

	Retained earnings	Revaluation of available for sale securities	Revaluation of hedging derivatives
At 1 January 2008	**37,526**	**(91)**	**(50)**
Net profit for the year	15,813	–	–
Other comprehensive gains and losses after taxes	–	(1,872)	(150)
Comprehensive income for the year after taxes	**15,813**	**(1,872)**	**(150)**
Dividends	(4,560)	–	–
Non-controlling interests in newly consolidated entities, capital increase	–	–	–
Sale of subsidiaries	–	–	–
Transfer to reserve funds	(538)	–	–
Use of funds	–	–	–
Treasury and Group share transactions	–	–	–
Allocation to retained earnings	(38)	–	–
At 31 December 2008	**48,203**	**(1,963)**	**(200)**
At 1 January 2009	**48,203**	**(1,963)**	**(200)**
Net profit for the year	12,022	–	–
Other comprehensive gains and losses after taxes	–	1,683	171
Comprehensive income for the year after taxes	**12,022**	**1,683**	**171**
Dividends	(15,504)	–	–
Non-controlling interests in newly consolidated entities, capital increase	–	–	–
Sale of subsidiaries	–	–	–
Transfer to reserve funds	(76)	–	–
Use of funds	–	–	–
At 31 December 2009	**44,645**	**(280)**	**(29)**

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

Equity attributable to the Bank's shareholders					Non-controlling interests	Total equity
Translation reserve	Statutory reserve fund	Share premium	Share capital	Total		
(246)	**3,236**	**1**	**15,200**	**55,576**	**1,633**	**57,209**
–	–	–	–	15,813	(42)	15,771
131	–	–	–	(1,891)	7	(1,884)
131	**–**	**–**	**–**	**13,922**	**(35)**	**13,887**
–	–	–	–	(4,560)	(215)	(4,775)
–	–	–	–	–	(31)	(31)
–	(98)	–	–	(98)	(790)	(888)
–	538	–	–	–	–	–
–	(7)	–	–	(7)	–	(7)
–	–	10	–	10	–	10
–	–	–	–	(38)	2	(36)
(115)	**3,669**	**11**	**15,200**	**64,805**	**564**	**65,369**
(115)	**3,669**	**11**	**15,200**	**64,805**	**564**	**65,369**
–	–	–	–	12,022	(206)	11,816
3	–	–	–	1,857	(33)	1,824
3	**–**	**–**	**–**	**13,879**	**(239)**	**13,640**
–	–	–	–	(15,504)	(50)	(15,554)
–	–	–	–	–	17	17
–	(7)	–	–	(7)	–	(7)
–	76	–	–	–	–	–
–	(5)	–	–	(5)	–	(5)
(112)	**3,733**	**11**	**15,200**	**63,168**	**292**	**63,460**

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2009

CZK mil.	Note	2009	2008
Profit from continuing operations before taxes		15,178	14,076
Profit from discontinued operations before taxes		–	4,504
Adjustments for non-cash transactions			
Creation of provisions for losses on loans, advances and other assets		8,624	3,692
Depreciation and amortisation of assets	38	2,741	2,854
Revaluation of investment property	15	1,459	867
Revaluation of property under construction	16	690	–
Unrealised loss/(profit) on securities at fair value through profit or loss and liabilities at fair value		332	(1,037)
Gain on the sale of subsidiary and removal from consolidation		(424)	(4,261)
Impairment of securities available for sale	39	644	2,294
Creation/(release) of other reserves		33	(89)
Change in fair values of derivatives		474	5,050
Accrued interest, amortisation of discount and premium		2,418	281
Other adjustments		(279)	(420)
Cash flows from operating profit before taxes and changes in operating assets and liabilities and movement in non-controlling interests		**31,890**	**27,811**
(Increase)/decrease in operating assets			
Minimum reserve deposits with the CNB		(2,610)	203
Loans and advances to financial institutions		(34,902)	(25,980)
Loans and advances to customers		(10,476)	(45,018)
Securities at fair value through profit or loss		17,317	4,746
Securities available for sale		7,093	(7,027)
Other assets		371	424
Increase/(decrease) in operating liabilities			
Amounts due to financial institutions		(10,525)	(1,708)
Amounts due to customers		916	53,979
Liabilities at fair value		359	149
Other liabilities		1,533	(1,010)
Net cash flow from operating activities before income tax and movement in non-controlling interests		**966**	**6,569**
Decrease in non-controlling interests		(17)	(160)
Income taxes paid		(2,623)	(3,623)
Net cash flow from operating activities		**(1,674)**	**2,786**

CZK mil.	Note	2009	2008
Cash flows from investing activities			
Proceeds on sale of securities held to maturity		2,349	19,948
Payments in respect of investment property		(271)	(973)
Net cash flow from the sale of a subsidiary undertaking		323	4,932
Payments in respect of property under construction		(1,341)	(1,312)
Purchase of tangible and intangible assets		(2,386)	(2,706)
Proceeds from the sale of tangible and intangible assets		358	801
Net cash flow from investing activities		**(968)**	**20,690**
Cash flows from financing activities			
Dividends paid		(15,504)	(4,560)
Dividends paid to minority shareholders		(50)	(215)
Payments with treasury and Group shares		–	10
Bonds in issue – sale		5,054	1,297
Bonds in issue – repurchase		(1,300)	(10,481)
Subordinated debt issued		8,207	(408)
Net cash flow from financing activities		**(3,593)**	**(14,357)**
Net increase/(decrease) in cash and cash equivalents		**(6,235)**	**9,119**
Cash and cash equivalents at beginning of year		**32,051**	**22,932**
Cash and cash equivalents at end of year	**42**	**25,816**	**32,051**

Cash Flow from Interest and Dividends Received

CZK mil.	2009	2008
Dividends received	173	816
Interest received	42,208	43,058
Interest paid	(8,956)	(13,483)

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

Notes to the Consolidated Financial Statements

1. Introduction

Česká spořitelna, a. s., (henceforth the "Bank"), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID: 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank's majority shareholder is EGB Ceps Holding GmbH, which is a 100 percent subsidiary of EGB Ceps Beteiligungen GmbH, a wholly-owned subsidiary of Erste Group Bank AG ("Erste Group Bank"). The change in ownership structure was adopted as part of the technical optimisation of the Erste Group Bank shareholders' structure; the optimisation took place in 2009 and was duly approved by the Czech National Bank ("CNB").

The principal activities of the Bank are as follows:
- Acceptance of deposits from the general public;
- Extension of credit;
- Investing in securities on its own account;
- Payments and clearing;
- Issuance of payment facilities, e. g. payment cards, traveller's cheques;
- Issuance of guarantees;
- Opening of letters of credit;
- Collection services;
- Proprietary or client-oriented trading with foreign currency assets, forward and option contracts, including foreign currency and interest rate transactions, and transferable securities;
- Management of clients' securities on clients' accounts and provision of advisory services;
- Participation in the issuance of shares and provision of related services;
- Safe-keeping and administration of securities or other assets;
- Rental of safe-deposit boxes;
- Provision of business advisory services;
- Issuance of mortgage bonds under special legislation;
- Financial brokerage;
- Depositary activities;
- Foreign exchange services (foreign currency purchases and sales);
- Provision of banking information; and
- Maintenance of a separate part of the Securities Centre's records.

The Bank provides the following additional services through its subsidiaries (together the "Group"):
- Funds management;
- Building society savings and loans;
- Pension insurance;
- Finance leasing;
- Factoring;
- Consulting services;
- Provision of investment services;
- Real estate activities;
- Lease of information technology, installation and repair of electronic equipment;
- Provision of software and advisory services in relation to hardware and software; and
- Corporate management and finance.

The Group is subject to the regulatory requirements of the CNB. These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk, foreign currency positions and operating risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement and collective investment.

2. Basis of Preparation

These consolidated financial statements comprise the accounts of the Bank and its subsidiaries and have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations approved by the International Accounting Standards Board ("IASB") as adopted by the European Union.

All figures are in millions of Czech crowns ("CZK mil."), unless stated otherwise.

These consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement to fair value of available for sale securities, financial assets and liabilities at fair value through profit or loss, all derivatives, issued debt securities which are hedged against interest rate risk, investment properties and assets held for sale. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i. e., cost less accumulated depreciation and cumulative impairment losses).

The accounting policies have been consistently applied by the entities in the Group.

The presentation of consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the reporting date and their reported amounts of revenues and expenses during the reporting period (refer to Note 4). Actual results could differ from those estimates.

Comparative information has been restated, where necessary, on a basis consistent with the current year presentation.

3. Significant Accounting Policies

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

(a) Principles of Consolidation

The consolidated financial statements present the accounts and results of the Bank together with its subsidiaries, associates and joint ventures.

Subsidiary Undertakings

The Group accounts for all business combinations using the purchase method. The Group, as the acquirer, measures the cost of a business combination as the aggregate of the fair values, as at the date of exchange, of assets given in exchange for control of the acquiree, and, until the effective date of IFRS 3 Business Combinations amended, any costs directly attributable to the business combination; these costs are recorded in the income statement.

At the acquisition date, the Group allocates the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at the fair values at that date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is accounted for as goodwill.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values.

The Group recognises any adjustments to those provisional values within twelve months of the acquisition date, with effect from the acquisition date, i. e. retrospectively.

An investment in a subsidiary is one in which the Group holds, directly or indirectly, more than 50 percent of its share capital or in which the Group can exercise more than 50 percent of the voting rights or where the Group can appoint or dismiss a majority of the Board of Directors or Supervisory Board members. An investment in a subsidiary is also one in which the Group holds, directly or indirectly, less than 50 percent of its share capital but has the power to govern the financial and operating policies of the company.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

All intercompany balances and transactions, including intercompany profits are eliminated on consolidation. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

A subsidiary is deconsolidated when a parent company loses its control over it. The results until the deconsolidation date are included in the consolidated results of the Group and, at the same time, the subsidiary's equity is deconsolidated, inclusive of cumulative currency translation differences recorded in the Translation reserve in the case of foreign entities, through the income statement (see Note 3 (r)).

The Group also acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The number of items of land and buildings owned by the subsidiary;
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary (e. g., maintenance, cleaning, security, bookkeeping, hotel services, etc.);
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information).

When the acquisition of subsidiaries does not represent a business,

it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

After application of the equity method, an investment in an associate is tested for impairment. The Group determines whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Joint ventures are consolidated using the equity method of accounting. The equity method is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity.

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not held by the Bank's shareholders and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from equity attributable to the Bank's shareholders. In certain cases (development companies), the Group enjoys a preferential right to seek payment of its share of the reported profits of these subsidiaries. No profit shares of minority shareholders are recognised in respect of these companies unless the Group's claim is fully satisfied.

(b) Loans and Advances, Other Off-balance Sheet Credit Exposures and Provisions for Losses on Loans and Advances

Loans and advances are initially measured at fair value including any directly attributable transaction costs. After initial measurement loans and advances are measured at amortised cost using the effective interest rate, including allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition as well as fees and costs that are an integral part of the effective interest rate. All loans and advances are recognised when cash is advanced to borrowers.

The Group classifies its loan receivables according to several criteria.

In terms of market segments, loans and advances are split into retail receivables and corporate receivables. Retail receivables include amounts due from individuals/households and sole traders and amounts due from individuals businessmen, small businesses with an annual turnover of less than CZK 30 million and small municipalities (the MSE category), receivables arising from construction savings loans, receivables arising from instalment sales, loans issued to finance the acquisition of securities, and leasing receivables. Corporate loans include amounts due from small and medium sized businesses with an annual turnover between CZK 30 million and CZK 1,000 million (the SME category), amounts due from large corporations (with an annual turnover of more than CZK 1,000 million), the public sector, factoring receivables and leasing receivables.

In terms of risk management, loan receivables are segmented into non-defaulted (performing) loans and defaulted (non-performing) loans, i. e. loans in default according to BASEL II rules.

In terms of accounting and provisioning, loans are segmented into individually impaired, collectively impaired loans, and unimpaired loans with no indication of impairment.

Provisions for losses on loans and advances are recorded when there is objective evidence over the irrecoverability of the loan balance. Provisions for losses on loans and advances represent management's assessment of realised losses in relation to the Group's on and off-balance sheet activities. Amounts are set aside to cover losses on loans and advances that have been specifically identified (individually impaired loans) and for potential losses which may be present based on portfolio performance (collectively impaired loans). The level of provisions is established by comparing the carrying amount of the loan and the present value of future expected cash flows using the effective interest rate. The level of provisions for individually insignificant loans whose impairment has been identified on the basis of an individual assessment is determined statistically at the product portfolio level. Individually significant loans are assessed individually to determine if they are individually impaired. The provisioning percentage in respect of individually significant loans which are collectively impaired is established on a portfolio basis. The amount of impairment loss is charged to the income statement line "Provisions for credit risks."

Restructuring of doubtful loan receivables reflects Bank's business decisions. Any receivable whose terms and conditions have been renegotiated because of the debtor's distress is considered restructured. Renegotiations of loan terms and conditions include, e. g., payment schedule changes (deferrals and reductions of regular payments, extended maturity), interest rate reductions, penalty interest waivers, or the provision of a new loan specifically for the repayment of the doubtful receivable.

Restructuring may proceed solely on the basis of a new contract. Restructured loans are initially assigned an internal rating of R. This rating can be upgraded no sooner than six months after the restructuring date. Restructured loans continue to be tested for impairment, either individually or on a collective basis.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for credit risks" in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. The relevant amount and recoveries of loans and advances previously written off are reflected in the income statement through "Provisions for credit risks."

Additional details can be found in Note 43.1.

(c) Debt and Equity Securities

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of the securities and pursuant to the Group's security investment strategy. In accordance with IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), the Group categorises its securities into the "Securities at fair value through profit or loss" portfolio, the "Securities available for sale" portfolio and the "Securities held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and their presentation in the financial statements.

All securities held by the Group are recognised using trade date accounting and initially recorded at their fair value including transaction costs, the only exception being "Securities at fair value through profit or loss" which are recognised at fair value net of transaction costs. Securities and liabilities arising from securities measured at fair value are recognized using trade date accounting. Securities and liabilities arising from securities measured at amortised cost are recognized using settlement date accounting.

Securities at Fair Value Through Profit or Loss

The portfolio includes debt and equity securities held for trading, including short-sales liabilities, that is, securities held by the Group with the intention of reselling them, thereby generating profits on price fluctuations in the short-term, and debt and equity securities that were designated, upon initial recognition, as at fair value through profit or loss. Changes in the fair values of assets held for trading and related interest are recognised in the income statement as "Net trading result". Changes in the fair values of securities not held for trading are reported as "Other operating expenses, net" in the income statement; interest income is presented within "Interest income and similar income".

Fair Value Option

In addition to securities, the portfolio of instruments at fair value through profit or loss includes, upon origination or acquisition, other financial assets and liabilities if such classification reduces the mismatch in reporting financial expenses or income or if it is a group of financial assets and liabilities which are typically managed and assessed according to fair value changes and such a management and presentation treatment complies with the investment strategy and/or the assets and liabilities management strategy or the financial assets and liabilities contain an embedded derivative other than those which do not modify significantly their cash flows or are inseparable.

For debt and equity securities traded on the Prague Stock Exchange ("PSE") and other stock exchanges, fair values are derived from quoted prices. In respect of securities which are publicly traded but the volumes or frequency are small, management assesses the identified market prices on an individual basis to determine if they provide an actual indication of the fair value. In exceptional cases, management uses its own estimates to make adjustments or uses the Group's own valuation models. The fair values of securities that are not publicly traded are estimated by the management of the Group as the best estimation of the cash flow projection reflecting the set of economic conditions that will exist over the remaining maturity of the securities, taking into account the issuer's credit risk.

Securities Available for Sale

Securities available for sale are securities held by the Group for an indefinite period of time that are available for sale as liquidity requirements arise or market conditions change.

Changes in the fair values of available for sale securities are recognised in equity as "Revaluation gains or losses", with the exception of their impairment and interest income and foreign exchange differences on debt securities. Impairment of securities available for sale is accounted for on the same basis as impairment of securities held to maturity (see below). When realised, the relevant revaluation gains or losses are taken to the income statement as "Other operating expenses, net". Interest income on coupons, amortisation of discounts or premiums, and dividends are included in "Interest income and similar income". Foreign exchange differences are reported within "Net trading result".

If a security is determined to be impaired, the loss is reversed from equity and charged to income through "Other operating expenses, net".

When an impairment loss on equity securities is accounted for, the recognised charge is not reversible through the income statement.

The impairment losses on debt securities can be reversed when, following the impairment recognition in expenses, the fair value increases for objective reasons as determined by the Bank.

Securities Held to Maturity

Securities held to maturity are financial assets with fixed maturity that the Group has the positive intent and ability to hold to maturity.

Securities held to maturity are initially measured at fair value, net of transaction costs incurred. Securities held to maturity are subsequently reported at amortised cost using the effective interest rate. The amortisation of premiums and discounts is included in "Interest income and similar income".

Impairment of securities

On a quarterly basis, the Group makes an assessment of the available-to-sale or held-to-maturity portfolios to determine if events occurred indicating that an investment has suffered impairment.

The criteria indicating impairment of a security include, but are not limited to: significant changes with an adverse effect on the investment that have taken place in the market, economic or legislative environment, or such changes that are expected to occur in the near future (e. g., absence of an active market), significant financial difficulties of the issuer or the committed party, or contractual breach such as the non-payment of the principal, interest or delayed payments. For equity securities classified as available for sale, a significant or prolonged decline in their fair value below their cost is also objective evidence of impairment. The Group generally treats "significant" as 30% and "prolonged" as greater than 18 months.

If there is objective evidence that an available-for-sale security is permanently impaired, the cumulative loss is removed from equity and recognised in profit or loss within "Other operating expenses, net". The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost of security (plus/(less) accrued premium, discount and interest, if any, in the case of debt securities) and its current fair value, less any impairment loss on that security previously recognised in profit or loss.

If subsequently, after the impairment loss was recognised in profit or loss, the fair value of debt securities classified as available for sale increases and the fair value increase is provable, it is recognised in profit or loss within "Other operating expenses, net"; however, the fair value increase does not exceed the amount of the previously recognised impairment loss. The increase in the fair value of equity securities is recognised in equity; previously recognised impairment losses are irreversible.

If there is objective evidence that an impairment loss on bonds classified as held to maturity securities has been incurred, the amount of the loss is measured as the difference between their amortised cost and the present value of estimated future cash flows discounted at the bonds' original effective interest rate. The impairment loss is recognised through a provision in profit or loss within "Other operating expenses, net".

Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(d) Bonds in Issue

Own issues of debt securities are recognised in the statement of financial position within "Bonds in issue", the only exceptions being subordinated bonds, which are recognised within "Subordinated debt", and issued debt securities measured at fair value, which are recognised within "Liabilities at fair value". Bonds in issue and subordinated debt are initially measured at issue price plus any direct costs of issue. The issue price is gradually increased to reflect accrued interest expense, determined using the effective interest rate method, incurred in issued bonds from the issue settlement date to the maturity date. When issued bonds are repurchased, the difference between the agreed price and carrying amount is recognised in profit or loss within "Net trading result".

(e) Off-setting of Financial Instruments

Financial assets and liabilities are not offset, except when the offset reflects the substance of the transaction (i. e., the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously) and is legally enforceable.

(f) Sale and Repurchase Agreements

Where debt or equity securities are sold under a concurrent commitment to repurchase them at a pre-determined price ("repo transactions"), they remain at fair value or amortised cost (refer to Note 3 (c)) within the relevant portfolio on the statement of financial position and the consideration received is recorded in "Amounts due to financial institutions" or "Amounts due to customers." Conversely, debt or equity securities purchased under a concurrent commitment to resell them ("reverse repo transactions") are not recognised in the statement of financial position and the consideration paid is recorded in "Loans and advances to financial institutions" or "Loans and advances to customers". Interest is accrued evenly over the life of the agreement.

(g) Liabilities at Fair Value

The Group classifies as liabilities at fair value liabilities held for trading and liabilities for which it uses the fair value option as set out in IAS 39.

Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the Group records an obligation to return them which is recognised at fair value as a trading liability and is presented in the statement of financial position line "Liabilities at fair value". Upon the repurchase of securities, the difference between the carrying amount of the obligation and the contracted purchase price is recognised in "Net trading result".

The Group additionally classifies as liabilities at fair value certain issued bonds and deposits with embedded derivatives because management believes that this classification materially reduces the inconsistency in valuing these liabilities.

(h) Investment Property and Property Held for Sale (Inventory) and Assets under Construction

Investment Property

Investment property is property (land, a building or part of a building or both) held to earn rentals, for capital appreciation or both. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are valued as investment property. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, the Group states investment property at fair value and gains or losses arising from changes in the fair value are included in the income statement line "Other operating expenses, net".

The fair value is the estimated amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction at the remeasurement date.

The valuation is based upon the calculation of expected annual net income by using the expected yield method. The expected yield is determined using the comparison method (similar realised transactions on the same market).

Investments in land and buildings that are constructed or developed for future use as investment property are classified as "Assets under Construction" until construction or development is complete.

Property Held for Sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. Until construction or development is complete, this property is classified as "Assets under construction" and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory not only includes the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised only to the extent to which they directly relate to the acquisition of real estate.

Sales of these assets/apartments are recognised as revenues through "Other operating expenses, net" when a statement is received from the Cadastral Office regarding the registration of the apartments in the name of a new owner. The same income statement line reflects the costs incurred in selling the apartments, that is, the value of the asset and other expenses associated with the sale of the apartments (which are not capitalised).

Property under construction is classified as inventory after its completion provided that it was not sold as at the balance sheet date and its sale can be expected during the next twelve months.

(i) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reported in the statement of financial position as a component of "Intangible assets".

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. The Group recognises the impairment through the income statement line "Other operating expenses, net." Any impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(j) Intangible Assets

Intangible assets include identifiable assets without physical substance and which have an estimated useful life exceeding one year. The Group has determined that, in addition to fulfilling these criteria, intangible fixed assets should have a cost greater than CZK 60,000. Intangible assets are carried at cost less accumulated amortisation and provisions for impairment and are amortised on a straight line basis through "General administrative expenses – amortisation of intangible assets" over an estimated useful life not exceeding four years. Software acquisition, valuable rights and other intangible assets are treated as intangible assets. Items with a cost less than CZK 60,000 are recognised in expenses in the income statement as part of "General administrative expenses – other administrative expenses" during the period in which they were acquired. Costs associated with the maintenance of intangible assets (software) are expensed through "General administrative expenses – other administrative expenses" as incurred whilst costs of technical improvements, provided they exceed CZK 40,000 per asset upon completion, are capitalised and increase the acquisition cost of the intangible fixed asset.

(k) Property and Equipment

Property and equipment includes identifiable tangible assets with physical substance and which have an estimated useful life exceeding one year. The Group has determined that, in addition to fulfilling these criteria, tangible fixed assets should include assets with a cost greater than CZK 13,000. Property and equipment is stated at historical cost less accumulated depreciation and impairment provisions and is depreciated when ready for use through the income statement line "General administrative expenses – depreciation of property and equipment" on a straight line basis over their estimated useful lives. Depreciation periods for individual categories of assets are as follows:

Land and buildings	
Land	Not depreciated
Buildings and structures	20–50 years
Equipment, fixtures and fittings	
Electronic machines and equipment	6–12 years
Tools and other equipment	4–12 years
Equipment, fixtures and fittings	4–6 years
Selected low value machines and equipment	2 years
Works of art	Not depreciated

Leasehold improvements are depreciated over the lease term and based on their classification in the relevant asset category. Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost also includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain and loss arising on the disposal of property and equipment is determined based on its carrying value and is recognised in the income statement line "Other operating expenses, net" in the year of disposal.

Property and equipment costing less than CZK 13,000 and technical improvements costing less than CZK 40,000 are charged to the income statement line "General administrative expenses – other administrative expenses" in the period of acquisition.

Repairs and maintenance of property and equipment are charged to the income statement line "General administrative expenses – other administrative expenses" in the year in which the expenditure is incurred. Completed technical improvements exceeding CZK 40,000 for the taxation period are capitalised and increase the acquisition cost of tangible assets.

(l) Non-current Assets Held for Sale

The category of "assets held for sale" includes non-current assets that are taken out of active use at the date on which criteria for sale are met, that is, the sale is approved by an authorised person, steps to locate a buyer have been initiated, and a draft of a purchase contract and other documentation is being prepared. At the same date, the assets held for sale are measured at the lower of carrying amount and fair value less selling costs. At the same time, depreciation on such assets ceases. The fair value less selling costs is determined based on an expert appraisal (refer to Note 4 (g)).

In circumstances where the fair value less selling costs is lower than the carrying amount, the difference is accounted for through the recognition of an extraordinary write-off in the income statement line "Other operating expenses, net". Any subsequent revaluation of assets arising from the change in the fair value less selling costs is presented in the same income statement line.

(m) Impairment of Non-financial Assets

Where the carrying amount of an asset stated at net book value is greater than its estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs, and the estimated future economic benefits arising from the use of the asset and its disposal at the end of its useful life.

The largest components of the Group's assets are periodically tested for impairment. Provisions for impairment losses are recognised in the income statement line "Other operating expenses, net".

For inventory (property and property under construction held for sale in the ordinary course of business) the Group determines the realizable value of assets on the basis of its estimate of discounted future cash inflows to be derived from the future sale of the prop-

erty and outflows associated with the sale and construction of the property. The Group uses budgeted future cash inflows and outflows which are regularly assessed for reliability by comparing the budget to actual developments. The budgeted inflows arising from the sale and outflows associated with construction and sale are also regularly reviewed by reference to estimated property market developments.

In determining the net realisable value of inventory the Group refers to the most recent budget and the current state of completion which is compared to the future value of apartments and/or office and commercial premises. In circumstances where the anticipated effect of the sale of the inventory falls below its cost, the Group writes down the inventory to its net realisable value.

Significant accounting estimates and decisions in the application of accounting policies are additionally disclosed in Note 4.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Guarantees and Other Off-balance Sheet Credit Related Commitments

In the normal course of business, the Group enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, loan commitments, undrawn loan facilities and letters of credit. The off-balance sheet loan commitments are initially recognised at fair value, which equals the fee charged by the Group, and subsequently are reported at the higher of accrued fee or best estimate of losses incurred in the performance of off-balance-sheet commitments.

If a committed guarantee is provided, the paid-out amount is recognised within "Loans and advances to customers". Losses on bank guarantees are estimated using the same method as for undrawn lines of credit. In estimating the losses, the Group refers to the historical data regarding risk parameters – credit conversion factors ("CCF"), probability of default ("PD"), and loss-given default ("LGD"). Additional details can be found in Note 43.1.

Provisions are made for estimated losses on these commitments on the same basis as set out in Note 3 (b) in respect of on-balance sheet loan exposures. For these purposes, off-balance sheet items are treated similarly to on-balance sheet exposures. Once a committed guarantee or credit line is drawn the general provision is reversed and a new impairment provision is created against an on-balance sheet receivable, which is tested for impairment.

Any increase in liabilities from guarantees is presented in the income statement within "Provisions for credit risks". Fees received are recognised on a straight-line basis over the term of the guarantee and are presented in the income statement line "Fee and commission income".

(p) Shareholders' Equity

The statutory reserve fund is accumulated in compliance with legislation up to 20 percent of share capital depending on the legal form of the company in the Group. Use of the statutory reserve fund is limited by legislation and the articles of the Bank. The fund is not available for distribution to shareholders.

Where the Bank or its subsidiaries purchase the Bank's treasury shares or obtain rights to purchase its treasury shares, the consideration paid including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. In selling treasury shares, the Bank recognises the difference between their selling price and cost as share premium.

Dividends reduce retained earnings in the period in which they are declared by the Annual General Meeting.

(q) Accrued Interest

Accrued but uncredited interest on outstanding loan balances, debt securities, deposit products, bonds in issue and subordinated debt is recognised under accrual accounting and reported within "Other assets" and "Other liabilities", respectively.

(r) Foreign Currency

The Group's consolidated financial statements are presented in Czech crowns, which is also the Bank's functional currency. Items included in the consolidated financial statements are initially measured using the currency of primary economic environment in which the Group operates ("functional currency"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions denominated in foreign currencies are initially recognised in the functional currency of the respective entity in the Group, using exchange rates applicable on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the respective exchange rate prevailing at the reporting date. Realised and unrealised gains and losses on foreign exchange are recognised in the income statement in "Net trading result", with the exception of foreign exchange rate differences on equity securities included in the available-for-sale portfolio which are reported as

a component of a change in the fair value and foreign exchange rate differences on derivatives entered into with a view to hedging currency risk associated with expected foreign currency cash flows from assets or liabilities whose foreign exchange rate differences are not reported in the income statement.

Upon consolidation, the statement of financial position items of entities that report in other than Czech crowns are translated into Czech crowns at the official exchange rate announced by the CNB at the reporting date. Income statement items are translated using an average annual exchange rate announced by the CNB. Exchange differences arising from the use of the statement of financial position and average exchange rates are recognised in equity as "Retranslation reserve". On disposal of a foreign operation, cumulative currency translation differences, which were recorded in the Retranslation reserve, relating to that particular foreign operation are recognised in the income statement in the same period in which the gain or loss on disposal is recorded.

(s) Share-based Payments

With a view to improving the relationship of staff with the Bank, fostering loyalty of the Bank's key employees and attracting new key managers, the Supervisory Board of Erste Bank, resolved, based upon authorisation given by the General Meeting of Shareholders dated 8 May 2001, to implement an Employee Erste Bank Stock Ownership Programme ("ESOP") and a Management Erste Bank Stock Option Programme ('MSOP") within the Bank. Discounts related to both programmes are presented within "General administrative expenses – Other personnel expenses". For details see Note 38 (c).

(t) Interest Income and Interest Expense

Interest income and expense are recognised on an accrual basis, using the effective interest rate method. Outstanding penalties, contractual sanctions and interest on non-performing loans, which are those loans that have overdue interest and/or principal, or for which management of the Group otherwise believes the contractual interest or principal due may not be received, are only recognised on their collection.

The Group also recognises interest income on non-performing loans. This interest income represents interest income using the effective interest rate in respect of the assets less a provision.

The Group uses the capitalisation model for borrowing costs in respect of inventories (property under construction). Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

(u) Dividend Revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

(v) Fees and Commissions

Fees and commissions are recognised on the accrual basis, with the exception of fees that are considered to be an integral part of the effective interest rate.

The effective interest rate includes the fees directly associated with the provision of the loan, such as loan origination fees, loan application processing fees, etc. These fees are reduced to reflect the Group's direct external transaction costs involved in issuing loans.

(w) Customer Loyalty Programmes

Customer loyalty programmes comprise the Bonus Programme. In 2009 the Bank modified the accounting treatment of the loyalty programme as follows: It ceased establishing a provision for estimated costs to be incurred in the future use of bonus points and adjusted the recognition of the related revenues. Fees for payment cards are recognized in income when earned. Commissions from traders for transactions via payment cards are recognized into income as bonus points become due. The provision established in previous years was reclassified to deferred income which is recognized into income based on the costs actually incurred in the Bonus Programme. At the reporting date, the level of deferred income is adjusted to reflect the current balance of unused points.

(x) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The Group as a Lessee

Leases of property and equipment under which the Group assumes substantially all the risks and rewards incidental to ownership (finance leases) are recognised in the statement of financial position by recording an asset at cost and a liability equal to the present value of all future lease payments. Leasehold improvements on leased assets are depreciated in accordance with the depreciation policy noted above. The depreciation period is the estimated useful life of the asset, or the lease term if shorter. Lease payments are apportioned between repayments of principal, which reduce the lease liabilities, and interest expense so as to achieve a constant rate of interest on the remaining balance of the lease liability. The finance charge component of the lease payment is charged directly to income.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

The Group as a Lessor

With respect to assets held under finance leases, the Group transfers substantially all the risks and rewards incidental to owner-

ship of the leased asset to a lessee and the assets are recognised as "Loans and advances to customers" in the statement of financial position caption "Finance leases". A receivable is presented at an amount equal to the net investment in the lease over the lease term. This amount equals the present value of the minimum lease payments (including both guaranteed and unguaranteed residual values attributable to the lessor) and the initial direct costs where the present value is calculated using the interest rate implicit in the lease. Finance lease income arising from a lease payment receivable is recognised in the income statement as interest income based on the interest rate implicit in the lease reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

(y) Factoring

Recourse Factoring

The Group recognises funding/prepayments made to factoring clients as loans. Receivables received as part of factoring transactions are maintained off-balance sheet as received collateral of loans granted.

Non-recourse Factoring

The Group recognises receivables received as part of factoring transactions in "Other assets" and, at the same time, recognises a corresponding liability to factoring client in "Other liabilities".

(z) Taxation

Tax on the profit or loss for the year comprises the current year tax charge, adjusted for deferred taxation. Current tax comprises the tax payable calculated on the basis of the taxable income for the year, using the tax rate enacted by the reporting date, and any adjustment of the tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. However, this does not apply to temporary differences arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit (tax loss). The principal temporary differences arise from certain non-tax deductible reserves and provisions, tax and accounting depreciation on tangible and intangible assets and the revaluation of other assets.

The estimated value of tax losses expected to be available for utilisation against future taxable income and tax deductible temporary differences are offset against the deferred tax liability within the same legal tax unit to the extent that the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be available to allow the asset to be recovered.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

(aa) Derivative Instruments

Derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency and interest rate options (both purchased and sold), futures and other derivative financial instruments. The Group uses various types of derivative instruments in both its trading and hedging activities.

Derivative instruments entered into for trading or hedging purposes are recognised at fair value as "Positive fair value of derivative transactions" and "Negative fair value of derivative transactions". Realised and unrealised gains and losses are recognised in the income statement line "Net trading result", the only exception being unrealised gains and losses on cash flow hedges which are recognised in equity. Fair values of derivatives are based upon quoted market prices or pricing models which take into account current market and contractual prices of the underlying instruments, as well as the time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with gains and losses reported in the income statement.

Hedging derivatives are defined as derivatives that comply with the Group's risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent.

If the Group uses a fair value hedge, the hedged item is remeasured at fair value and the gain or loss from the remeasurement is recognised as an expense or income as appropriate. The same accounts of expense and income that reflect the gain or loss from remeasuring the hedged item at fair value are also used in accounting for changes in fair values of hedging derivatives that are attributable to the hedged risk. Fair value hedges are used to hedge interest and

foreign currency risk exposures. Bonds, issued bond liabilities and granted loans are hedged items while interest rate and foreign currency derivatives serve as hedging instruments.

If the Group uses a cash flow hedge, the gains or losses from changes in fair values of hedging derivatives that are attributable to the hedged risk are retained in equity in the statement of financial position and are recognised as an expense or income in the periods in which hedged cash flows effect profit or loss. Cash flow hedges are used to secure cash flows from sales of shares and share certificates denominated in foreign currencies classified as available for sale. Foreign currency derivatives serve as hedging instruments.

Certain derivative transactions do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value remeasurement gains and losses reported in "Net trading result".

If the Group uses a hedge of a net investment in foreign operations, the changes in fair values of hedging instruments that are attributable to the fluctuation of foreign currency rates are recognised as "Foreign exchange differences arising upon consolidation (Translation reserve)" in equity. Foreign currency derivatives and foreign currency financial liabilities serve as hedging instruments.

(bb) Transactions with Securities Undertaken on Behalf of Clients

Securities received by the Group into custody, administration, management or safe-keeping are typically recorded at market or nominal values if the market value is not available and maintained off-balance sheet. "Other liabilities" include the Group's payables to clients arising from cash received to purchase securities or cash to be refunded to the client.

(cc) Segment Reporting

Segment information is based on two segment formats. The primary format represents business segments – retail banking (including construction savings products), corporate banking, investment banking and other operations. The secondary format represents the Group's geographical markets – the Czech Republic, EU countries, other European countries and other regions.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy. Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for non-controlling interests.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Group's consolidated statement of financial position. Segment assets and liabilities do not include income tax items.

(dd) Cash and Cash Equivalents

The Group considers cash and deposits with the CNB, treasury bills with a residual maturity of three months or less, nostro accounts with financial institutions and loro accounts with financial institutions to be cash equivalents. For the purposes of determining cash and cash equivalents, the minimum reserve deposit with the CNB is not included as a cash equivalent due to restrictions on its availability.

(ee) Changes in Accounting Policies Arising from the Adoption of New IFRSs and Amendments to IASs Effective 1 January 2009

The Group has adopted the following standards and interpretations:

- Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements; the amendments relate to the measurement of investments in subsidiaries, joint ventures and associates (effective 1 January 2009);
- Amendment to IFRS 2: Share-based Payments, defining vesting conditions and cancellations (effective 1 January 2009);
- Revised IFRS 3: Business Combinations (effective 1 July 2009);
- Amendments to IFRS 7: Financial Instruments: Disclosures, including requirements to disclose additional information about fair value measurement (effective 1 January 2009);
- IFRS 8: Operating Segments (effective 1 January 2009);
- Revised IAS 1: Presentation of Financial Statements, including the requirement to compile the statement of comprehensive income (effective 1 January 2009);
- Amendments to IAS 27: Consolidated and Separate Financial Statements, dealing with accounting for non-controlling interests and loss of control over a subsidiary (effective 1 July 2009);
- Amendments to IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements, relating to puttable financial instruments and obligations arising on liquidation (effective 1 January 2009);
- Amendments to IAS 39: Financial Instruments: Recognition and Measurement, relating to qualifying hedged items (effective 1 July 2009);
- May 2008 Improvements to International Financial Reporting Standards including minor amendments to IFRS 7, IAS 1, 2, 7, 8, 10, 16, 19, 20, 23, 27, 28, 29, 31, 32, 34, 36, 38, 39, 40, 41 (effective 1 January 2009) and IFRS 1, 5 (effective 1 July 2009);
- Amendments to IFRIC 9: Reassessment of Embedded Derivatives and IAS 39: Financial Instruments: Recognition and Measurement, concerning embedded derivatives (effective 30 June 2009);
- IFRIC 12: Service Concession Arrangements (effective 1 January 2008);

– IFRIC 13: Customer Loyalty Programmes (effective 1 July 2008);
– IFRIC 15: Agreements for the Construction of Real Estate (effective 1 January 2009);
– IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).

At the date of authorisation of the accompanying financial statements, the following standards and interpretations were in issue and endorsed by the EU but not yet effective:

– Restructured IFRS 1: First-time Adoption of IFRS (effective 1 July 2009);
– Amendments to IAS 32: Financial Instruments: Presentation (effective 1 February 2010);
– IFRIC 17: Distributions of Non-cash Assets to Owners (effective 1 July 2009);
– IFRIC 18: Transfers of Assets from Customers (effective 1 July 2009).

The adoption of these standards in future periods is not expected to have a material impact on consolidated profit or equity.

The following standards or interpretations have been issued by the IASB but not yet endorsed by the EU:

– April 2009 Improvements to International Financial Reporting Standards, including minor amendments to IFRS 2, IAS 38, IFRIC 9, 16 (effective 1 July 2009) and IFRS 5, 8, IAS 1, 7, 17, 36, 39 (effective 1 January 2010);
– Amendments to IFRS 1: First-time Adoption of IFRS, defining additional exemptions for first-time adopters (effective 1 January 2010);
– Amendments to IFRS 2: Share-based Payments, regarding group cash-settled share-based payment transactions (effective 1 January 2010);
– IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2010);
– Revised IAS 24: Related Party Disclosures (effective 1 January 2011);
– Amendments to IAS 32: Classification of rights issues (effective 1 February 2010);
– Amendments to IFRIC 14: Prepayments of a minimum funding requirement (effective 1 January 2011);
– IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010).

These standards are not yet effective as at the reporting date. Endorsement by the EU is expected by the time the standards and interpretations become effective. The Group believes that the adoption of these standards will not have a material impact on the consolidated profit or equity.

4. Significant Accounting Estimates and Decisions in the Application of Accounting Policies

The current financial crisis and subsequent impacts on the financial markets and overall economic environment have triggered significant adjustments to the valuation of the Group's assets. Management is prudent in monitoring all relevant factors to determine appropriate valuation.

(a) Impairment of Loans and Advances

The Group regularly assesses its loan portfolio for possible impairment. As part of this analysis, the Group splits all loans into two categories: defaulted loans (according to the BASEL II definition) and non-defaulted loans. In respect of the first category of loans, the Group believes that there is objective evidence demonstrating that a loss event occurred subsequent to the initial recognition of these loans which impacts future anticipated cash flows arising from these loans and these loans are therefore impaired on an individual basis. For individually impaired loans, the Group makes an estimate of realised losses on an individual basis for individually significant loans, and on a portfolio basis for individually insignificant loans by reference to historical indicator statistics. Loans 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 Group additionally splits performing loans into collectively impaired (the 7–8 internal rating) where an indication of impairment on a portfolio basis exists, and unimpaired (the 1–6 internal rating). With regard to all loans with objective evidence of impairment on a portfolio basis, the Group assesses decrease in the estimated future cash flows from the portfolio although the decrease cannot yet be identified with individual loans. Management of the Group uses estimates based on historical experience of losses on loans that have similar risk characteristics. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data. Details about provisioning can be found in Note 43.1.

(b) Debt Securities Held to Maturity

Based upon the model of the development of future cash flows and the structure of its statement of financial position, the Group invests in securities and categorises a portion of purchased securities in the held to maturity portfolio. The key criterion driving this decision is the Group's ability to hold the security to maturity assuming sufficient financial coverage throughout the whole term of the investment. Should the sale of a significant volume of the held to maturity debt securities take place before their maturity, pursuant to IAS 39, the Group would be required to reclassify the held to maturity securities into one of the remaining portfolios. In terms of the Group's asset management policy, the purchase of a debt security into the held to maturity portfolio is primarily considered a tool of banking book interest rate risk management, the ability to hold such a debt

security to maturity is a pre-condition for using the debt security as a banking book interest rate risk management tool.

(c) Impairment of Securities

Securities held by the Group, with the exception of debt securities in the held to maturity portfolio, are regularly marked to market and this fair value revaluation is recognised in the income statement (for the at fair value through profit or loss portfolio) or in equity (for the available for sale portfolio). When a decline in the fair value of an available for sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events: significant financial difficulty of the issuer or obligor, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, etc.

Bonds classified as held to maturity are regularly tested for impairment. If the Group concludes that there is objective evidence that a bond is impaired it is reclassified to the available-for-sale portfolio and the loss is recognised in profit or loss.

(d) Valuation of Instruments without Direct Quotations

Financial instruments without direct quotations in an active market are valued using the mark to model technique. Each model is calibrated for the most recent available market data. While the models are only built on available data, their use is subject to certain assumptions and estimates (e. g. for correlations, volatilities, etc.). Changes in the model's assumptions may affect the reported fair value of the relevant financial instruments.

The valuation of structured bonds, the yields of which are linked to the underlying assets (asset backed securities) is performed monthly on the basis of quotations requested from listing agents. With assistance from Erste Group Bank, the Group analyses the quoted prices by reference to the results of internal valuation models and other facts. Based on this analysis, the Group can value its bonds at other than the quoted price. Where multiple quotations are available, the Group uses the lowest quotation.

(e) Provisions

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. Nevertheless the actual results may differ from the estimated losses at the reporting date.

(f) Investment Property

The fair value of investment property is determined by an independent real estate appraiser and is based upon expected annual net income by using the expected yield method. The expected yield is determined using the comparison method (similar realised transactions on the same market).

The current decrease in demand for real estate driven by the financial and economic crisis and uncertainty regarding future economic developments may result in differences between the actual and expected yields determined using the comparison method as at the reporting date.

(g) Fair Value of Non-current Assets Held for Sale

Non-current assets held for sale are valued based on independent, expert appraisals.

(h) Impairment of Assets

The Group tests its assets for impairment at least annually to determine whether there is any indication that they have suffered impairment. If any such indication exists, the Group compares the carrying amount of the assets with their recoverable amount defined as the higher of fair value less costs to sell and value in use.

For inventory (property under construction) the Group determines the net realizable value on the basis of the estimated, discounted future cash flows generated from the sale of the property after deducting the costs incurred on the sale and construction of this property.

With regard to impaired tangible assets within the scope of IAS 16, the Group determines the fair value less costs to sell. The fair value is arrived at on the basis of expert appraisals prepared by certified appraisers.

Depreciation periods applicable to individual categories of property, plant and equipment and intangible assets are disclosed in Notes 3 (j) and 3 (k), respectively.

The Group determines the value in use of intangible assets by estimating discounted future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal.

The fair value of securities held to maturity and securities available for sale that fall within the scope of IAS 39 is determined on the basis of standard market parameters or valuation models as appropriate.

(i) Fair Value of Collateral

In the course of its lending business, the Group accepts movable and immovable assets and securities pledged as collateral. The Group also uses various forms of guarantee statements to collateralise its loan receivables. Movable and immovable assets pledged as collateral are carried off-balance sheet and are initially valued on the basis of an expert appraisal (nominal value of collateral)

which is reduced, based on the Group's experience, to the realisable (fair) value using the collateral discount coefficient which is derived from the type of collateral. All coefficients are described in the Group's internal policy. Guarantees are valued at the nominal value reduced by the collateral coefficient which is derived from the guarantor's solvency. Subsequently, the Group regularly assesses the realisable value of collateral for impairment. This assessment is mostly conducted as part of the regular (at least annual) monitoring of loan receivables. With respect to a large amount of collateral of the same type, the Group uses portfolio models to determine if the realisable value of the collateral decreased. The Group takes into account the realisable value of collateral in calculating provisions for loans and advances. Details about the determination of the realisable (fair) value of collateral are provided in Note 43.1.

5. Companies Included in Consolidation

The tables below list the most significant companies included in the consolidation of the Bank.

Companies providing financial services:

Name of the company	Registered office	Principal activities	Group interest	
			2009	2008
Companies held through Česká spořitelna, a. s.				
Factoring České spořitelny, a. s.	Prague	Factoring	100.0%	100.0%
Penzijní fond České spořitelny, a. s.	Prague	Pension business	100.0%	100.0%
s Autoleasing, a. s.	Prague	Leasing	100.0%	100.0%
Stavební spořitelna České spořitelny, a. s.	Prague	Building savings bank	95.0%	95.0%
Companies held through s Autoleasing, a. s.				
DINESIA, a. s.[x)]	Prague	Leasing	100.0%	100.0%
s Autoúvěr, a. s.	Prague	Lending	100.0%	100.0%

[x)] under the name Leasing České spořitelny, a. s., until 3 December 2009.

Investment and management companies:

Name of the company	Registered office	Principal activities	Group interest	
			2009	2008
Companies held through Česká spořitelna, a. s.				
brokerjet České spořitelny, a. s.	Prague	Investment services	51.0%	51.0%
CEE Property Development Portfolio B. V. ("CPDP B. V.")	The Netherlands	Investing in real estate	100.0%	100.0%
CS Investment Limited	Guernsey	Investing and investment holding	100.0%	100.0%
CS Property Investment Limited ("CSPIL")	Cyprus	Investing and investment holding	100.0%	100.0%
Czech and Slovak Property Fund B. V. ("CSPF B. V.")	The Netherlands	Investing and investment holding	66.7%	66.7%
Czech TOP Venture Fund B. V.	The Netherlands	Management and corporate finance	84.3%	84.3%
Investiční společnost České spořitelny, a. s.	Prague	Investment management	–[x)]	100.0%
REICO investiční společnost České spořitelny, a. s.	Prague	Investment management	100.0%	100.0%
Companies held through CSPF B. V.				
CSPF Residential B. V.	The Netherlands	Investing and investment holding	66.7%	66.7%

[x)] the company was sold at 16 December 2009.

Real estate companies:

Name of the company	Registered office	Principal activities	Group interest	
			2009	2008
Companies held through CSPF B.V.				
Atrium Center s.r.o.	Slovakia	Investing in real estate	66.7%	66.7%
BECON s.r.o.	Prague	Investing in real estate	66.7%	66.7%
BGA Czech, s.r.o.	Prague	Investing in real estate	66.7%	66.7%
Nové Butovice Development s.r.o.	Prague	Investing in real estate	66.7%	66.7%
Smíchov Real Estate a.s.	Prague	Investing in real estate	66.7%	66.7%
Solitaire Real Estate a.s.	Prague	Investing in real estate	66.7%	66.7%
Stodůlky Real Estate s.r.o.	Prague	Investing in real estate	66.7%	66.7%
Jegeho Residential s.r.o.	Slovakia	Investing in real estate	66.7%	66.7%
Trenčín Retail Park a.s.	Slovakia	Investing in real estate	60.0%	60.0%
Trenčín Property a.s.	Slovakia	Investing in real estate	66.7%	66.7%
SATPO Jeseniova s.r.o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Královská vyhlídka, s.r.o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Na Malvazinkách, a.s.	Prague	Investing in real estate	33.3%	33.3%
SATPO Sacre Coeur, s.r.o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Sacre Coeur II, s.r.o.	Prague	Investing in real estate	33.3%	33.3%
SATPO Švédská s.r.o.	Prague	Investing in real estate	33.3%	33.3%
NHS CZECH s.r.o.	Prague	Investing in real estate	66.7%	66.7%
Companies held through CPDP B.V.				
CPP Lux S.'ar.l.	Prague	Investing in real estate	99.9%	20.0%
CPDP 2003 s.r.o.	Prague	Investing in real estate	100.0%	100.0%
CPDP IT Centrum s.r.o.	Prague	Investing in real estate	100.0%	100.0%
CPDP Jungmannova s.r.o.	Prague	Investing in real estate	100.0%	100.0%
CPDP Logistics Park Kladno I a.s.	Prague	Investing in real estate	100.0%	100.0%
CPDP Logistics Park Kladno II a.s.	Prague	Investing in real estate	100.0%	100.0%
CPDP Polygon, s.r.o.	Prague	Investing in real estate	100.0%	100.0%
CPDP Prievozska, a.s.	Slovakia	Investing in real estate	100.0%	100.0%
CPDP Shopping Mall Kladno, a.s.	Prague	Investing in real estate	100.0%	100.0%
Gallery MYŠÁK a.s.	Prague	Investing in real estate	100.0%	100.0%
TAVARESA a.s.	Prague	Investing in real estate	100.0%	100.0%
Companies held through CPP Lux S.`ar.l.				
CP Praha s.r.o.	Prague	Investing in real estate	100.0%	100.0%
Companies held through CSPIL				
Office Center Stodůlky DELTA a.s.	Prague	Investing in real estate	40.0%	40.0%
Office Center Stodůlky GAMA a.s.	Prague	Investing in real estate	40.0%	40.0%

Companies providing other services:

Name of the company	Registered office	Principal activities	Group interest	
			2009	2008
Companies held through Česká spořitelna, a.s.				
GRANTIKA České spořitelny, a.s.	Brno	Corporate advisory	100.0%	100.0%
Informatika České Spořitelny, a.s.	Prague	IT services	100.0%	100.0%
PARTNER České Spořitelny, a.s.	Prague	Dealer network management	100.0%	–
Companies held through GRANTIKA České spořitelny, a.s.				
Euro Dotácie, s.r.o.	Slovakia	Education	66.7%	66.7%
Companies held through Penzijní fond České spořitelny, a.s.				
Investiční společnost České spořitelny, a.s., PF1 – otevřený podílový fond	Prague	Collective investing	100.0%	–

The Bank fully consolidates the investments in the real estate funds CPDP B.V. and CSPF B.V. in its consolidated financial statements. While the Bank holds 20 percent and 10 percent of the issued share capital of the funds, respectively, and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank

receiving substantially all of the rewards and bearing substantially all of the risks of the investment. The second shareholder bears minimal risks and receives minimal returns from its investment in the funds.

The Group owns less than 50 percent of the share capital of CP Praha s. r. o., Satpo Jeseniova s. r. o., SATPO Královská vyhlídka, s. r. o., and Satpo Sacre Coeur II, s. r. o. but has the ability to control the financial and operating policies of these entities. As such, these entities are treated as subsidiaries and are consolidated in full.

Investments in Satpo Na Malvazinkách, a. s., Satpo Sacre Coeur, s. r. o., and Satpo Švédská s. r. o., Office Center Stodůlky DELTA a. s. and Office Center Stodůlky GAMA a. s. are classified as joint ventures.

During the year ended 31 December 2009, the portfolio of equity investments underwent the following changes:

- In March 2009, RAVEN EU Advisory, a. s., changed its name to GRANTIKA České spořitelny, a. s.;
- In May 2009, PARTNER České spořitelny, a. s., was established as a new subsidiary fully owned by the Bank;
- In October 2009, the carrying value of s Autoleasing, a. s., increased to CZK 682 million through non-equity contribution;
- By way of issuing shares with share premium, the Bank increased its equity investment in CS Property Investment Limited in relation to the expansion of its business activities;
- By way of increasing the share premium on already held shares, the equity investment in Czech TOP Venture Fund B. V. was increased in relation to the expansion of its business activities;
- By way of the increasing the share premium on already held shares, the equity investment in Czech and Slovak Property Fund B. V. was increased in relation to the expansion of its business activities; and
- With a view to managing foreign currency risk exposures associated with the Bank's investments in foreign subsidiaries and associates CS Investment Limited, CS Property Investment Limited, Czech TOP Venture Fund B. V., CEE Property Development Portfolio B. V., and Czech and Slovak Property Fund B. V. denominated in EUR, the Bank has defined these investments as a hedged item within the hedging a net investment in a foreign entity. Hedging instruments include foreign currency interest rate swaps. As part of consolidation, the changes in fair values of these swaps are, to the extent of a hedged risk, recorded in equity where they reduce the volatility of the Retranslation reserve.

a) Penzijní fond České spořitelny, a. s.

Up to 10 percent of the profits from the pension fund can be distributed to the shareholders and no less than 5 percent of the profits is allocated to the reserve fund. The shareholders incur the entire loss, if any. All other profit is available for distribution to participants (clients).

b) Companies Consolidated Since 2009

The following newly established subsidiary company was first consolidated in 2009:

Name of the entity CZK mil.	Acquisition date	Owner	Voting power in %	Costs of acquisition	Profit/ (loss) since the acquisition date	Profit/ (loss) for 2009
PARTNER České spořitelny, a. s.	2 June 2009	Česká spořitelna, a. s.	100.0%	2	(3)	(3)

The acquisition cost of the above stated entity was equal to the fair value of net assets at the acquisition date.

c) Companies removed from the consolidation

The equity investment in Investiční společnost České spořitelny, a. s., was sold in December 2009. Included in the consolidated financial statements is the company's profit until the date of sale.

Gain on the sale of consolidated subsidiary comprises:

CZK mil.	Year ended 31 December 2009
Proceeds on the sale of consolidated subsidiary	405
Carrying value of investment sold	(77)
Gain on the sale	**328**
Loss on the removal of consolidated subsidiary from consolidation	(175)
Gain on the sale of consolidated subsidiary and removal from consolidation	**153**

Net cash flow from investment sold is as follows:

CZK mil.	Year ended 31 December 2009
Proceeds on sale	405
Cash and cash equivalents	(82)
Net cash flow	**323**

d) Other Investments

The Bank has following other investments in its portfolio:

- Genesis Private Equity Fund B L. P.,
- Realitní společnost České spořitelny, a. s.,
- Erste Corporate Finance, a. s.,
- Karasita s. r. o.,
- RVG Czech s. r. o.,
- FNE B. V.,
- NewsTin a. s.,
- CBCB-Czech Banking Credit Bureau, a. s.,
- První certifikační autorita, a. s.,
- s IT Solutions SK, spol. s r. o.,
- s IT Solutions CZ, s. r. o.;
- Procurement Services CZ, s. r. o.,
- Informations-Technologie Austria CZ, s. r. o.,
- ÖCI-Unternehmensbeteiligungs GmbH.

During the year ended 31 December 2009, the portfolio of equity investments underwent the following changes:

- As at 1 January 2009, the Bank ceased its involvement in Consulting České spořitelny, a. s.; a share sale agreement was entered into in December 2008;
- In April 2009, the Bank increased its share in Erste Corporate Finance, a. s. from 50.17 % to 75.00 % by acquiring the shares of another shareholder;
- In October 2009, a new ownership interests arose by acquiring a 40 % share in Informations-Technologie Austria CZ, s. r. o.; ÖCI-Unternehmensbeteiligungs GmbH and Procurement Services CZ, s. r. o.

6. Cash and Balances with the CNB

CZK mil.	2009	2008
Cash (Note 42)	20,651	18,651
Nostro accounts with the CNB (Note 42)	1,079	603
Minimum reserve deposits with the CNB	7,641	5,031
Total	**29,371**	**24,285**

Minimum reserve deposits represent mandatory deposits calculated in accordance with CNB regulations, and whose withdrawal is restricted. Minimum reserve deposits accrue interest at the CNB's two week repo rate. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulations. The nostro balances represent balances with the CNB relating to settlement activities and were available for withdrawal at the year end.

7. Loans and Advances to Financial Institutions

CZK mil.	2009	2008
Nostro accounts (Note 42)	528	2,230
Loans and advances to financial institutions	69,219	25,544
Placements with financial institutions	55,849	65,272
Other	910	260
Total	**126,506**	**93,306**

As at 31 December 2009, the Group provided certain financial institutions with loans of CZK 69,652 million (2008: CZK 13,670 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 62,999 million (2008: CZK 14,219 million).

8. Loans and Advances to Customers

a) Analysis of Loans and Advances to Customers by Type of Loan

CZK mil.	2009	2008
Corporate loans	124,105	133,101
Mortgage loans (both retail and corporate customers)	176,250	173,883
Retail loans	99,459	89,988
Public sector loans	17,197	12,435
Construction savings loans	45,512	42,803
Factoring	1,535	1,908
Finance lease	5,127	7,306
Fair value of collateralised receivables	7	9
Total	**469,192**	**461,433**

As at 31 December 2009, the Group provided certain customers with loans of CZK 345 million (2008: CZK 774 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 506 million (2008: CZK 835 million).

b) Analysis of Loans and Advances to Customers According to Credit Risk Assessment Policies

At 31 December 2009 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	13,245	14,000	27,245
Collectively impaired	22,226	13,524	35,750
Unimpaired	152,294	253,903	406,197
Total	**187,765**	**281,427**	**469,192**

At 31 December 2008 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	7,054	8,373	15,427
Collectively impaired	14,159	9,966	24,125
Unimpaired	170,697	251,184	421,881
Total	**191,910**	**269,523**	**461,433**

Individually significant loans represent corporate loans or retail loans where the Group's exposure exceeds CZK 5 million. Individually impaired loans are those loans where objective evidence demonstrates that the associated cash flow is at risk (loss event). The Group defines the loss event in accordance with BASEL II. This classification corresponds to a "R" internal rating (default). Collectively impaired loans are loans that show an indication of impairment on a collective basis, which corresponds to a 7–8 internal rating. Unimpaired loans are loans with an internal rating of 1–6.

The Group uses various types of collateral in order to mitigate credit risk exposure. The list of collateral instruments is set out in an internal regulation which also outlines the guidance to be followed in determining the values of individual types of collateral. The Group establishes

the nominal value of collateral based upon a market valuation which is subsequently used as a basis for arriving at the realisable value by applying a discount factor set for each type of collateral. Collateral that is valued at the realisable value is taken into account in provisioning (refer to Note 3 (b)). Collateral valuation rules also set out when and how often the valuations of individual collateral instruments are updated.

c) Finance Leases

Loans and advances to customers also include net investments in finance leases.

CZK mil.	2009	2008
Gross investment in finance leases	**5,502**	**8,001**
of which:		
Less than 1 year	2,432	3,212
From 1 year to 5 years	3,047	4,616
Over 5 years	23	173
Unrealised financial income	(375)	(695)
Subtotal	**5,127**	**7,306**
Allowance	(479)	(280)
Net investment in finance leases	**4,648**	**7,026**
of which:		
Less than 1 year	2,056	2,825
From 1 year to 5 years	2,572	4,049
Over 5 years	20	152

The principal assets held under lease arrangements include cars and other technical equipment.

9. Provisions for Losses on Loans and Advances

a) Creation and Use of Provisions for Losses on Loans and Advances

CZK mil.	2009	2008
At 1 January	**8,929**	**6,810**
Charge for provisions (Note 34)	9,226	6,233
Release of provisions (Note 34)	(731)	(2,639)
Net charge for provisions	8,495	3,594
Unwinding of discount (Note 32)	(620)	(418)
Use of provisions for loans written off and assigned (Note 43.1 (d))	(2,074)	(1,061)
Reclassifications and FX differences from provisions in foreign currency	(17)	4
At 31 December	**14,713**	**8,929**
Net change for provisions	**5,784**	**2,119**

The use of provisions of CZK 2,074 million (2008: CZK 1,061 million) for loans written off and assigned has no impact on the Group's profit.

b) Provisions for Losses on Loans and Advances by Category

At 31 December 2009 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	5,084	6,290	11,374
Collectively impaired	1,588	1,087	2,675
Unwinding of discount	211	453	664
Total	**6,883**	**7,830**	**14,713**

At 31 December 2008 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	2,260	4,514	6,774
Collectively impaired	1,050	687	1,737
Unwinding of discount	195	223	418
Total	**3,505**	**5,424**	**8,929**

The unwinding of discount represents interest income on impaired loans on the basis of the effective interest rate in respect of the discounted value of loans.

10. Securities Held for Trading

CZK mil.	2009	2008
Listed debt securities	29,577	36,393
Listed equity securities and other variable yield securities	67	316
Total	**29,644**	**36,709**

Of the held for trading portfolio, securities of CZK 1,916 million (2008: CZK 4,065 million) were transferred as collateral for loans received under repurchase transactions.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in CZK	896	707
Issued in other currencies	–	–
Total	**896**	**707**
Fixed income debt securities		
Issued in CZK	28,548	35,502
Issued in other currencies	133	184
Total	**28,681**	**35,686**
Total debt securities	**29,577**	**36,393**

Equity securities and other variable yield securities comprise:

CZK mil.	2009	2008
Shares and share certificates		
Issued in CZK	16	47
Issued in other currencies	51	269
Total	**67**	**316**

Debt securities were issued by the following issuers:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	28,463	35,377
Foreign state institutions	40	130
Financial institutions in the Czech Republic	21	40
Foreign financial institutions	93	54
Other entities in the Czech Republic	824	407
Other foreign entities	136	385
Total	**29,577**	**36,393**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil.	2009	2008
Shares and share certificates issued by		
Financial institutions in the Czech Republic	1	13
Foreign financial institutions	4	211
Other entities in the Czech Republic	6	10
Other foreign entities	56	82
Total	**67**	**316**

11. Securities Designated upon Initial Recognition as at Fair Value Through Profit or Loss

CZK mil.	2009	2008
Debt securities		
Listed	6,136	13,575
Unlisted	–	–
Equity securities and other variable yield securities		
Listed	410	4,846
Unlisted	821	805
Total	**7,367**	**19,226**

The fair-value-through-profit-or-loss portfolio includes securities of CZK 0 million (2008: CZK 1,442 million) that were transferred as collateral for loans received under repurchase transactions.

In addition, this portfolio includes asset-backed securities ("ABS") of CZK 1,761 million (2008: CZK 1,721 million). Given the current economic and financial market environment, an increase in the value of these securities was recognised and generated a gain of CZK 369 million on the revaluation of the CDO/CLO (2008: loss of CZK 1,291 million), which is reported in the income statement line "Other net operating expenses, net" (refer to Note 39).

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence. The fair value of these equity investments is not derived from the market price as these securities are not traded on an active market. The fair value was determined based on the present value of estimated future cash flows.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in CZK	108	87
Issued in other currencies	1,761	1,758
Total	**1,869**	**1,845**
Fixed income debt securities		
Issued in CZK	399	451
Issued in other currencies	3,868	11,279
Total	**4,267**	**11,730**
Total debt securities	**6,136**	**13,575**

Equity securities and other variable yield securities comprise:

CZK mil.	2009	2008
Shares and share certificates		
Issued in CZK	821	1,932
Issued in other currencies	410	3,719
Total	**1,231**	**5,651**

Debt securities were issued by the following issuers:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	201	406
Foreign state institutions	–	812
Financial institutions in the Czech Republic	–	848
Foreign financial institutions	5,750	11,067
Other entities in the Czech Republic	–	203
Other foreign entities	185	239
Total	**6,136**	**13,575**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil.	2009	2008
Shares and share certificates		
Financial institutions in the Czech Republic	821	4,937
Foreign financial institutions	410	714
Total	**1,231**	**5,651**

12. Positive Fair Value of Derivative Transactions

CZK mil.	2009	2008
Hedging		
Foreign currency	–	4
Interest rate	605	748
Total hedging	605	752
Non-hedging		
Foreign currency	5,122	10,948
Interest rate	11,674	14,987
Other	274	451
Total non-hedging	17,070	26,386
Total	**17,675**	**27,138**

13. Securities Available for Sale

CZK mil.	2009	2008
Debt securities		
Listed	25,938	32,220
Unlisted	–	–
Equity securities and other variable yield securities		
Listed	2,287	2,642
Unlisted	163	153
Total	**28,388**	**35,015**

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence.

In 2008, the Group transferred debt securities with an aggregate carrying amount of CZK 2,382 million from the held to maturity portfolio to the available for sale portfolio. The Bank changed its intention to hold the debt securities to maturity as the debtors were in liquidation/ administration and intended to sell the securities. Concurrently, the Bank recognised an impairment loss on the debt securities amounting to CZK 2,230 million in "Other operating expenses, net" (Refer to Note 39). Virtually all these bonds were sold in 2009, generating a profit of CZK 141 million.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in CZK	13,986	9,180
Issued in other currencies	1,824	3,188
Total	**15,810**	**12,368**
Fixed income debt securities		
Issued in CZK	8,749	19,576
Issued in other currencies	1,379	276
Total	**10,128**	**19,852**
Total debt securities	**25,938**	**32,220**

Equity securities and other variable yield securities comprise:

CZK mil.	2009	2008
Shares and share certificates		
Issued in CZK	915	757
Issued in other currencies	1,535	2,038
Total	**2,450**	**2,795**

Debt securities were issued by the following issuers:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	19,710	25,548
Foreign state institutions	228	275
Financial institutions in the Czech Republic	2,605	2,401
Foreign financial institutions	2,370	3,487
Other entities in the Czech Republic	876	49
Other foreign entities	149	460
Total	**25,938**	**32,220**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil.	2009	2008
Shares and share certificates issued by		
Financial institutions in the Czech Republic	375	291
Foreign financial institutions	1,258	1,798
Other entities in the Czech Republic	403	305
Other foreign entities	414	401
Total	**2,450**	**2,795**

14. Securities Held to Maturity

CZK mil.	2009	2008
Debt securities and other fixed yield securities		
Listed	111,977	118,938
Unlisted	–	–
Total	**111,977**	**118,938**

The held to maturity portfolio includes securities of CZK 19,231 million (2008: CZK 28,268 million) that were transferred as collateral for loans received under repurchase transactions.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in CZK	11,579	13,715
Issued in other currencies	2,672	2,907
Total	**14,251**	**16,622**
Fixed income debt securities		
Issued in CZK	97,435	102,020
Issued in other currencies	291	296
Total	**97,726**	**102,316**
Total debt securities	**111,977**	**118,938**

Debt securities were issued by the following issuers:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	80,226	77,529
Financial institutions in the Czech Republic	8,411	10,149
Foreign financial institutions	21,540	27,354
Other entities in the Czech Republic	1,300	1,766
Other foreign entities	500	2,140
Total	**111,977**	**118,938**

15. Investment Property

CZK mil.	2009	2008
At 1 January	13,563	13,626
Additions	1,898	1,067
– fair value at the date of acquisition under business combinations	–	35
– reclassifications from Property under construction (Note 16)	1,690	1,000
– other additions	208	32
Net loss from fair value revaluations (see Note 39)	(1,459)	(869)
Other movements	(1,627)	(261)
At 31 December	**12,375**	**13,563**

Rental income arising from investment property amounted to CZK 857 million (2008: CZK 668 million). Operating expenses related to investment property amounted to CZK 271 million (2008: CZK 141 million).

“Other movements” in 2009 include the decrease in the value of investment property caused by removing of the gross up for deferred taxes of CZK 1,726 million (Note 27). This is in line with management’s intention to sell the legal entities rather than the properties themselves in the future.

The Group’s obligation to provide maintenance, if any, lasts until the date of sale.

16. Property under Construction

CZK mil.	2009	2008
At 1 January	5,800	4,319
of that:		
– inventories	3,765	3,064
– investment property	2,035	1,255
Construction	1,641	3,487
of that: capitalized interest	267	260
Impairment loss	(690)	(134)
Sale of completed buildings	(336)	(872)
Reclassification to investment property (Note 15)	(1,690)	(1,000)
At 31 December	**4,725**	**5,800**
of that:		
– inventories	4,539	3,765
– investment property	186	2,035

Assets under construction include both property under construction measured at fair value and buildings under construction classified as inventory (i. e. at the lower of cost and net realizable value).

17. Intangible Assets

CZK mil.	Goodwill	Software	Other	Total
Cost				
At 1 January 2008	61	5,146	7,190	12,397
Additions	–	70	673	743
Disposals	(18)	(174)	–	(192)
Transfers	–	1,010	(1,010)	–
At 31 December 2008	43	6,052	6,853	12,948
At 1 January 2009	43	6,052	6,853	12,948
Additions	–	324	465	789
Disposals	–	(125)	(430)	(555)
At 31 December 2008	**43**	**6,251**	**6,888**	**13,182**
Accumulated amortisation including impairment and provisions				
At 1 January 2008	(17)	(2,797)	(5,092)	(7,906)
Amortization (Note 38)	–	(920)	(503)	(1,423)
Impairment loss	–	–	–	–
Disposals	8	124	–	132
At 31 December 2008	(9)	(3,593)	(5,595)	(9,197)
At 1 January 2009	(9)	(3,593)	(5,595)	(9,197)
Amortization (Note 38)	–	(891)	(396)	(1,287)
Impairment loss	–	(1)	–	(1)
Disposals	–	346	208	554
At 31 December 2009	**(9)**	**(4,139)**	**(5,783)**	**(9,931)**
Net book value				
At 31 December 2008	34	2,459	1,258	3,751
At 31 December 2009	**34**	**2,112**	**1,105**	**3,251**

The balances as at 31 December 2009 shown above include CZK 705 million (2008: CZK 1,002 million) in property under construction.

The acquisition cost of fully amortised intangible assets was CZK 5,309 million as at 31 December 2009 (2008: CZK 4,913 million).

18. Property and Equipment

CZK mil.	Land and buildings	Equipment, fixtures and fittings	Total
Cost			
At 1 January 2008	18,356	11,266	29,622
Additions	1,376	543	1,919
Disposals	(967)	(723)	(1,690)
31 December 2008	18,765	11,086	29,851
At 1 January 2009	18,765	11,086	29,851
Additions	851	743	1,594
Disposals	(101)	(1,810)	(1,911)
At 31 December 2009	**19,515**	**10,019**	**29,534**
Accumulated depreciation including impairment and provisions			
At 1 January 2008	(5,528)	(8,830)	(14,358)
Depreciation (Note 38)	(558)	(873)	(1,431)
Impairment loss	(2)	–	(2)
Disposals	293	1,048	1,341
At 31 December 2008	(5,795)	(8,655)	(14,450)
At 1 January 2009	(5,795)	(8,655)	(14,450)
Depreciation (Note 38)	(629)	(825)	(1,454)
Impairment loss	(19)	(10)	(29)
Disposals	7	1,782	1,789
At 31 December 2009	**(6,436)**	**(7,708)**	**(14,144)**
Net book value			
At 31 December 2008	12,970	2,431	15,401
At 31 December 2009	**13,079**	**2,311**	**15,390**

The balances as at 31 December 2009 shown above include CZK 1,169 million (2008: CZK 3,394 million) in property under construction. The acquisition cost of fully depreciated tangible assets was CZK 6,361 million as at 31 December 2009 (2008: CZK 6,585 million).

19. Other Assets

CZK mil.	2009	2008
Accrued income	3,276	5,018
comprising:		
– Interest on loans and advances to financial institutions	177	1,012
– Coupons on bonds	2,951	3,893
– Fees	148	113
Deferred expenses	1,896	1,930
Deferred tax asset (Note 27)	502	627
Receivables arising from income taxes due	80	468
Various receivables	1,709	1,567
Estimated receivables	701	1,094
State subsidy	2,556	2,773
Sundry assets	1,519	658
Receivables from factoring transactions	1,225	1,569
Receivables from securities trading	314	655
Total	**13,778**	**16,359**

The state subsidy receivable involves claims in respect of the participants of the building savings scheme offered by Stavební spořitelna České spořitelny, a. s. The state subsidy is provided to the participants from the Finance Ministry of the Czech Republic based on the amount of customer deposits at the year end with a limit of CZK 4,500 / CZK 3,000 (for contracts entered into after/before to 1 January 2005, respectively) per participant (refer to Note 21).

20. Amounts Due to Financial Institutions

CZK mil.	2009	2008
Loro accounts (Note 42)	1,922	1,524
Term deposits	16,906	17,521
Loans received	28,606	38,516
Total	**47,434**	**57,561**

As at 31 December 2009, the Group received loans from financial institutions of CZK 13,895 million (2008: CZK 17,167 million) under repurchase transactions, which were collateralised by securities amounting to CZK 13,734 million (2008: CZK 17,145 million).

21. Amounts Due to Customers

CZK mil.	2009	2008
Repayable on demand	388,387	367,993
Other deposits	255,033	274,511
Total	**643,420**	**642,504**

As at 31 December 2009, the Group received loans from customers of CZK 693 million (2008: CZK 6,796 million) under repurchase transactions which were collateralised by securities amounting to CZK 667 million (2008: CZK 6,826 million).

Other deposits include a payable of CZK 2,556 million (2008: CZK 2,773 million) arising from state subsidy claims in respect of building savings programme participants (refer to Note 19).

Analysis of amounts due to customers:

CZK mil.	2009	2008
Savings deposits	183,282	175,808
Other amounts due to customers		
– Public sector	46,254	61,692
– Corporate clients	98,990	91,819
– Retail clients	314,894	313,185
Total	**643,420**	**642,504**

22. Liabilities at Fair Value

CZK mil.	2009	2008
Customer deposits	4,109	3,443
Liabilities arising from issued securities	1,947	1,741
Payables arising from short sales – debt securities	2,072	2,424
Payables arising from short sales – shares	1	88
Total	**8,129**	**7,696**

The Group issued the following bonds which are presented within "Liabilities arising from issued securities":

	ISIN	Date of issue	Maturity	Interest rate	2009 CZK mil.	2008 CZK mil.
Bonds	CZ0003701237	February 2007	April 2011	x)	289	282
Bonds	CZ0003701278	March 2007	March 2010	xx)	740	740
Bonds	CZ0003701351	September 2007	September 2011	x)	285	279
Bonds	CZ0003701518	April 2008	May 2011	x)	291	282
Bonds	CZ0003701690	July 2008	January 2012	x)	237	158
Bonds	CZ0003701955	May 2009	June 2012	xxx)	54	–
Bonds	CZ0003701963	May 2009	June 2012	xxx)	51	–
Total					**1,947**	**1,741**

x) Bonds bear no interest, the yield of bonds increases on a one-off basis as at the final maturity date.
xx) The yield depends on the development of the EUR/PLN spot exchange rate.
xxx) Bonds bear no interest, yield is determined as a difference between the rate of issue and the bond value payable at its final maturity date.

The ISIN CZ0003701237, CZ0003701351, CZ0003701518, CZ0003701690, CZ0003701955 and CZ0003701963 issues were placed as structured bonds, the yield of which is determined as equal to the difference between the issue rate and "reference value" in accordance with the issue terms and conditions. The amount of the "reference value" will be based on a set of indexes and an equity bucket and will be payable as at the final maturity of the bonds. Similarly, the ISIN CZ0003701278 issue was placed as a structured bond, the yield of which is derived from the development of the EUR/PLN spot exchange rate.

The ISIN CZ0003701278 is traded on the official regulated market of the PSE; other issues are not yet traded.

Change in the fair value of debt securities:

CZK mil.	2009	2008
Change in the fair value of debt securities arising from changes in the issuer's credit profile		
Customer deposits	24	175
Liabilities arising from issued securities at fair value	39	41
Total	**63**	**216**
Difference between the carrying amount and the contractual agreed nominal value due at maturity		
Customer deposits	78	21
Liabilities arising from issued securities at fair value	(8)	63
Total	**70**	**84**

Short sales are short term trading liabilities which mature between one and three months. Changes in the fair value of these trading liabilities are not analysed since the liabilities are different at each reporting date.

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

23. Negative Fair Value of Derivative Transactions

CZK mil.	2009	2008
Hedging		
Foreign currency	290	135
Interest rate	66	470
Total hedging	356	605
Non-hedging		
Foreign currency	3,440	9,295
Interest rate	12,242	14,689
Other	374	1,006
Total non-hedging	16,056	24,990
Total	**16,412**	**25,595**

24. Bonds in Issue

	ISIN	Date of issue	Maturity	Interest rate	2009 CZK mil.	2008 CZK mil.
Mortgage bonds	CZ0002000342	April 2004	April 2009	3.50%	–	299
Mortgage bonds	CZ0002000409	August 2004	August 2009	3.60%	–	699
Mortgage bonds	CZ0002000524	May 2005	May 2010	4.50%	1,909	1,905
Mortgage bonds	CZ0002000573	June 2005	June 2010	4.05%	1,801	1,782
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	5,075	5,170
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,615	4,697
Mortgage bonds	CZ0002000896	October 2006	October 2011	floating	1,129	1,146
Mortgage bonds	CZ0002000904	October 2006	October 2014	3.65%	1,026	1,022
Mortgage bonds	CZ0002000920	October 2006	October 2011	3.00%	796	770
Mortgage bonds	CZ0002000995	May 2007	May 2012	5.90%	1,044	1,063
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	759	760
Mortgage bonds	CZ0002001084	July 2007	July 2014	floating	1,596	1,618
Mortgage bonds	CZ0002001126	August 2007	August 2012	3.70%	1,504	843
Mortgage bonds	CZ0002001274	November 2007	November 2014	floating	280	600
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,071	2,094
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	460	464
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,312	5,376
Mortgage bonds	CZ0002001639	December 2007	December 2012	3.70%	2,522	414
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	308	42
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	1,401	1,493
Mortgage bonds	CZ0002002132	October 2009	October 2012	3.20%	354	–
Mortgage bonds	CZ0002002157	November 2009	May 2011	0.25%	133	–
Mortgage bonds	CZ0002002165	November 2009	November 2014	3.55%	61	–
Mortgage bonds	CZ0002002173	November 2009	May 2013	3.20%	193	–
Bonds	CZ0003700767	February 2004	February 2014	floating	1,253	1,168
Bonds	CZ0003701047	July 2005	July 2012	3.55%	557	584
Bonds	CZ0003701054	September 2005	September 2017	x)	227	219
Bonds	CZ0003701062	October 2005	October 2013	x)	267	259
Bonds	CZ0003701286	March 2007	March 2012	3.49%	820	970
Bonds	CZ0003701740	September 2008	September 2009	floating	-	293
Bonds	CZ0003701781	December 2008	December 2010	0.50%	982	11
Bonds	CZ0003701948	April 2009	October 2010	xx)	489	–
Bonds	CZ0003702011	July 2009	January 2014	xxx)	512	–
Bonds	CZ0003702037	October 2009	October 2016	xxx)	424	–
Bonds	CZ0003702078	November 2009	November 2016	xxx)	473	–
Bonds	CZ0003702268	December 2009	December 2012	3.50%	444	–
Depository bills of exchange					1,453	2,434
Cumulative change in carrying amount due to fair value hedging					869	1,009
Total					**43,119**	**39,204**

x) Bonds were issued with a combined yield.
xx) Bonds bear no interest, yield is determined as a difference between the rate of issue and the bond's nominal value.
xxx) Bonds bear no interest, yield is determined as a difference between the rate of issue and the bond value payable at its final maturity date.

Of the aggregate carrying value of the mortgage bonds, CZK 11,676 million (2008: CZK 11,997 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with the applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

The ISIN CZ0003700767 and CZ0003701047 issues of bonds are remeasured at fair value because they are hedged against interest rate risk and early repayment options are attached to the bonds.

Of the aggregate carrying value of the mortgage bonds, CZK 88 million (2008: CZK 1,752 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate.

The ISIN CZ0003701054 and CZ0003701062 issues were placed with a share index option which is recorded separately and is remeasured at fair value.

The ISIN CZ0002001126, CZ0002001613, CZ0002001639, CZ0002001647, CZ0002001654, CZ0002002132, CZ0002002157, CZ0002002165, CZ0002002173 mortgage bond issues and the ISIN CZ0003701781, CZ0003702011, CZ0003702037, CZ0003702078 bond issues are not traded on any regulated market. Other issues of mortgage bonds and bonds are traded on the official regulated market of the PSE. The difference between the nominal values of the issued mortgage bonds and the carrying amounts of the relevant issues in the above table arises from the difference in valuation and from the elimination of bonds held by Group companies.

25. Provisions

a) Structure of Provisions

CZK mil.	2009	2008
Provision for legal disputes relating to credit transactions	1,473	1,457
Provision for off-balance sheet credit risks	270	187
Other provisions	297	575
Total	**2,040**	**2,219**

Other provisions include the provisions for legal disputes, onerous contracts and other risks. In 2008 Other provisions also included the provision for the Bonus Programme maintained to cover the cost of providing clients with awards for the use of payment cards in making cash-free payments, which was reclassified as deferred income in 2009 (refer to Note 3 (w)).

b) Charge for and Use of Provisions

CZK mil.	2009	2008
Balance at 1 January	2,219	3,024
Charge for provisions	181	147
Use of provisions	(7)	(760)
Release of provisions	(43)	(192)
Reclassification	(310)	–
Balance at 31 December	**2,040**	**2,219**

The provision for the customer loyalty programme settlement was reclassified as deferred income in previous years (refer to Note 3 (w)).

c) Provisions for Other Credit Risks and Off-balance Sheet Credit Exposures

Provisions for other credit risks and off-balance sheet credit exposures are recorded to cover specific risks arising from pending legal disputes relating to loan transactions and to cover losses that result from off-balance sheet and other exposures.

CZK mil.	2009	2008
Balance at 1 January	1,643	2,129
Charge for provisions (Note 34)	128	121
Use of provisions	(6)	(531)
Release of provisions (Note 34)	(23)	(76)
Balance at 31 December	**1,742**	**1,643**

26. Other Liabilities

CZK mil.	2009	2008
Accrued expenses	1,800	1,272
comprising:		
– Interest on amounts owed to financial institutions	46	236
– Interest on amounts owed customers	816	319
– Interest on bonds in issue	585	645
– Fees	20	15
– Other	333	57
Deferred income	1,390	1,433
Various creditors	3,323	3,648
Payables from factoring transactions	359	394
Payables from securities trading	3,537	803
Payables from payment transactions	1,784	2,600
Estimated payables	4,403	4,299
Other payables	625	602
Income tax liability	184	43
Deferred tax liability (Note 27)	314	1,791
Total	**17,719**	**16,885**

Estimated payables largely comprise payables for staff and management bonuses, unbilled supplies and contributions to the Deposit Insurance Fund. Deferred income principally includes deferred commissions and fees related to amounts due from customers in respect of the effective interest rate.

27. Deferred Tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19 percent, depending on the year in which the relevant asset/liability will be realised/settled (2008: 19 to 20 percent), 5 percent for Penzijní fond České spořitelny, a. s., (2008: 5 percent).

The Group has tax losses of CZK 2,380 million (2008: CZK 1,285 million) that are available for offset against future taxable profits generated in the next five years. The losses were not included in the calculation of the deferred tax as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

Net deferred tax assets (liabilities) are as follows:

CZK mil.	2009	2008
Balance at 1 January	(1,164)	(1,512)
Movements arising from acquisitions and changes in non-controlling interests	(16)	(82)
Other movements (Note 15)	1,726	–
Movement for the year – equity (Note 41)	(163)	234
Movement for the year – income/(expense) (Note 41)	(195)	196
Net balance at 31 December – asset/(liability)	**188**	**(1,164)**

Deferred income tax assets and liabilities are attributable to the following items:

CZK mil.	2009	2008
Deferred tax assets		
Tax losses carried forward	89	242
Non-tax deductible reserves and provisions	235	321
Change in the fair value of securities available for sale and hedging derivatives (Note 31)	79	241
Other temporary differences	452	649
	855	**1,453**
Deferred tax asset adjustment (net of liabilities)	(353)	(826)
Total deferred tax asset (Note 19)	**502**	**627**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(173)	(180)
Fair value of investment property	(328)	(1,704)
Other temporary differences	(166)	(733)
	(667)	**(2,617)**
Deferred tax liability adjustment (net of assets)	353	826
Total deferred tax liability (Note 26)	**(314)**	**(1,791)**
Net deferred tax asset/(liability)	**188**	**(1,164)**

The impact of deferred tax liabilities on equity arises from changes in the fair value of securities available for sale and hedging derivatives. The deferred tax (charge)/credit in the income statement consists of the following temporary differences:

CZK mil.	2009	2008
Tax losses carried forward	(153)	155
Provisions and reserves	(86)	(53)
Accelerated depreciation	7	19
Fair value of investment property	(184)	(44)
Other temporary differences	221	115
Total (Note 41)	**(195)**	**192**
of which: Impact of change in tax rate	**(61)**	**(10)**

28. Subordinated Debt

	Date of issue	Maturity of the issue	Interest rate	Nominal value	Carrying amount at 31 December 2009	Carrying amount at 31 December 2008
1.	16 May 2005	16 May 2015	6M PRIBOR +0.46%	3,000	2,724	2,780
2.	2 October 2006	2 October 2016	6M PRIBOR +0.45%	3,000	2,214	2,417
3.	12 March 2009	12 March 2019	5% p. a.	2,000	1,966	–
4.	23 April 2009	23 April 2019	6M PRIBOR +1.50%	6,500	6,500	–
	Total				**13,404**	**5,197**

Issues 1 and 2 of subordinated debt were made in certificate form and placed on the regulated market of the PSE. If the Bank does not exercise its option for premature repayment of the debt after a lapse of five years, the interest rates attached to each issue shall increase to 6M PRIBOR plus 1.40 percent p. a. In compliance with the terms and conditions of issues 1 and 2, the margins have been set at 0.46% and 0.45%, respectively. Interest is payable semi-annually in arrears. The debt is unsecured and unconditional.

Issues 3 and 4 of subordinated debt were made in certificate form, bonds are represented by a collecting bond. The bonds are not placed on a regulated market. The debt is unsecured and unconditional. For the third issue, interest income is payable once a year retrospectively, for the fourth issue twice a year retrospectively. At its discretion, the Bank is entitled to repay the bonds prematurely, as at 12 March 2014 (issue 3) and 23 April 2014 (issue 4) at 100% of the bonds´ nominal value together with unpaid interest to date (if relevant). If the Bank's bonds are not prematurely repaid, the fixed interest rate will be increased by 1.50% p. a. for issue 3 and set as the total of 6M PRIBOR + margin + 1.5% p. a. for issue 4.

On 5 May 2005 (issue 1), 13 September 2006, (issue 2), 6 March 2009 (issue 3) and 21 April 2009 (issue 4) the CNB issued certificates confirming that these issues of subordinated debt are compliant with all regulatory requirements and may be included in the additional capital of the Bank for the purposes of calculating the capital adequacy ratio (see Note 43.5).

29. Non-controlling Interests

CZK mil.	2009	2008
At 1 January	564	1 633
Non-controlling interests in the current year's profit	(206)	(42)
Non-controlling interests in the other comprehensive income	(33)	7
Sale of subsidiaries	–	(790)
Dividends paid to minority shareholders	(50)	(215)
Non-controlling interests in the companies newly included in consolidation, increase in capital	17	(29)
At 31 December	**292**	**564**

In 2008, the line "Sale of subsidiaries" includes interests of minority shareholders of Pojišťovna České spořitelny, a. s., in share capital of CZK 500 million, in reserve fund CZK 80 million and in profit for the year CZK 72 million and minority shareholders of Zahradní čtvrť, a. s., in the share premium of CZK 138 million.

30. Share Capital

Authorised, called up and fully paid share capital was as follows:

	2009		2008	
	Number of shares	CZK mil.	Number of shares	CZK mil.
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Priority shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Priority shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, priority shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Priority shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Priority registered shares can be issued only to municipalities and local governments in the Czech Republic. The priority registered shares can be transferred to entities other than municipalities and local governments of the Czech Republic only subject to the approval of the Board of Directors.

The Group manages its capital with the objective of maintaining a strong capital base to support its business activities, focusing on maximum return for shareholders and compliance with all capital regulatory requirements.

The Group's capital principally consists of share capital, reserve funds, retained earnings, revaluation gains or losses and additional capital in the form of subordinated debt.

31. Revaluation Gains or Losses

CZK mil.	Securities available for sale		Hedging derivatives		Translation reserve		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
At 1 January								
Loss on fair value changes	(2,177)	(101)	–	–	–	–	(2,177)	(101)
Deferred tax (asset)/liability	212	8	29	(1)	–	–	241	7
Foreign exchange differences arising upon consolidation (Translation reserve)	–	–	–	–	(81)	(219)	(81)	(219)
Hedges of net investments in foreign operations	–	–	(121)	(65)	–	–	(121)	(65)
Cash flow hedges	–	–	(109)	15	–	–	(109)	15
Total at 1 January	**(1,965)**	**(93)**	**(201)**	**(51)**	**(81)**	**(219)**	**(2,247)**	**(363)**
Changes during the year								
Gain/(loss) on fair value changes	1,825	(2,076)	–	–	–	–	1,825	(2,076)
Deferred tax (liability)/asset	(140)	204	(22)	30	–	–	(162)	234
Foreign exchange differences arising upon consolidation (Translation reserve)	–	–	–	–	(33)	138	(33)	138
Hedges of net investments in foreign operations	–	–	84	(56)	–	–	84	(56)
Cash flow hedges	–	–	110	(124)	–	–	110	(124)
Total changes during the year	**1,685**	**(1,872)**	**172**	**(150)**	**(33)**	**138**	**1,824**	**(1,884)**
At 31 December								
Loss on fair value changes	(352)	(2,177)	–	–	–	–	(352)	(2,177)
Deferred tax (asset)/liability	72	212	7	29	–	–	79	241
Foreign exchange differences arising upon consolidation (Translation reserve)	–	–	–	–	(114)	(81)	(114)	(81)
Hedges of net investments in foreign operations	–	–	(37)	(121)	–	–	(37)	(121)
Cash flow hedges	–	–	1	(109)	–	–	1	(109)
Total at 31 December	**(280)**	**(1,965)**	**(29)**	**(201)**	**(114)**	**(81)**	**(423)**	**(2,247)**

32. Interest Income and Similar Income

CZK mil.	2009	2008
Loans and advances to financial institutions	2,206	5,629
Loans and advances to customers	30,429	29,151
of which: Unwinding of discount (Note 9)	620	418
Debt securities and other fixed income securities	6,865	7,453
of which:		
– Securities designated upon initial recognition as at fair value through profit or loss	473	792
– Securities available for sale	1,219	1,419
– Securities held to maturity	5,173	5,242
Other interest and similar income	5	1
Proceeds from shares and other variable yield securities	173	816
of which:		
– Securities designated upon initial recognition as at fair value through profit or loss	94	667
– Securities available for sale	79	149
Rental income from investment properties	857	668
Other	69	134
Total	**40,604**	**43,852**

33. Interest Expense and Similar Expense

CZK mil.	2009	2008
Amounts owed to financial institutions	1,195	2,402
Amounts owed to customers	6,487	9,201
of which: Valued at fair value	129	108
Bonds in issue	1,393	1,762
of which: Valued at fair value	14	34
Subordinated debt	401	248
Total	**9,476**	**13,613**

34. Provisions for Credit Risk

CZK mil.	2009	2008
Charge for reserves for the year (Note 25)	(128)	(121)
Release of reserves for the year (Note 25)	23	76
Net charge for reserves for the year	(105)	(45)
Charge for provisions for the year (Note 9)	(9,226)	(6,233)
Release of provisions for the year (Note 9)	731	2,639
Net charge for provisions for the year	(8,495)	(3,594)
Write offs of loans not covered by provisions	(93)	(59)
Recoveries	69	154
Total	**(8,624)**	**(3,544)**

35. Fee and Commission Income

CZK mil.	2009	2008
Lending activities	3,912	2,945
System of payment	7,352	7,045
Custody, trustee and administration of assets	568	783
Other securities transactions	408	631
Construction savings activities	752	1,082
Foreign exchange transactions	37	41
Other financial activities	762	733
Total	**13,791**	**13,260**

36. Fee and Commission Expense

CZK mil.	2009	2008
Lending activities	916	739
System of payment	816	696
Securities transactions	124	192
Construction savings activities	268	412
Foreign exchange transactions	1	1
Other financial activities	264	200
Total	**2,389**	**2,240**

37. Net Trading Result

CZK mil.	2009	2008
Realised and unrealised gains on securities held for trading	1,218	837
Derivative instruments	(315)	(811)
Foreign exchange trading	2,022	1,249
Other	439	178
Total	**3,364**	**1,453**

With effect from 4 February 2008, the Bank transferred its financial markets trading to Erste Group Bank's newly implemented business model of Group Capital Markets. The market risk arising from the sales activities of the Financial Markets Division (i. e., transactions with retail and corporate clientele), with the exception of equity risk and transactions for the Bank's liquidity management purposes (money market), was transferred to Erste Group Bank. Trading gains (i. e. from Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in "Net trading result".

The basic principle underlying these rules involves the Erste Group Bank absorbing potential losses on individual classes of assets in exchange for the risk premium derived from the VaR indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets in individual asset groups.

The net trading result includes income from the market positions of Erste Group Bank structured as follows:

CZK mil.	2009	2008
Gain from foreign exchange transactions	413	354
Gain from fixed income securities	492	195
Gain from commodity derivatives	1	–
Total	**906**	**549**

38. General Administrative Expenses

a) Composition of General Administrative Expenses

CZK mil.	2009	2008
Staff costs		
Wages and salaries	6,169	6,268
Social security costs	1,887	1,829
Other staff costs	440	429
Total staff costs	**8,496**	**8,526**
Other administrative expenses		
Data processing expenses	3,159	2,775
Building maintenance and rent	1,737	1,524
Costs of business transactions	1,369	1,393
Advertising and marketing	903	1,089
Advisory and legal services	288	611
Other administrative expenses	576	769
Total other administrative expenses	**8,032**	**8,161**
Amortisation and depreciation		
Amortisation of intangible assets (Note 17)	1,287	1,423
Depreciation of property and equipment (Note 18)	1,454	1,431
Total depreciation and amortisation	**2,741**	**2,854**
Total	**19,269**	**19,541**

b) Board of Directors and Supervisory Board Remuneration

CZK mil.	2009	2008
Remuneration	170	187
Total	**170**	**187**

The total amount includes the remuneration of the management and supervisory bodies of the Bank and other companies included in the consolidation.

c) Average Number of Employees and Board Members

CZK mil.	2009	2008
Board of Directors	7	7
Supervisory Board	9	10
Staff	10,843	10,911

Average number of Board members relates to the Bank only.

All employees of the Bank were entitled to subscribe for shares under the Employee Stock Ownership Programme. Each employee was entitled to subscribe for a maximum of 200 Erste Group Bank shares (2008: 200 shares). The price of one share was established on the basis of the average rate in April 2009 decreased by a 20 percent discount. The 20 percent discount is conditional upon the shares being held for a period of one year. A total of 922 employees (2008: 826) participated in the programme and subscribed for 144,832 shares (2008: 115,054 shares).

Under the 2002 and 2005 MSOPs, no tranches of options were granted in 2009. The options acquired under the Management Erste Bank Stock Option Plans 2005 entitle the holders to acquire Erste Group Bank's shares for the price of EUR 43 which was determined as the average price of the shares ruling in April 2005 plus a 10 percent mark-up, rounded to EUR 0.5. For the options subscribed until 2004 under the 2002 MSOP, the price of the share was EUR 16.50. In 2009 no options were exercised since the share market value did not reach their realizable value (2008: 1,550 options granted for which 6,200 shares were purchased). All options granted within the Management Erste Bank Stock Option Plan 2002 and not exercised in 2009 cease to exist and the MSOP 2002 program terminates. No options granted under the Management Erste Bank Stock Option Plan 2005 were exercised in 2009 (2008: 0) since the market value of the shares did not reach their realizable value.

No management option programme was announced in 2009 and therefore no options were granted. The aggregate amount of the discount in respect of both programmes was CZK 20 million (2008: CZK 35 million).

39. Other Operating Expenses, Net

CZK mil.	2009	2008
Release of other reserves	20	116
Gain on the sale of real estate	235	319
Gain on the revaluation of real estate (see Note 15)	185	372
Income from other services	82	77
Received compensation for deficits and damage	80	148
Release of provisions against non-credit receivables	70	20
Income from the sale of goods including sale of completed property under construction	487	98
Tangible and intangible assets write-up	33	–
Other operating income	239	221
Total other operating income	**1,431**	**1,371**
Charges for other reserves	(53)	(27)
Contribution to the Deposit Insurance Fund	(536)	(525)
Profit share of customers of Penzijní fond České spořitelny, a. s.	(390)	(108)
Loss on the sale of real estate	(6)	(17)
Loss on the revaluation of real estate (see Note 15)	(1,644)	(1,241)
Deficits and damage, fines and penalties	(90)	(207)
Charge for provisions against non-credit receivables	(226)	(88)
Costs of goods sold	(511)	(121)
Impairment of tangible and intangible assets	(63)	(2)
Other operating charges	(682)	(177)
Other taxes	(77)	(57)
Total other operating expenses	**(4,278)**	**(2,570)**
Gains/(losses) on the revaluation/sale of securities at fair value through profit or loss that are not held for trading	97	(2,573)
Gains on the sale of securities available for sale	406	522
Impairment of securities available for sale	(644)	(2,294)
Gain/(loss) on the revaluation/sale of equity investments	165	(7)
Total other operating expenses, net	**(2,823)**	**(5,551)**

The line "Losses from the revaluation/sale of securities at fair value through profit or loss that are not held for trading" includes a gain from the revaluation of securitised notes of CZK 369 million (2008: a loss of CZK 1,291 million) (refer to Note 11).

In 2008, the line "Impairment of securities available for sale" includes impairment of the bonds issued by Lehman Brothers and Icelandic banks in the amount of CZK 2,245 million (refer to Note 13).

In 2009, the line "Gains on the revaluation/sale of equity investments" mainly included gains from the sale of Investiční společnost České spořitelny, a. s., of CZK 153 million. In 2008, the line "Gains on the revaluation/sale of equity investments" mainly included gains from the sale of Zahradní čtvrť, a. s., Genesis Private Equity Fund B Limited and of Consulting České spořitelny, a. s., of CZK 75 million, CZK 13 million and CZK 2 million, respectively.

40. Other Comprehensive Income Statement

CZK mil.	2009	2008
Available for sale financial assets		
Profits/(losses) during the year	2,171	(2,190)
Reclassification adjustments to the income statement	(346)	114
Total	**1,825**	**(2,076)**
Cash flow hedging		
Profits/(losses) during the year	125	(278)
Reclassification adjustments to the income statement	(15)	154
Total	**110**	**(124)**

41. Income Tax Expense

(a) Income Statement

CZK mil.	2009	2008
Current tax expense	**(3,167)**	**(3,001)**
– Continuing operations	(3,167)	(2,957)
– Discontinued operations	–	(44)
Deferred tax income/(expense) (Note 27)	**(195)**	**192**
– Continuing operations	(195)	192
– Discontinued operations	–	–
Total	**(3,362)**	**(2,809)**

(b) Other Comprehensive Income Statement

CZK mil.	2009	2008
Income/(expense) as a result of deferred tax on items charged into equity		
Hedge of net investment in foreign currency equity investments	(17)	24
Gains and losses on revaluation of available-for-sale financial assets	(140)	204
Effective portion of gains and losses on hedge instruments in cash flow hedges	(6)	6
Total	**(163)**	**234**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the home country of the Bank as follows:

CZK mil.	2009	2008
Profit before tax	15,178	18,580
– Continuing operations	15,178	14,076
– Discontinued operations	–	4,504
Tax calculated at a tax rate of 20% (2008: 21%)	**3,036**	**3,902**
Income not subject to tax	(608)	(1,843)
Expenses not deductible for tax purposes	878	582
Tax allowances and credits, including the utilisation of tax losses	(4)	13
Income tax as per the final tax returns for prior period	60	155
Total income tax expense	**3,362**	**2,809**
Effective tax rate	**22.15%**	**15.12%**

Further information about deferred income tax is presented in Note 27. In 2008, the effective tax rate was influenced by income generated from the sale of Pojišťovna České spořitelny, a. s., which was not subject to income tax.

42. Cash and Cash Equivalents

Cash and cash equivalents at the end of the year as shown in the consolidated statement of cash flows is composed of the following balances:

CZK mil.	2009	2008
Cash (Note 6)	20,651	18,651
Nostro accounts with the CNB (Note 6)	1,079	603
Treasury bills with maturity of less than three months	5,480	12,091
Nostro accounts with financial institutions (Note 7)	528	2,230
Loro accounts with financial institutions (Note 20)	(1,922)	(1,524)
Total cash and cash equivalents	**25,816**	**32,051**

43. Risk Management and Financial Instruments

A financial instrument is any contract with the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

The Group classifies financial instruments into the trading and banking (investment) portfolios in accordance with BASEL II rules as per CNB Regulation No. 123/2007 as amended by Regulation 282/2008 Coll., on the rules of prudent business of banks, savings and lending associates and securities traders (henceforth "Regulation 123/2007"). The Group uses various risk management techniques for the banking and trading books.

Financial instruments may result in certain risks to the Group. The most significant is credit risk, i. e. counterparty risk. In addition, the investment portfolio of the Group is exposed to interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate and equity risks and other risks relating to trading with complex instruments. All transactions with financial instruments also carry operational risk.

In 2007, a division managed by the Chief Risk Officer was formed as part of the reorganisation of the Group's structure. This division, which is completely independent of the business divisions of the Group, centralises all departments tasked with risk management such as Legal and Compliance, Central Risk Management and Credit Risk Management, Credit Risk Controlling and Credit Portfolio Management. Central Risk Management is further divided into Financial Markets Risk Management, Operational Risks and Economic Capital.

Risk management activities in the Bank's subsidiaries are undertaken by persons independent of the business units. The Credit Risk Controlling and Loan Portfolio Management Department of the Bank provides specialist guidance to and oversees the staff involved in managing credit risk in the subsidiaries and is responsible for monitoring the subsidiaries portfolio. Market risks within the Group are managed by the Bank.

Internal management and control systems are reviewed by the internal audit function on an annual basis.

- In accordance with IAS 39, the Group classifies financial instruments into the following categories:
  - Loans and advances (not intended for trading);
  - Investments held to maturity;
  - Financial assets at fair value through profit or loss;
  - Financial assets available for sale;
  - Financial liabilities measured at amortised cost; and
  - Financial liabilities at fair value through profit or loss.

- The Group records the following categories of financial instruments:
  - Cash and balances with CNB;
  - Loans and advances to financial institutions;
  - Loans and advances to customers – retail and corporate;
  - Securities held for trading;
  - Securities designated upon initial recognition as at fair value through profit or loss;
  - Derivative instruments;
  - Securities available for sale;
  - Securities held to maturity;
  - Other assets;
  - Amounts owed to financial institutions;
  - Amounts owed to customers;
  - Liabilities at fair value;
  - Bonds in issue;
  - Other assets; and
  - Subordinated debt.

The table below shows the comparison between categories of financial assets and liabilities reported according to IFRS 7 and categories of financial assets and liabilities reported according to IAS 39.

The balances of financial instruments in the individual categories are as follows:

At 31 December 2009	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities measured at amortised value	Financial liabilities at fair value
Financial assets						
Cash and balances with CNB	29,371					
Loans and advances to financial institutions	126,506					
Loans and advances to customers	454,479					
Securities held for trading			29,644			
Securities designated upon initial recognition as at fair value through profit or loss			7,367			
Derivative instruments			17,675			
– trading			17,070			
– hedging			605			
Securities available for sale				28,388		
Securities held to maturity		111,977				
Other assets	9,080					
Financial liabilities						
Amounts owed to financial institutions					47,434	
Amounts owed to customers					643,420	
Liabilities at fair value						8,129
Derivative instruments						16,412
– trading						16,056
– hedging						356
Bonds in issue					43,119	
Other liabilities					10,803	
Subordinated debt					13,404	

At 31 December 2008	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities measured at amortised value	Financial liabilities at fair value
Financial assets						
Cash and balances with CNB	24,285					
Loans and advances to financial institutions	93,306					
Loans and advances to customers	452,504					
Securities held for trading			36,709			
Securities designated upon initial recognition as at fair value through profit or loss			19,226			
Derivative instruments			27,138			
– trading			26,386			
– hedging			752			
Securities available for sale				35,015		
Securities held to maturity		118,938				
Other assets	11,582					
Financial liabilities						
Amounts owed to financial institutions					57,561	
Amounts owed to customers					642,504	
Liabilities at fair value						7,696
Derivative instruments						25,595
– trading						24,990
– hedging						605
Bonds in issue					39,204	
Other liabilities					8,717	
Subordinated debt					5,197	

43.1 Credit Risk

In the course of its business, the Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Loan and advances are segmented into non-default (performing) loans where the principal and interest is not past due for more than 90 days and default (non-performing) loans. Within these loans, two large sub portfolios are defined – individually significant loans, which include corporate loans or receivables where the Group's loan exposure exceeds CZK 5 million, and individually insignificant loans. As part of these two sub portfolios, the Group additionally monitors five client portfolios for individually significant loans and 15 product portfolios for individually insignificant loans. The Group monitors risk parameters (PD, LGD, and CCF) in respect of these portfolios. PD is additionally monitored in individual internal rating grades.

The Group additionally splits its client and product portfolios according to individual internal rating grades; there are 13 plus 1 (default) internal rating grades. Additional details can be found in Note 43.1 (h).

In accounting and provisioning terms, loans are segmented into individually impaired, where objective evidence demonstrates that a loss event, occurred subsequent to their initial recognition which impacts future anticipated cash flows arising from these loans and these loans are therefore impaired on an individual basis, and collectively impaired loans where such circumstances were not demonstrated on an individual basis and unimpaired loans with no indication of impairment.

All non-performing loans are classified as individually impaired loans. Performing loans with the 1–6 internal rating are unimpaired loans; loans with the 7–8 internal rating are collectively impaired.

Credit Risk Management Methodology

In managing credit risk, the Group applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy includes:

- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities;
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan;
- Principal methods for arriving at an internal rating of a borrower and its periodic review;
- Basic principles underlying the determination of the system of limits and the structure of approval authorities;
- Risk parameters calculation methodology;
- Rules of loan collateral management;
- Structure of basic product categories;
- Provision calculation methodology;
- Stress testing methodology; and
- Credit risk pricing methodology.

Breakdown of the Portfolio for Credit Risk Management Purposes

For credit risk management purposes, the Group's loan portfolio is broken down as follows:

- **Retail receivables** are receivables from individuals and small enterprises with an annual turnover of up to CZK 30 million. The portfolio of retail receivables is further divided by type of counterparty and product for the purpose of regular analyses. The portfolio is further divided into smaller sub-portfolios (e. g., based on retail channels, level of collateral, grant period, etc.) as part of ad hoc analyses. The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.
- **Receivables from corporate counterparties** include receivables from legal entities which do not comply with the "small enterprise" definition. The portfolio of corporate receivables is further divided by counterparty type (large enterprises, mid size enterprises, project financing and municipalities) for the purposes of regular analyses. The methods of managing the credit risk of corporate receivables are based on statistical models (namely for the portfolio of receivables from mid size enterprises), great emphasis is also put on regular individual analysis of individual customers.
- **Receivables arising from specific products provided by the subsidiaries** represent specialised financial products that require their own risk management techniques reflecting their specifics. These largely include factoring receivables, leasing receivables, instalment sales, loans issued to finance the acquisition of securities and construction savings loans. The portfolios of these products are regularly monitored both on an individual basis (for individually significant exposures) and a portfolio basis.

With the exception of sporadic border line cases, the implemented breakdown of the portfolio corresponds to the asset classes defined in CNB Regulation 123/2007 which implements the Basel II rules.

For the purpose of provisioning, monitoring and predicting losses, the Group differentiates between individually significant and individually insignificant exposures when managing credit risk. The credit risk attached to individually significant exposures is managed on an individual basis with the minor use of portfolio models. The Group aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis. The Group's category of individually significant exposures includes corporate loans, including small and medium sized enterprises (SME), and private sector loans. Individually insignificant exposures include retails loans to households, individuals, individuals – small entrepreneurs and small municipalities (MSE).

Individually significant loans predominantly include loans from Group's corporate portfolio. These loans are additionally split into 7 portfolios: large corporate clients the exposure of which is managed using a unified method in the Erste Group, project financing and corporate mortgages the exposure of which is managed using a unified method in the Erste Group, large corporate customers administered and managed on the Bank level (turnover over CZK 1,000 million), small and medium sized enterprises (turnover from CZK 30 to 1,000 million), project funding and corporate mortgages, municipality loans and loans from the Workout department. Corporate loans additionally match the corporate class (segment) of assets under BASEL II or special funding.

Individually insignificant loans, including MSE loans, encompass the Group's retail loans and are additionally split into 15 product portfolios. The key portfolios include mortgage retail loans, credit card loans, overdraft loans and consumer loans. The Group's retail loans additionally match the "individuals/households" assets class (segment) under BASEL II.

All loans are additionally segmented into default loans (non-performing) and non-default loans (performing). Default is defined using the BASEL II criteria (a receivable is past due for more than 90 days or its full repayment is assessed as being unlikely).

Collection of Key Risk Management Information

In managing credit risk, the Bank refers not only to its own portfolio information but also the portfolio information of other members of the Česká spořitelna Group. The Bank additionally uses information obtained from external sources such as the Credit Bureau or ratings provided by reputable rating agencies. The data used for modelling and managing credit risk are collected in the Bank's data warehouse. Project aimed at improving the quantity and quality of collected data have been implemented by the Bank. These data provide a basis for modelling credit risk and support during debt recovery, valuation of receivables and calculation of losses.

Internal Rating Tools

The internal ratings of the Group reflect the ability of counterparties to meet their financial liabilities. The degree of the risk is reflected in the internal rating as a probability of default of the debtor in the following twelve months. This degree of risk complies with the definition of capital requirements set out in CNB Regulation 123/2007 (BASEL II).

The Group allocates internal ratings to all loan receivables from customers. In addition to the rating of individuals and households, the Group uses the 13 degree rating scale of non-default categories and one group for "R" default customers. The scale for individuals and households is 8 + R.

The definition of default of a debtor complies with the CNB Regulation referred to above and thus reflects the debt status of any portion of the receivable with the limit of 90 days and more past the due date, bankruptcy proceedings, insolvency or forced restructuring of a receivable.

Individual customer segments (classes) are, under BASEL II, subject to various rating instruments and all of them are currently the Erste Group wide standard.

Counterparties from the sovereign and banking segments are evaluated using a model which is unified for the whole Erste Group. The model places great emphasis on independent external ratings of reputable counterparties.

Counterparties under specialised financing and projects are also subject to the Group wide instrument, but the rating model reflects local specifics of the legislative and economic environment and the specifics of project financing and is primarily based on projected cash flow.

Corporate customers are evaluated on the basis of their financial strength, business information, business plan and credit history data. The primary source of information includes financial statements; less significant weight is given to soft factors (such as industry developments, supplier dependence or quality of management).

The rating of the small enterprises segment is based on similar foundations as the rating of corporations, but the overall rating substantially takes into account the solvency of the enterprise owner or the entrepreneur himself.

Individuals/households are evaluated on the basis of socio demographic data, behavioural scoring and loan history, obtained primarily from external registers of debtors (Credit Bureau) and historical data of the Bank and the Group.

The Group uses its own model based on analysis of budgets in arriving at the internal ratings of its clients from among budget driven and subsidised organisations.

Ratings for corporate, small enterprises and individuals segments are prepared using a unified Erste Group wide database designed to ensure a conceptual compliance with the Erste Group Bank standard, but the setting of the models reflects local economic and legislative conditions. This database tool uses outputs from individual rating tools and facilitates the combination of multiple sources of information into one rating, for example, for corporate clients, the outputs of financial analysis and soft factors or behavioural scoring and repayment ability.

The Group reviews ratings in respect of all segments on a regular basis. The rating of the banking, corporate and sovereign segments is analysed at least annually on an individual basis. The Group has developed "behavioural rating" for retail customers where the Group updates the rating of a customer based on its activities and its delinquency on a monthly basis.

In addition to the internal ratings outlined above, the Group allocates risk profile groups to individual assets arising from the loan

arrangement according to CNB Regulation 123/2007. In accordance with this Regulation, the Group maintains five groups of risk profiles, ranging from standard, watch, substandard, doubtful to loss receivables. Individual groups are differentiated according to the number of past due dates of any portion of a receivable, bankruptcy status of a customer, forced restructuring of a receivable and the internal anticipation with regard to the timely and full repayment of the whole receivable balance.

The Group also uses independent external ratings provided by reputable rating agencies. Based upon its historical experience, the Group has determined a transfer bridge between its own internal ratings and external ratings (see Note 43.1 (h)).

In compliance with the regulatory requirements arising from BASEL II, rating instruments are subject to regular annual validation by the Risk Management Department and the Internal Audit. In addition, the rating instruments are periodically adjusted to reflect changing economic conditions and the Group's plans, based on validations (results consistency testing) and performance testing undertaken by the Credit Risk Controlling and Portfolio Management Department.

The application of internal rating tools is limited for certain specialised products provided by the subsidiaries, hence the internal rating tools are not used by all of the entities included in the Group, specifically DINESIA a. s., s Autoleasing, a. s., Factoring České spořitelny, a. s., and brokerjet České spořitelny, a. s. The principal reason relates to the lack of appropriate input data used in arriving at the internal rating and monitoring receivables which the clients are obliged to provide to the Group. As such, these products require an increased level of loan collateral.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Group may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Group strives to protect its revenues and capital from risk concentration. Risk concentration is measured through the amount of the loss of twenty groups to which the Bank records the highest exposure and several other indicators (particularly level of exposure to client's related parties) for which limits have been established.

Structure of Approval Authorities

The structure of approval authorities is derived from the principle of the materiality of the impact of a potential loss from a provided loan on the Group's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Board of Directors, with the Credit Committee of the Supervisory Board only having an advisory role. Lower approval authorities are categorised taking account of the seniority of the staff of the Credit Risk Management Department and Credit Service Department.

Risk Parameters

The Group uses its own internal models in determining risk parameters such as PD, LGD and CCF. All of the models are developed according to BASEL II requirements and until 2007 were subject to review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for quantitative management of the portfolio credit risk. The Bank currently uses risk parameters in monitoring portfolio risks, in default loans portfolio management, portfolio protection measurement and risk valuation. The active use of the risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments on both internal and external changes. The PD risk parameter is monitored for individual internal rating grades (see above) with the exception of non-performing loans (in default) where it is equal to 1. The LGD risk parameter is monitored in respect of homogenous 5 corporate product portfolios and 15 product retail portfolios in regard to non-performing loans (in default). The CCF risk parameter is monitored for guarantees, overdraft loans and credit card loans.

All models are back tested at least annually and validated by the Bank's specialists who are independent on the Risk Management Department.

Provisions for Loan Losses

The Group recognises provisions for incurred losses. These losses are determined and recognised in accordance with IAS 39. In determining the amount of the loss, the Group uses risk parameters estimated as part of the implementation of BASEL II rules.

Loan loss provisions are determined for all impaired loans. For individually impaired loans the incurred loss is determined on the basis of individual assessment of individual debts, for collectively impaired loans (i. e. receivables without default) the incurred loss is determined on the basis of historic loss experience on similar loan portfolio.

Individual Losses Component

Individually impaired receivables are receivables in default (receivables with the "R" internal rating) and the definition of default complies with BASEL II requirements.

The individual losses component covers losses arising from receivables impaired on an individual basis. Impairment of a receivable is identified based on loss making events that can be ascertained individually.

Impairment of corporate receivables and retail receivables with a value exceeding CZK 5 million (individually significant exposures) is measured on an individual basis. The impairment represents the difference between the net present value of expected future cash flows arising from the receivable using the original effective interest rate and the carrying amount of the receivable.

The level of impairment of retail receivables (individually insignificant) is determined using the provisioning coefficients matrix. Provisioning coefficients are derived from the LGD historical values in respect of individual portfolios of individually insignificant exposures. The coefficients additionally reflect duration of default.

All receivables are assessed by the Group on a monthly basis to determine whether a loss making event or other changes occurred.

The estimated loss on the impairment of individually significant exposures is reviewed at least on a quarterly basis for each exposure.

Collective Losses Component

The collective losses component represents the loss on collective impairment of individually unimpaired exposures. Collective impairment corresponds to the anticipated incurred loss from the portfolio of individually unimpaired exposures determined based on the experience with similar exposures. Collective impairment losses represent the Bank's reasonable estimate made on the basis of historical experience with the risk profile of individual sub-portfolios of individually unimpaired exposures. Given the current unstable economic conditions, also the actual future losses may differ from the estimated based on historical experience as at the reporting date.

The level of provisioning for these receivables is determined in accordance with the Group methodology reflecting PD, LGD and loss identification period ("LIP"). In determining the amount of incurred loss, the Bank adopts the same method of calculating historical PDs and LGDs which are used as a basis for the calculation of risk weighted assets under BASEL II. The LIP parameter is set depending on the counterparty type – for corporate counterparties, it is anticipated that the default is identified within one year, the default on retail receivables is anticipated to be identified within four months at the latest. Given that the Bank has a customer definition of the default in place, the LIP parameter is identical for all retail products.

Restructured receivables are marked with the "R" internal rating. As part of the half-year reviews of restructured receivables, the Bank decides to improve the internal rating or to extend the monitoring period by another six months.

Subsidiaries that do not use internal ratings apply portfolio approaches derived from the duration of default and historical experience with portfolio losses.

Management of the Credit Risk in the Trading Portfolio

The credit risk inherent in the trading portfolio is managed through the imposition of limits approved for individual counterparties.

Collateral

Collateralisation of the Group's receivables represents the Group's prevention and protection as a creditor and an additional source of repayment. The selection and composition of individual collateral instruments depends on the Group's loan products, requirements and professional assessment by the Group's responsible employee and takes into account their easy realisation.

The value of collateral is determined by reference to the market price valuation (nominal value of collateral). The market price is taken to mean the arm's length price (selling) or the price determined using a different valuation technique in terms of Section 2 (1) and (3) of Property Valuation Act No. 151/1997 Coll.; however, always determined taking into account all the circumstances which have a pricing impact, namely defects. If more market prices of the collateral determined using various valuation techniques are available in a particular business transaction, the lower/lowest market price is used.

If the collateral instrument involves real estate, movable asset, business or its branch, trade mark, an asset declared as a historical monument, antiquities, paintings, jewels, manuscripts, etc., the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Group or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate must not be older than six months at the date when the loan contract is entered into. For real estate valuation purposes, a detailed special "Methodology of Valuation of Real Estate for the Purpose of Advancing of a Loan, Including Mortgage Loans, at Česká spořitelna" is used.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. In determining the collateral coefficient/the realisable (fair) value of the collateral, it is necessary to assess individual instruments by their specific features, e. g. real estate by the character of its construction, etc. and always following a physical inspection. The expert appraisal/price estimate always has to be reviewed. Other conditions taken into account in determining the realisable value of the collateral are, among others, as follows:

- Comprehensive assessment of all available and, for the particular case, significant circumstances and background documentation;
- Insurance and pledge of a receivable arising from the insurance proceeds in favour of the Group;
- Possibilities of the realisation of collateral at a particular time and place and the amount of the costs of the realisation which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

In the event of doubt or any suspicion, the loan officer has to personally verify the actual physical and legal condition and nature of collateral prior to determining the coefficient of recoverability.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. The Collateral Catalogue also includes requirements for periodical revaluation of collateral. Typically, the collateral value is analysed and updated upon the regular monitoring/credit review of clients[1]. With respect to credit product portfolios with a significant amount of collateral, the Group uses portfolio models of updating collateral realisable values.

In addition, the Group regularly monitors the loan-to-value ratio, mainly in respect of mortgage loans and project financing loans.

[1] credit review

Credit risk pricing

In determining risk mark-ups for individual types of counterparts and deals the bank uses monitored values of risk parameters PD, LGD and CCF. In addition, in calculating the mark-ups the bank also takes into consideration changes in macroeconomic environment and changes in the credit process in the bank, which may have an impact on risk level of credit portfolio.

Stress Testing

The Group regularly undertakes the stress testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Group performs scenario analyses modelling the impact of the adverse development of the macroeconomic quantities (such as change in the economic growth rate, change in interest rates and change in inflation). The breakdown on credit risk by industries is shown in Note 43.1 (f).

a) Analysis of Individually Impaired Loans

CZK mil.	Individually impaired		Fair value of collateral	
	2009	2008	2009	2008
Retail loans/loans to households				
Overdraft loans	405	347	–	–
Credit cards	265	217	–	–
Other loans	5,342	3,374	460	240
Mortgage loans	4,180	2,480	2,937	1,704
Construction savings loans	1,296	643	306	187
Finance leases	44	35	20	20
Subtotal	**11,532**	**7,096**	**3,723**	**2,151**
MSE[x)]				
Overdraft loans	202	219	25	38
Other loans	2,201	1,000	907	406
Mortgage loans	1,229	656	817	493
Municipal loans	22	20	7	2
Finance leases	440	283	207	164
Subtotal	**4,094**	**2,178**	**1,963**	**1,103**
Total retail loans	**15,626**	**9,274**	**5,686**	**3,254**
Corporate loans				
Corporate customers	4,687	1,831	1,106	258
Small and medium sized enterprises (SMEs)[xx)]	4,108	3,668	2,385	1,924
Corporate mortgage loans	2,805	573	2,185	360
Municipalities	19	17	7	14
Factoring	–	64	–	–
Total corporate loans	**11,619**	**6,153**	**5,683**	**2,556**
Total	**27,245**	**15,427**	**11,369**	**5,810**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

The fair value of collateral is the lower of the collateral nominal value times collateral coefficient and the receivable balance. The saleability of collateral is not always certain. For details of fair values of collateral, see Note 4 (i).

b) Restructuring of Loans

The Group has restructured the loans that would otherwise be in default or impaired in the aggregate amount of CZK 5,969 million (2008: CZK 4,101 million).

CZK mil.	2009	2008
Other loans	2,646	2,508
Construction savings loans	228	92
Mortgage loans	3,095	1,501
Total	**5,969**	**4,101**

c) Loans Past their Due Dates

As at 31 December 2009 and 2008, the Group reports the following loans which are past their due dates, but not individually impaired:

At 31 December 2009 CZK mil.	Past due date by less than 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans/loans to households					
Overdraft loans	81	63	36	180	–
Credit cards	560	56	24	640	–
Other loans	4,196	967	464	5,627	573
Mortgage loans	495	1,214	511	2,220	1,804
Construction savings loans	865	269	115	1,249	406
Finance leases	20	3	1	24	23
Subtotal	**6,217**	**2,572**	**1,151**	**9,940**	**2,806**
MSE[x)]					
Overdraft loans	12	23	17	52	4
Other loans	589	395	212	1,196	499
Mortgage loans	149	253	153	555	469
Municipal loans	7	–	6	13	1
Finance leases	233	45	13	291	279
Subtotal	**990**	**716**	**401**	**2,107**	**1,252**
Total retail loans	**7,207**	**3,288**	**1,552**	**12,047**	**4,058**
Corporate loans					
Corporate customers	388	19	48	455	243
Small and medium sized enterprises (SMEs)[xx)]	1,820	300	164	2,284	1,519
Corporate mortgage loans	35	204	23	262	242
Municipalities	32	–	–	32	–
Total corporate loans	**2,275**	**523**	**235**	**3,033**	**2,004**
Total	**9,482**	**3,811**	**1,787**	**15,080**	**6,062**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million

[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

At 31 December 2008 CZK mil.	Past due date by less than 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans/loans to households					
Overdraft loans	85	58	31	174	–
Credit cards	506	57	19	582	–
Other loans	3,705	892	340	4,937	596
Mortgage loans	276	995	385	1,656	1,358
Construction savings loans	822	215	66	1,103	543
Finance leases	32	8	1	41	49
Subtotal	**5,426**	**2,225**	**842**	**8,493**	**2,546**
MSE[x)]					
Overdraft loans	15	24	10	49	8
Other loans	967	246	149	1,362	763
Mortgage loans	145	324	111	580	486
Municipal loans	27	–	–	27	–
Finance leases	291	114	52	457	487
Subtotal	**1,445**	**708**	**322**	**2,475**	**1,744**
Total retail loans	**6,871**	**2,933**	**1,164**	**10,968**	**4,290**
Corporate loans					
Corporate customers	550	–	–	550	6
Small and medium sized enterprises (SMEs)[xx)]	2,168	251	197	2,616	1,578
Corporate mortgage loans	333	1,216	18	1,567	1,386
Municipalities	64	–	–	64	–
Total corporate loans	**3,115**	**1,467**	**215**	**4,797**	**2,970**
Total	**9,986**	**4,400**	**1,379**	**15,765**	**7,260**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million

[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

d) Losses from Impairment by Individual Categories of Financial Assets

2009 CZK mil.	At 1 Jan	Creation of impairment allowances	Write-off of loans	Amounts recovered during the year	Unwinding of discounts[x)]	Foreign exchange rate gains or losses	At 31 Dec	Change in the balance
Retail loans/loans to households								
Overdraft loans	313	263	(114)	(98)	(18)	–	346	33
Credit cards	188	170	(90)	(47)	(16)	–	205	17
Other loans	2,603	2,819	(1,256)	(295)	(184)	–	3,687	1 084
Mortgage loans	984	627	(14)	(236)	(113)	–	1,248	264
Construction savings loans	309	322	(28)	(78)	–	–	525	216
Finance leases	26	2	(1)	(1)	–	–	26	–
Subtotal	**4,423**	**4,203**	**(1,503)**	**(755)**	**(331)**	**–**	**6,037**	**1 614**
MSE[xx)]								
Overdraft loans	220	95	(46)	(60)	(3)	–	206	(14)
Other loans	667	1,025	(130)	(55)	(48)	–	1,459	792
Mortgage loans	291	290	(26)	(28)	(36)	–	491	200
Municipal loans	31	31	(32)	(6)	(1)	–	23	(8)
Finance leases	216	132	(30)	(26)	–	–	292	76
Subtotal	**1,425**	**1,573**	**(264)**	**(175)**	**(88)**	**–**	**2,471**	**1 046**
Corporate loans								
Corporate customers	836	1,836	26	(2)	(77)	(17)	2,602	1 766
Small and medium sized enterprises (SMEs)[xxx)]	1,938	1,585	(298)	(376)	(81)	–	2,768	830
Corporate mortgage loans	291	589	(35)	11	(43)	–	813	522
Municipalities	16	8	–	(2)	–	–	22	6
Subtotal	**3,081**	**4,018**	**(307)**	**(369)**	**(201)**	**(17)**	**6,205**	**3 124**
Total	**8,929**	**9,794**	**(2,074)**	**(1,299)**	**(620)**	**(17)**	**14,713**	**5 784**

[x)] Unwinding of discounts – interest income from impaired financial receivables

[xx)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million

[xxx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

2008 CZK mil.	At 1 Jan	Creation of impairment allowances	Write-off of loans	Amounts recovered during the year	Unwinding of discounts[x)]	Foreign exchange rate gains or losses	At 31 Dec	Change in the balance
Retail loans / loans to households								
Overdraft loans	216	210	(36)	(67)	(10)	–	313	97
Credit cards	225	121	(88)	(58)	(12)	–	188	(37)
Other loans	1,882	1,716	(452)	(440)	(103)	–	2,603	721
Mortgage loans	721	518	(13)	(185)	(57)	–	984	263
Construction savings loans	234	197	(47)	(75)	–	–	309	75
Finance leases	29	4	(2)	(5)	–	–	26	(3)
Subtotal	**3,307**	**2,766**	**(638)**	**(830)**	**(182)**	**–**	**4,423**	**1,116**
MSE [xx)]								
Overdraft loans	227	112	(78)	(40)	(1)	–	220	(7)
Other loans	458	397	(53)	(116)	(19)	–	667	209
Mortgage loans	153	192	(7)	(26)	(21)	–	291	138
Municipal loans	22	24	(9)	(6)	–	–	31	9
Finance leases	284	138	(63)	(143)	–	–	216	(68)
Subtotal	**1,144**	**863**	**(210)**	**(331)**	**(41)**	**–**	**1,425**	**281**
Corporate loans								
Corporate customers	474	481	(19)	(32)	(73)	5	836	362
Small and medium sized enterprises (SMEs)[xxx)]	1,646	1,006	(168)	(467)	(79)	–	1,938	292
Corporate mortgage loans	230	186	(26)	(56)	(43)	–	291	61
Municipalities	9	12	–	(5)	–	–	16	7
Subtotal	**2,359**	**1,685**	**(213)**	**(560)**	**(195)**	**5**	**3,081**	**722**
Total	**6,810**	**5,314**	**(1,061)**	**(1,721)**	**(418)**	**5**	**8,929**	**2,119**

[x)] Unwinding of discounts – interest income from impaired financial receivables

[xx)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million

[xxx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

e) Structure of Credit Risk by On-balance Sheet and Off-balance Sheet Items

The Group is exposed to credit risk arising from the following items:

CZK mil.	2009	2008
Credit risk exposures relating to on-balance sheet items		
Cash and with the CNB	8,720	5,634
Loans and advances to financial institutions	126,506	93,306
Loans and advances to customers, net of provisions	454,479	452,504
a) Retail loans	**246,263**	**236,596**
– Overdraft loans	6,072	5,890
– Credit cards	4,530	3,529
– Other loans	73,852	68,805
– Mortgage loans	116,539	115,121
– Construction savings loans	44,952	42,447
– Finance leases	318	450
– Loans to purchase securities	–	354
b) Retail loans – businessmen and small companies (MSE)	**55,051**	**50,705**
– Overdraft loans	2,728	2,737
– Other loans	21,434	17,296
– Mortgage loans	21,924	20,953
– Municipal loans	8,949	9,698
– Construction savings loans	16	21
c) Corporate loans	**153,165**	**165,203**
– Large enterprises	43,839	57,186
– Small and medium sized enterprises (SMEs)	54,933	52,774
– Corporate mortgages	34,919	35,346
– Municipalities	12,795	10,438
– Factoring	1,535	1,908
– Finance leases	5,144	7,551
Derivatives with positive fair value	17,675	27,138
Financial assets at fair value through profit or loss		
– Debt securities held for trading	29,577	36,393
– Debt securities designated upon initial recognition as at fair value through profit or loss	6,136	13,575
Debt securities available for sale	25,938	32,220
Debt securities held to maturity	111,977	118,938
Credit risk exposure relating to off-balance sheet items		
Amounts owed from guarantees and letters of credit	17,618	17,913
Undrawn loan commitments	75,740	99,922
Total	**874,366**	**897,543**

The resulting credit exposure as at 31 December 2009 and 2008 represents a worst case scenario, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 66 percent of the total exposure is derived from loans and advances to financial institutions and customers (2008: 61 percent); 20 percent represents investments in debt securities (2008: 22 percent).

The credit risk exposure also includes accrued interest at a total value of 3 276 million (2008: CZK 5 018 million, receivables from factoring transactions totalling CZK 1 225 million (2008: CZK 1,569 million) and receivables from securities trading totalling CZK 314 million (2008: CZK 655 million), presented within other assets.

Collateral securing the above receivables is as follows:

CZK mil.	2009	2008
Loans and advances to financial institutions	78,392	48,423
Loans and advances to customers, net of provisions	251,363	241,649
– Retail loans	133,676	127,697
– Retail loans – businessmen and small companies (MSE)	27,938	28,432
– Corporate loans	89,749	85,520
Total	**329,755**	**290,072**

f) Credit Risk by Individual Sectors

Set out below is a summary of loans and advances to customers and financial institutions and debt securities by individual sectors in the distribution of the credit exposure of the Group:

CZK mil.		2009		2008
Financial institutions	186,341	24%	171,247	23%
Resident individuals	252,316	33%	241,708	32%
Trade	32,627	4%	35,747	5%
Energy sector	6,625	1%	5,803	1%
State institutions	128,417	17%	140,038	18%
Public sector	16,731	2%	14,166	2%
Construction industry	8,262	1%	7,413	1%
Hotels, public catering services	3,701	1%	2,992	–
Real estate and other business activities	61,079	8%	69,666	9%
Manufacturing industry	40,238	5%	45,650	6%
Other	32,989	4%	21,435	3%
Total	**769,326**	**100%**	**755,865**	**100%**

Given the allocation of credit risk of on balance and off-balance sheet items presented in Table 43.1 (e), this does not include "Cash and balances with the CNB", "Derivatives with positive fair value" and "Credit risk exposure relating to off-balance sheet items". In addition, loans and advances to customers are not decreased by provisions.

The geographical concentration of assets and liabilities is detailed in Note 45 (b).

g) Assessment of Asset Quality Using External Ratings by a Reputable Rating Agency

At 31 December 2009 CZK mil.	AAA	AA− to AA+	A− to A+	Lower than A	Unrated	Total
Securities held for trading	–	–	28,929	6	709	29,644
Securities at fair value through profit or loss	1,004	3,160	2,263	515	425	7,367
Securities available for sale	–	369	22,699	1,522	3,798	28,388
Securities held to maturity	419	34,323	65,355	6,801	5,079	111,977
Total	**1,423**	**37,852**	**119,246**	**8,844**	**10,011**	**177,376**

At 31 December 2008 CZK mil.	AAA	AA− to AA+	A− to A+	Lower than A	Unrated	Total
Securities held for trading	280	–	35,709	523	197	36,709
Securities at fair value through profit or loss	4,046	1,325	5,343	8,336	176	19,226
Securities available for sale	1,310	91	24,804	3,682	5,128	35,015
Securities held to maturity	11,488	498	89,636	17,058	258	118,938
Total	**17,124**	**1,914**	**155,492**	**29,599**	**5,759**	**209,888**

h) Assessment of Asset Quality Using Risk Profile

31 December 2009 CZK mil.	Investment grade	Standard monitoring	Special monitoring	Sub-standard	Total
Retail loans / loans to households					
– Overdraft loans	4,994	672	495	257	6,418
– Credit cards	3,868	412	255	200	4,735
– Other loans	63,423	6,202	4,315	3,607	77,547
– Mortgage loans	106,396	6,027	3,048	2,316	117,787
– Construction savings loans	40,567	3,141	520	1,265	45,493
– Leases	282	20	6	40	348
– Loans to purchase securities	475	–	–	–	475
MSE[x)]					
– Overdraft loans	2,033	686	31	184	2,934
– Mortgage loans	18,400	2,764	119	1,132	22,415
– Other loans	23,574	5,855	334	2,084	31,847
– Construction savings loans	17	1	–	–	18
– Leases	1,278	221	64	426	1,989
Corporate loans					
– Large enterprises	32,639	5,655	1,470	4,687	44,451
– Small and medium sized enterprises (SMEs)[xx)]	24,078	29,496	4,768	4,053	62,395
– Factoring	20,936	11,538	1,694	3,098	37,266
– Other	9,965	3,021	69	19	13,074
Total loans and advances to customers	**352,925**	**75,711**	**17,188**	**23,368**	**469,192**
Total loans and advances to financial institutions	**124,267**	**2,239**	**–**	**–**	**126,506**
Positive fair values of outstanding derivatives	**15,903**	**1,207**	**285**	**280**	**17,675**
Securities held to maturity unrated (Note 43.1 (g))	**9,590**	**199**	**–**	**222**	**10,011**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

In the Bank's transfer bridge, an external rating lower than BB+ and higher than B corresponds to the Standard Monitoring internal rating grade, an external rating lower than B− and higher than CCC corresponds to the Special Monitoring internal rating grade and an external rating lower than C corresponds to the Non-standard internal rating grade.

31 December 2008 CZK mil.	Investment grade	Standard monitoring	Special monitoring	Sub-standard	Total
Retail loans/loans to households					
– Overdraft loans	5,046	608	202	347	6,203
– Credit cards	2,967	377	156	217	3,717
– Other loans	63,541	4,968	1,889	3,374	73,772
– Mortgage loans	107,114	4,885	1,626	2,480	116,105
– Construction savings loans	40,182	1,673	282	643	42,780
– Leases	429	13	4	35	481
– Loans to purchase securities	354	–	–	–	354
MSE[x)]					
– Overdraft loans	2,039	678	21	219	2,957
– Mortgage loans	17,659	2,897	32	656	21,244
– Other loans	13,008	3,908	46	1,000	17,962
– Construction savings loans	21	3	–	–	24
– Leases	2,378	154	54	283	2,869
Corporate loans					
– Large enterprises	40,392	6,752	1,790	1,830	50,764
– Small and medium sized enterprises (SMEs)[xx)]	36,511	20,016	2,106	3,668	62,301
– Factoring	181	1,349	313	64	1,907
– Other	42,295	14,023	1,064	611	57,993
Total loans and advances to customers	**374,117**	**62,304**	**9,585**	**15,427**	**461,433**
Total loans and advances to financial institutions	**90,431**	**2,875**	**–**	**–**	**93,306**
Positive fair values of outstanding derivatives	**25,271**	**1,263**	**198**	**406**	**27,138**
Securities held to maturity unrated (Note 43.1 (g))	**5,753**	**–**	**–**	**6**	**5,759**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

Information as at 31 December 2008 was restated using the new methodology introduced in 2009. The following ratings correspond to individual category definitions:

- Investment grade – rating 1–5c,
- Standard monitoring – rating 6a–7,
- Special monitoring – rating 8; rating R for retail receivables overdue up to 90 days,
- Sub-standard – retail receivables overdue for more than 90 days, other receivables with rating R.

43.2 Market Risk

The Group is exposed to the impacts of market risks. Market risks arise from open positions in interest rate, currency, equity and commodity financial instruments, the value of which changes subject to general and specific financial market movements. The Group is primarily exposed to the market risk arising from open positions in the trading book. A significant component of the market risk is also the interest rate risk associated with assets and liabilities included in the investment book.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:
- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Proprietary trading in the interbank, derivative and capital markets.

The Group trades with the following derivative financial instruments through the over the counter ("OTC") market:
- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives (for gold, copper, silver, crude oil, oil, rape and zinc); and
- Credit derivatives.

In the area of exchange traded derivatives, the Group trades the following instruments:
- Bond futures;
- Equity and equity indices futures;
- Interest rate futures;
- Commodity derivatives (for gold and crude oil,); and
- Options in respect of bond futures.

The Group also trades, on behalf of its clients, with other less common currency options, such as digital, barrier or windowed options. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the investment book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (FX swaps and cross currency swaps).

During the 1st quarter of 2008, the Erste Group revised its business model. The majority of open positions arising from client transactions in the Group's trading book are transferred to the Group portfolio through "back to back" transactions. As such, the market risk arising from the Group's OTC transactions is managed on a consolidated basis within the Erste Group Bank portfolio. The Group retains in the trading portfolio the money market risk due to liquidity management, equity risk, interest rate risk from trading with Czech Government bonds and partially a residual risk from previously closed transactions. This residual risk is hedged dynamically at a macro level in line with the Group's limits set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Group uses the "value at risk" methodology ("VaR") to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The Board of Directors establishes VaR limits for the trading and investment portfolio as the Group's maximum exposure to market risk that may be accepted. For the trading portfolio VaR sub-limits in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, equity prices, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is also calculated for the (investment) banking book using special models for current accounts and other liabilities without specified maturity. The VaR of the investment book is reported to the Assets and Liabilities Committee (ALCO) on a monthly basis. The amount of the acceptable level of risk is based on the assessment of the capital available to cover risks based on the ICAAP methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the investment book, taking into account both the perspective of a strategic portfolio management and the accounting distribution of securities portfolios.

The VaR methodology includes all risk factors while reflecting their mutual diversification effect. As at 31 December 2009, the value of VaR for the trading book and the one day period on the 99 percent confidence level, i. e. the maximum loss during one day, was CZK 30 million (2008: CZK 26 million) which corresponds to a monthly VaR of CZK 138 million (2008: CZK 121 million). The average of daily VaR values for 2009 was CZK 22 million (2008: CZK 14 million). The monthly VaR for the investment book as at 31 December 2009, i. e. the maximum loss during one month, was CZK 1,676 million (2008: CZK 2,074 million). The average of monthly VaR values for 2009 was CZK 1,783 million (2008: CZK 1,298 million).

The VaR method is complemented with "back testing" which is designed to review the model for correctness. Back testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading day. Back testing results have, to date, confirmed the correctness of the setting of the VaR calculation model.

In addition, the Group uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the trading book and on the parts of the investment book revaluated to market. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to the ALCO.

The current financial and economic crisis markedly affects the economy, principally in terms of the significant volatility of market prices of financial instruments, increased interest rates, decreased liquidity, and general uncertainty regarding future developments, fair market values of financial assets and their potential impairment. In view of these changes, the Group has intensified its efforts in monitoring events and developments that could impact its financial position. For this purpose, the Group has been monitoring, on an ongoing basis, financial intelligence sources, analysing the market, and developing possible scenarios that reflect these current economic developments.

43.2.1 Interest Rate Risk

a) Interest Rate Management

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group manages the interest rate risk of the banking book through the monitoring of the repricing dates of Group's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Group's net interest income.

In order to measure the interest rate risk exposure within the trading portfolio instruments, the Group uses the "PVBP (present value of basis point) gap" defined as a matrix of sensitivity factors to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency. The limits are compared to the value that represents the greater of the sum of positive PVBP values or the sum of negative PVBP values in absolute terms for each period to maturity. By adopting this approach, the Group manages not only the risk attached to a parallel shift of the yield curve, but also any possible "flip" of the yield curve. With regard to foreign currency options, the PVBP limits also include the Rho and Phi equivalents. In addition, the Group monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

The VaR methodology is also used for the calculation of the interest rate risk of both the trading and banking books. The VaR value for the interest rate risk of the trading book for one day and 99 percent confidence level as at 31 December 2009 was CZK 25 million (2008: CZK 17 million) which corresponds to a VaR value for one month of CZK 114 million (2008: CZK 80 million). The average of daily VaR values for the interest rate risk for 2009 was CZK 17 million (2008: CZK 10 million). The monthly VaR for the interest rate risk of the banking book as at 31 December 2009 was CZK 1,625 million (2008: CZK 2,070 million). The average of monthly VaR values for the interest rate risk for 2009 was CZK 1,779 million (2008: CZK 1,238 million).

For monitoring and measuring the banking book interest rate exposures, the Group uses a simulation model focused on monitoring potential impacts of market interest rate movements on the net interest income. Simulations are performed over the period of 36 months. A basic analysis focuses on the sensitivity of the net interest income to a one off change(s) of market interest rates (rate shock). In addition, the Group undertakes probability modelling of its net interest income (stochastic simulation) and the traditional gap analysis. The analyses noted above are undertaken on a monthly basis. Current level of the interest rate exposure is assessed by the ALCO on a monthly basis in the context of the overall development of financial markets, Czech banking sector, as well as the structural changes in the Group's statement of financial position.

The following sensitivity analysis is based on the exposure of the Group to interest rates for derivative and non-derivative instruments as at the reporting date and the determined changes which occurred at the beginning of the year and are constant during the reported period for the instruments with a variable interest rate, i. e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re invested in assets and liabilities with the same interest rate sensitivity. As such, the model assumes the fixed structure of the statement of financial position according to interest rate sensitivity.

If the CZK interest rates sharply increased/decreased by 100 points at the beginning of the year and other variable interest rates remain unchanged:

- The profit for 2010 would increase by CZK 1,100 million / decrease by CZK 1,320 million (2009: an increase of CZK 660 million / decrease of CZK 770 million); and
- The gains/losses from revaluation would change by CZK (15)/15 million (2009: CZK (67)/67 million), namely as a result of the changes in the fair value of securities with a fixed interest rate in the available for sale portfolio.

The Bank monitors the impact of stress scenarios of the shifts of yield curves on the market value of the banking book. These stress scenarios are determined in accordance with the regulatory rules as 1 percent or 99 percent quantiles of the year on year changes in interest rates based on the five year history of time series of individual maturities of yield curves in all currencies. As at 31 December 2009, this stress scenario would trigger a loss in the market value of the banking book of 5.4 percent of the Bank's capital (a total of the original and additional capital; 2008: 1.1 percent).

The Bank additionally monitors interest rate exposures and simu-

lates the impact of changes in interest rates on the profit/(loss) of selected subsidiaries, principally Stavební spořitelna České spořitelny, a. s., and Penzijní fond České spořitelny, a. s..

Other subsidiaries exposed to interest rate risk such as DINESIA a. s., Factoring České spořitelny, a. s., s Autoleasing, a. s. and s Autoúvěr a. s., principally use "inherent" hedging by opting for the appropriate refinancing of the active portfolios and regularly adjusting this refinancing (at least on an annual basis).

b) Interest Rate Repricing Analysis

The following tables present the distribution of assets and liabilities according to the interest rate repricing dates. They include significant financial assets and liabilities in CZK, EUR and USD as at 31 December 2009 and 2008. Variable yield assets and liabilities have been reported according to their next rate repricing date. Fixed income assets and liabilities have been reported according to their remaining maturity.

At 31 December 2009 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	8,700	–	–	–	–	8,700
Loans and advances to financial institutions	101,015	24,032	503	–	1	125,551
Loans and advances to customers, net of provisions	63,836	102,515	74,815	159,429	51,924	452,519
Securities at fair value through profit or loss	30,214	888	859	3,514	652	36,127
Securities available for sale	2	2,842	6,409	6,966	9,719	25,938
Securities held to maturity	2,614	6,576	15,593	41,316	45,878	111,977
Total selected assets	**206,381**	**136,853**	**98,179**	**211,225**	**108,174**	**760,812**
Selected liabilities						
Amounts owed to financial institutions[x)]	13,963	17,165	6,419	8,888	2,138	48,573
Amounts owed to customers[x)]	69,774	143,486	134,673	267,739	27,907	643,579
Bonds in issue[x)]	4,715	5,723	12,420	10,628	10,711	44,197
Subordinated debt	6,500	–	4,938	1,966	–	13,404
Total selected liabilities	**94,952**	**166,374**	**158,450**	**289,221**	**40,756**	**749,753**
Current gap	**111,429**	**(29,521)**	**(60,271)**	**(77,996)**	**67,418**	**11,059**
Cumulative gap	**111,429**	**81,908**	**21,637**	**(56,359)**	**11,059**	

[x)] including liabilities at fair value

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	5,615	–	–	–	–	5,615
Loans and advances to financial institutions	61,748	17,448	12,794	4	–	91,994
Loans and advances to customers, net of provisions	69,630	105,029	77,585	158,322	40,627	451,193
Securities at fair value through profit or loss	2,259	6,622	12,131	21,362	7,391	49,765
Securities available for sale	2,415	3,990	5,574	11,998	7,225	31,202
Securities held to maturity	4,877	19,236	9,013	54,635	31,177	118,938
Total selected assets	**146,544**	**152,325**	**117,097**	**246,321**	**86,420**	**748,707**
Selected liabilities						
Amounts owed to financial institutions[x)]	30,272	7,917	4,245	12,437	2,076	56,947
Amounts owed to customers[x)]	95,771	172,453	119,348	248,692	2,828	639,092
Bonds in issue[x)]	5,434	4,382	9,462	8,068	10,849	38,195
Subordinated debt	–	–	5,197	–	–	5,197
Total selected liabilities	**131,477**	**184,752**	**138,252**	**269,197**	**15,753**	**739,431**
Current gap	**15,067**	**(32,427)**	**(21,155)**	**(22,876)**	**70,667**	**9,276**
Cumulative gap	**15,067**	**(17,360)**	**(38,515)**	**(61,391)**	**9,276**	

[x)] including liabilities at fair value

In addition, the Group enters into interest rate swaps to manage its interest rate risk exposure.

43.2.2 Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments in both the trading and bank book will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Group monitors special sensitivity limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract fair value sensitivity to the exchange rate volatility in the form of the vega equivalent. In addition, the Group monitors the fair value sensitivity of options to the period to maturity (Theta) and interest rate sensitivity (Rho, Phi) which is measured, together with other interest rate instruments, in the form of the PVBP. Foreign currency risk of all financial instruments is transferred in the Trading Department's positions which manages these currency positions in accordance with the set currency sensitivity limits. In addition to the monitoring of limits, the Group uses the VaR ("value at risk") concept for measuring the risk arising from open positions from all currency instruments.

The value of currency risk in the form of VaR for one day and 99 percent confidence level was CZK 12 million (2008: CZK 21 million) as at 31 December 2009. The average of daily VaR values for foreign currency risk for 2009 was CZK 17 million (2008: CZK 8 million). The VaR value for the currency volatility of the trading book was CZK 2 million (2008: CZK 5 million). The average of daily VaR values for the foreign currency volatility for 2009 was CZK 4 million (2008: CZK 4 million).

Foreign currency exposures are primarily carried by the Bank and real estate companies within the Group as they generate the bulk of their rental income in EUR. The foreign currency risk of other Group entities is limited. With regard to real estate companies, the Group uses "inherent" hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

Net Foreign Exchange Position

The net foreign exchange positions of the Group as at 31 December 2009 and 2008 were as follows:

At 31 December 2009 CZK mil.	CZK	EUR	USD	GBP	HUF	PLN	Other	Total
Assets								
Cash and balances with the CNB	26,678	1,668	514	95	52	75	289	29,371
Loans and advances to financial institutions	98,858	23,385	3,784	99	38	65	277	126,506
Loans and advances to customers, net of provisions	433,151	19,563	720	571	27	257	190	454,479
Securities at fair value through profit or loss	30,787	5,824	400	–	–	–	–	37,011
Positive fair value of derivative transactions	15,796	1,582	288	–	6	3	–	17,675
Securities available for sale	23,650	3,294	965	47	13	328	91	28,388
Securities held to maturity	109,014	2,963	–	–	–	–	–	111,977
Other assets	42,926	6,547	116	13	48	35	45	49,730
	780,860	**64,826**	**6,787**	**825**	**184**	**763**	**892**	**855,137**
Liabilities								
Amounts owed to financial institutions	30,117	13,537	2,351	375	–	174	880	47,434
Amounts owed to customers	621,233	18,279	2,957	362	92	186	311	643,420
Liabilities at fair value	8,129	–	–	–	–	–	–	8,129
Negative fair value of derivative transactions	13,228	2,905	269	–	2	8	–	16,412
Bonds in issue	43,059	47	–	–	–	13	–	43,119
Other liabilities	31,927	1,155	22	5	48	–	6	33,163
	747,693	**35,923**	**5,599**	**742**	**142**	**381**	**1,197**	**791,677**
Net foreign exchange position – on-balance sheet	**33,167**	**28,903**	**1,188**	**83**	**42**	**382**	**(305)**	**63,460**
Net foreign exchange position – off-balance sheet	**21,501**	**(18,827)**	**(616)**	**(22)**	**(4)**	**(3)**	**430**	**2,459**

The line "Other assets" includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction and equity investments in associates and joint ventures. The line "Other liabilities" includes other liabilities, provisions, and subordinated debt.

At 31 December 2008 CZK mil.	CZK	EUR	USD	GBP	SKK	HUF	PLN	Other	Total
Assets									
Cash and balances with the CNB	22,084	1,337	254	65	209	31	19	286	24,285
Loans and advances to financial institutions	65,980	21,358	5,024	286	101	15	62	480	93,306
Loans and advances to customers, net of provisions	431,976	18,886	993	33	254	25	113	224	452,504
Securities at fair value through profit or loss	38,727	11,879	2,050	–	130	3,004	72	73	55,935
Positive fair value of derivative transactions	24,716	1,819	449	–	69	54	26	5	27,138
Securities available for sale	29,515	3,949	1,030	70	–	158	250	43	35,015
Securities held to maturity	115,734	3,204	–	–	–	–	–	–	118,938
Other assets	47,261	5,500	212	2	1,832	235	33	34	55,109
	775,993	**67,932**	**10,012**	**456**	**2,595**	**3,522**	**575**	**1,145**	**862,230**
Liabilities									
Amounts owed to financial institutions	37,551	15,586	2,664	18	904	21	39	778	57,561
Amounts owed to customers	617,365	18,630	3,161	366	458	2,082	111	331	642,504
Liabilities at fair value	7,680	12	4	–	–	–	–	–	7,696
Negative fair value of derivative transactions	22,111	2,576	528	–	80	268	32	–	25,595
Bonds in issue	39,017	187	–	–	–	–	–	–	39,204
Other liabilities	21,595	2,003	262	8	346	1	70	16	24,301
	745,319	**38,994**	**6,619**	**392**	**1,788**	**2,372**	**252**	**1,125**	**796,861**
Net foreign exchange position – on-balance sheet	**30,674**	**28,938**	**3,393**	**64**	**807**	**1,150**	**323**	**20**	**65,369**
Net foreign exchange position – off-balance sheet	**2,603**	**(1,437)**	**(1,246)**	**(57)**	**–**	**–**	**–**	**–**	**(137)**

The line 'Other assets' includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction and equity investments in associates and joint ventures. The line "Other liabilities" includes other liabilities, provisions, and subordinated debt.

43.2.3 Equity Risk

To monitor and manage the equity risk inherent in the trading and banking books, the Group uses the VaR method and sensitivity analysis which is based on the exposure to the risk of change in the rate of shares as at the reporting date. With respect to the increased volatility of share prices, the equity risk represents a significant component of risks despite smaller volumes of share positions.

As at 31 December 2009, the VaR value of the equity risk of the trading portfolio was CZK 0 million (2008: CZK 0 million) for one day and 99 percent confidence level which corresponds to the VaR value for one month of CZK 1 million (2008: CZK 1 million). The average of daily VaR values for the equity risk for 2009 was CZK 0 million (2008: CZK 1 million). The VaR value for equity risk of the banking book for one month as at 31 December 2009 and at the same confidence level was CZK 21 million (2008: CZK 4 million). The average of monthly VaR values for the equity risk for 2009 was CZK 15 million (2008: CZK 118 million).

43.2.4 Fair Value

Fair Value of Derivative Instruments

The Group maintains strict control limits on net open derivative counterparty positions, i. e. the difference between the fair values of purchase and sale contracts. At any one time the amount subject to credit risk is limited to the positive fair value of derivative financial instruments, which is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers. Limits are established reflecting the risk of fair value fluctuations arising from market movements. Collateral or other security is not usually obtained for credit risk exposures on the derivative financial instruments, except where the Group requires deposits from counterparties.

All derivatives are stated at fair value on the statement of financial position as at 31 December 2009 and 2008 (refer to Notes 12 and 23).

Foreign Currency Contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes.

Interest Rate Swaps

Interest rate swap contracts obligate two parties to exchange one or more payments calculated by reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Group's interest rate swaps were principally transacted for propriety trading purposes, to hedge customer oriented transactions or to hedge against interest rate risk.

The Group has applied hedge accounting in respect of the interest rate exposure arising from its own issue of mortgage bonds. Hedged mortgage bonds issued with a fixed interest rate were linked to a floating market rate through interest rate swaps.

Option Contracts

Option contracts represent the formal reservation of the right to buy or sell an asset at the specified quantity, within a given time in the future and at a certain price. The buyer of the option has the right, but not the obligation, to exercise the right to buy or sell an asset and the seller has the obligation to sell or purchase the asset at the specified quantity and at the price defined in the option contract.

Forward Rate Agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in market interest rates. In principle, the Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. All of the Group's forward rate agreements were entered into for trading purposes.

Swap and Forward Contracts with Securities

Swap and forward contracts with securities are agreements to purchase or sell the securities for a specific amount at a future date. The swap and forward contracts with securities are used by the Group for trading purposes.

Cross Currency Swaps and Forwards

Cross currency swaps are combinations of interest rate swaps and foreign currency contracts. As with interest rate swaps, the Group agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, and are settled on a gross basis. Unlike interest rate swaps, the notional balances of the different currencies are typically exchanged at the beginning and re exchanged at the end of the contract period.

Futures

Futures contracts represent the obligation to sell or purchase a financial instrument in the organised market at a certain price at a certain agreed date in the future. The Group entered into futures contracts in respect of debt securities and equities for trading purposes.

Commodity Swaps

Commodity swaps are agreements to exchange future payments depending upon the prices of a certain commodity. One element of the transaction (the fixed arm) always represents a fixed, predetermined amount while the other element (the floating arm) is determined based on the average prices of the relevant commodity for a period. In certain cases, an option is embedded in the floating arm, restricting its overall payment. Each client commodity swap is offset by a mirror transaction with Erste Group Bank, hence the Group carries no market risk.

a) Nominal and Fair Values of Derivative Instruments

At 31 December 2009 CZK mil.	Nominal value		Fair value	
	Positive	Negative	Positive	Negative
Hedging instruments				
Interest rate swaps	11,465	11,465	605	66
Foreign currency interest rate swaps	2,226	2,297	–	71
Total hedging instruments	**13,691**	**13,762**	**605**	**137**
Trading instruments				
Spot contracts				
– interest rate	28	28	–	–
– currency	1,447	1,454	–	–
Option contracts				
– interest rate	9,140	9,140	71	47
– currency	61,064	60,437	1,125	732
– equity	807	807	55	46
– commodity	1,202	1,202	29	30
Forward contracts				
– interest rate	9,000	9,000	3	47
– foreign currency interest rate	38,156	38,103	759	721
– commodity	757	755	52	51
Swaps				
– interest rate	534,037	534,037	11,612	12,148
– foreign currency interest rate	83,021	81,814	3,226	1,987
– equity	4,458	4,458	48	156
– commodity	575	575	90	91
Futures	1	1	–	–
Total trading instruments	**743,693**	**741,811**	**17,070**	**16,056**
Hedging instrument for equity investments denominated in EUR	5,428	4,779	–	219
Total	**762,812**	**760,352**	**17,675**	**16,412**

At 31 December 2008 CZK mil.	Nominal value		Fair value	
	Positive	Negative	Positive	Negative
Hedging instruments				
Interest rate option contracts	601	601	–	–
Interest rate swaps	13,585	13,585	748	166
Foreign currency interest rate swaps	2,603	2,735	4	135
Total hedging instruments	**16,789**	**16,921**	**752**	**303**
Trading instruments				
Spot contracts				
– interest rate	3	3	–	–
– currency	728	729	–	–
Option contracts				
– interest rate	19,627	19,627	82	39
– currency	119,681	117,935	3,018	2,260
– equity	1,355	1,355	–	68
– commodity	1,071	1,071	182	185
Forward contracts				
– interest rate	127,306	127,306	184	207
– foreign currency interest rate	61,001	61,148	2,612	2,595
– equity	2,787	3,004	–	222
– commodity	39	40	9	8
Swaps				
– interest rate	694,267	694,267	14,721	14,349
– foreign currency interest rate	124,908	124,649	5,318	4,354
– equity	5,610	5,610	27	279
– commodity	2,038	2,038	232	243
Other derivatives (loan)	1,766	1,766	1	183
Futures	2	2	–	–
Total trading instruments	**1,162,189**	**1,160,550**	**26,386**	**24,990**
Hedging instrument for equity investments denominated in EUR	5,450	4,911	–	302
Total	**1,184,428**	**1,182,382**	**27,138**	**25,595**

b) Remaining Maturity of Derivative Instruments

At 31 December 2009 Fair value in CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate swaps	–	–	36	39	464
Foreign currency interest rate swaps	(71)	–	–	–	–
Total hedging instruments	**(71)**	**–**	**36**	**39**	**464**
Trading instruments					
Option contracts					
– interest rate	–	–	–	11	13
– currency	5	14	70	304	–
– equity	–	–	–	15	(6)
– commodity	–	–	(1)	–	–
Forward contracts					
– interest rate	(28)	3	(19)	–	–
– foreign currency interest rate	–	(5)	21	19	3
– commodity	–	–	1	–	–
Swaps					
– interest rate	(47)	136	(363)	(398)	136
– foreign currency interest rate	90	(95)	711	(640)	1 173
– equity	4	7	9	(70)	(58)
– commodity	–	–	(1)	–	–
Total trading instruments	**24**	**60**	**428**	**(759)**	**1 261**
Hedging instrument for equity investments denominated in EUR	–	–	–	–	(219)
Total	**(47)**	**60**	**464**	**(720)**	**1 506**

At 31 December 2008 Fair value in CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate swaps	–	–	(4)	28	556
Foreign currency interest rate swaps	(131)	–	–	–	–
Total hedging instruments	**(131)**	**–**	**(4)**	**28**	**556**
Trading instruments					
Option contracts					
– interest rate	–	–	–	28	17
– currency	12	(206)	202	720	30
– equity	(3)	(13)	(50)	(1)	(1)
– commodity	–	–	(3)	–	–
Forward contracts					
– interest rate	46	(34)	(12)	(23)	–
– foreign currency interest rate	(13)	11	9	5	5
– equity	(222)	–	–	–	–
– commodity	1	–	–	–	–
Swaps					
– interest rate	(13)	(57)	83	(33)	392
– foreign currency interest rate	(394)	491	36	590	241
– equity	(1)	12	7	(196)	(74)
– commodity	–	–	–	(11)	–
Other derivatives (loan)	–	1	–	(120)	(63)
Total trading instruments	**(587)**	**205**	**272**	**959**	**547**
Hedging instrument for equity investments denominated in EUR	–	–	–	–	(302)
Total	**(718)**	**205**	**268**	**987**	**801**

Fair Value of Other Financial Instruments Except for Derivatives

Fair value estimates are made based on relevant market data and information about the financial instruments. Because no readily available market prices exist for a significant portion of the Group's financial instruments, fair value estimates for these instruments are based on judgements regarding current economic conditions, currency and interest rate characteristics and other factors.

Many of these estimates involve uncertainties and matters of significant judgement and cannot be determined with precision. Therefore, the calculated fair value estimates cannot always be substantiated by comparison to market values and, in many cases, may not be realised in the current sale of the financial instrument. Changes in underlying assumptions used to determine fair value could significantly affect the determined fair value.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the statement of financial position at their fair value.

CZK mil.	2009		2008	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets				
Loans and advances to financial institutions	126,506	125,724	93,306	94,718
Loans and advances to customers, net of provisions	454,479	451,471	452,504	447,590
Securities held to maturity	111,977	116,112	118,938	120,495
Financial liabilities				
Amounts owed to financial institutions	47,434	47,453	57,561	54,686
Amounts owed to customers	643,420	643,211	642,504	642,168
Bonds in issue	43,119	44,047	39,204	39,611
Subordinated debt	13,404	13,121	5,197	4,837

a) Loans and Advances to Financial Institutions

The fair value of loans and advances to financial institutions is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by Erste Group banks.

b) Loans and Advances to Customers

Loans and advances to customers are carried net of provisions. The fair value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by Erste Group banks.

c) Securities and Other Assets Held to Maturity

The fair value of securities held to maturity is based on market prices or price quotations obtained from brokers or dealers. If this information is not available, the fair value is estimated using quoted market values for securities with similar credit risk characteristics, maturity or yield rate or, as and when appropriate, according to the recoverability of the net asset value of these securities.

d) Amounts Owed to Financial Institutions and Customers

The estimated fair value of amounts owed to financial institutions and customers with no stated maturity which include no interest earning deposits, is equal to the amount payable on demand. The fair value of fixed income deposits and other liabilities with no stated market value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar maturities. The fair value of products with no contractually stated maturity (such as sight deposits, passbooks, overdraft facilities) is considered equal to their carrying value.

e) Bonds in Issue

The aggregated fair value is based on quoted market prices. The fair value of securities where no market price is available is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rate adjusted by the Bank's own credit risk.

f) Subordinated Debt

Issued subordinated debt is traded on the free market of the PSE. Its fair value is based on quoted market price.

Hierarchy of determining the fair value

The Group uses the following hierarchy for disclosures about measurement of fair value of financial instruments, reflecting the importance of individual inputs in the process of determining the fair value of financial instruments:

Level 1:	Listed (unaltered) prices on active markets applicable for identical assets or liabilities,
Level 2:	Other inputs than the listed prices included in Level 1 that can be ascertained for the assets or liabilities in question, either directly (i. e. the prices itself) or indirectly (i. e. amounts derived from the prices);
Level 3:	Inputs related to relevant assets or liabilities that are not based on ascertainable market data (i. e. non-ascertainable inputs).

The following table shows the classification of financial instruments at fair value in accordance with the above levels which were used to determine the fair value of the financial instruments as at 31 December 2009:

CZK mil.	Level 1	Level 2	Level 3	Total
Assets				
Securities held for trading	10,902	18,742	–	29,644
Debt securities	10,835	18,742	–	29,577
Equity securities and other variable yield securities	67	–	–	67
Securities designated upon initial recognition as at fair value through profit or loss	4,196	2,165	1,006	7,367
Debt securities	3,971	2,165	–	6,137
Equity securities and other variable yield securities	225	–	1,006	1,230
Positive fair value of derivative transactions	14	17,661	–	17,675
Securities available for sale	24,400	3,830	158	28,388
Debt securities	22,108	3,830	–	25,938
Equity securities and other variable yield securities	2,292	–	158	2,450
Total assets	**39,512**	**42,398**	**1,164**	**83,074**
Liabilities				
Liabilities at fair value	4,020	4,109	–	8,129
Customer deposits	–	4,109	–	4,109
Liabilities arising from issued securities	1,947	–	–	1,947
Payables arising from short sales – debt securities	2,072	–	–	2,072
Payables arising from short sales – shares	1	–	–	1
Negative fair value of derivative transactions	16,412	–	–	16,412
Total liabilities	**20,432**	**4,109**	**–**	**24,541**

The following table shows the classification of financial instruments at fair value in accordance with the above levels which were used to determine the fair value of the financial instruments as at 31 December 2008:

CZK mil.	Level 1	Level 2	Level 3	Total
Assets				
Securities held for trading	25,812	10,897	–	36,709
Debt securities	25,609	10,784	–	36,393
Equity securities and other variable yield securities	203	113	–	316
Securities designated upon initial recognition as at fair value through profit or loss	8,400	8,375	2,451	19,226
Debt securities	8,400	3,529	1,646	13,575
Equity securities and other variable yield securities	–	4,846	805	5,651
Positive fair value of derivative transactions	9,683	17,455	–	27,138
Securities available for sale	27,270	7,432	313	35,015
Debt securities	26,209	5,850	161	32,220
Equity securities and other variable yield securities	1,061	1,582	152	2,795
Total assets	**71,165**	**44,159**	**2,764**	**118,088**
Liabilities				
Liabilities at fair value	4,253	3,443	–	7,696
Customer deposits	–	3,443	–	3,443
Liabilities arising from issued securities	1,741	–	–	1,741
Payables arising from short sales – debt securities	2,424	–	–	2,424
Payables arising from short sales – shares	88	–	–	88
Negative fair value of derivative transactions	9,208	16,387	–	25,595
Total liabilities	**13,461**	**19,830**	**–**	**33,291**

The following table shows the changes in the fair value of financial instruments the fair value of which is determined using valuation models not based on ascertainable market data (Level 3):

CZK mil.	As at 1 Jan 2009	Gains/losses from revaluation		Purchases	Sales	Transfer to/from Level 3	As at 31 Dec 2009	Unrealised gains / losses[x)]
		in income statement	in capital					
Assets								
Securities held for trading	–	–	–	–	–	–	–	–
Securities designated upon initial recognition as at fair value through profit or loss	2,451	(158)	–	9	(84)	(1,212)	1,006	14
Positive fair value of derivative transactions	–	–	–	–	–	–	–	–
Securities available for sale	313	–	9	–	(162)	(2)	158	–
Total assets	**2,764**	**(158)**	**9**	**9**	**(246)**	**(1,214)**	**1,164**	**14**

[x)] included in the income statement from instruments held as at 31 December 2009

There were no significant transfers between Level 1 and 2 in 2009. Several securities were transferred from level 3 to level 2 in 2009 due to the decreased importance of non market observable impulse into the valuation models.

43.3 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to satisfy its financial liabilities when they mature or in financing its assets. The Group's short term liquidity position is monitored and managed based on expected cash flows and adjusting the structure of interbank deposits and placements accordingly and/or taking other decisions aimed at adjusting the short term liquidity position of the Group, for example, taking a decision to balance the short term liquidity position in individual currencies.

The mid term and long term liquidity is monitored and stress tested on a monthly basis through the Traffic Light System (TLS) simulation model, which takes into account the anticipated possibility of renewal, preliminary repayment or sale of the Group's individual positions. The results are presented and discussed in the Operating Liquidity Committee (OLC) and the Assets and Liabilities Committee (ALCO) which decide on the need to take measures with respect to the liquidity risk exposure.

a) Maturity Analysis

The table below analyses assets and liabilities of the Group into relevant maturity groupings as at 31 December 2009, based on the remaining period at the reporting date to the contractual maturity date (remaining maturity). In this analysis, derivatives are reported at their fair values as at the reporting date.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	21,730	–	–	–	–	7,641	29,371
Loans and advances to financial institutions	90,360	29,020	3,978	1,844	1,304	–	126,506
Loans and advances to customers, net of provisions	33,965	23,014	74,846	154,970	182,397	(14,713)	454,479
Securities at fair value through profit or loss	2,523	2,490	15,127	11,609	4,442	820	37,011
Positive fair value of derivative transactions	771	781	2,852	7,429	5,842	–	17,675
Securities available for sale	5	698	5,569	7,620	14,338	158	28,388
Securities held to maturity	200	1,147	19,993	43,729	46,908	–	111,977
Other assets	2,456	772	6,799	585	–	39,118	49,730
Total	**152,010**	**57,922**	**129,164**	**227,786**	**255,231**	**33,024**	**855,137**
Liabilities							
Amounts owed to financial institutions	9,558	12,076	4,762	7,839	13,199	–	47,434
Amounts owed to customers	426,178	116,359	30,280	68,809	1,794	–	643,420
Liabilities at fair value	140	1,008	3,042	3,330	609	–	8,129
Negative fair value of financial derivative transactions	817	721	2,386	9,002	3,486	–	16,412
Bonds in issue	–	1,393	5,291	14,559	21,876	–	43,119
Subordinated debt	–	–	–	–	13,404	–	13,404
Other liabilities	2,131	743	2,162	331	–	14,392	19,759
Total	**438,824**	**132,300**	**47,923**	**103,870**	**54,368**	**14,392**	**791,677**
Current gap	**(286,814)**	**(74,378)**	**81,241**	**123,916**	**200,863**	**18,632**	**63,460**
Cumulative gap	**(286,814)**	**(361,192)**	**(279,951)**	**(156,035)**	**44,828**	**63,460**	

The line "Other assets" includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction and equity investments in associates and joint ventures. The line "Other liabilities" includes other liabilities and provisions.

The table below analyses assets and liabilities of the Group into relevant maturity groupings as at 31 December 2008, based on the remaining maturity.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	20,720	–	–	–	–	3,565	24,285
Loans and advances to financial institutions	59,041	2,757	16,136	5,027	10,345	–	93,306
Loans and advances to customers, net of provisions	59,740	18,798	55,662	153,884	173,349	(8,929)	452,504
Securities at fair value through profit or loss	1,434	5,812	11,896	21,763	14,225	805	55,935
Positive fair value of derivative transactions	1,021	1,725	5,106	11,273	8,013	–	27,138
Securities available for sale	1,299	933	4,983	14,462	13,186	152	35,015
Securities held to maturity	250	11,142	12,014	63,762	31,770	–	118,938
Other assets	1,686	1,980	7,882	3,829	492	39,240	55,109
Total	**145,191**	**43,147**	**113,679**	**274,000**	**251,380**	**34,833**	**862,230**
Liabilities							
Amounts owed to financial institutions	23,430	2,046	3,014	21,519	7,552	–	57,561
Amounts owed to customers	436,193	115,621	21,544	66,318	2,828	–	642,504
Liabilities at fair value	159	279	885	4,801	1,484	88	7,696
Negative fair value of financial derivative transactions	1,739	1,520	4,838	10,288	7,210	–	25,595
Bonds in issue	1,818	216	1,641	10,212	25,317	–	39,204
Subordinated debt	–	–	–	–	5,197	–	5,197
Other liabilities	2,760	2,045	900	535	904	11,960	19,104
Total	**466,099**	**121,727**	**32,822**	**113,673**	**50,492**	**12,048**	**796,861**
Current gap	**(320,908)**	**(78,580)**	**80,857**	**160,327**	**200,888**	**22,785**	**65,369**
Cumulative gap	**(320,908)**	**(399,488)**	**(318,631)**	**(158,304)**	**42,584**	**65,369**	

The line “Other assets” includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction and equity investments in associates and joint ventures. The line “Other liabilities” includes other liabilities and provisions.

b) Interest Rate Payments

The following tables present expected cash flows from received/paid interest on selected assets and liabilities according to individual time buckets:

At 31 December 2009 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	4	–	–	–	–	4
Loans and advances to financial institutions	70	26	2	–	–	98
Loans and advances to customers, net of provisions	2,225	3,560	11,779	32,889	15,780	66,233
Securities at fair value through profit or loss	14	17	67	177	35	310
Securities available for sale	75	140	523	1,909	1,708	4,355
Securities held to maturity	409	788	3,190	11,892	10,208	26,487
	2,797	**4,531**	**15,561**	**46,867**	**27,731**	**97,487**
Selected liabilities						
Amounts owed to financial institutions	67	93	239	444	83	926
Amounts owed to customers	535	868	2,799	7,655	3,207	15,064
Bonds in issue	163	298	1,082	3,961	3,948	9,452
Subordinated debt	32	44	127	150	–	353
	797	**1,303**	**4,247**	**12,210**	**7,238**	**25,795**
Current gap	**2,000**	**3,228**	**11,314**	**34,657**	**20,493**	**71,692**
Cumulative gap	**2,000**	**5,228**	**16,542**	**51,199**	**71,692**	

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	5	–	–	–	–	5
Loans and advances to financial institutions	164	118	159	–	–	441
Loans and advances to customers, net of provisions	2,383	3,739	12,332	34,124	15,751	68,329
Securities at fair value through profit or loss	68	89	324	763	163	1,407
Securities available for sale	103	177	619	1,992	1,382	4,273
Securities held to maturity	422	755	2,937	10,160	6,792	21,066
	3,145	**4,878**	**16,371**	**47,039**	**24,088**	**95,521**
Selected liabilities						
Amounts owed to financial institutions	110	118	378	859	–	1,465
Amounts owed to customers	613	972	3,176	8,456	3,247	16,464
Bonds in issue	153	274	1,032	3,861	3,671	8,991
Subordinated debt	20	40	90	–	–	150
	896	**1,404**	**4,676**	**13,176**	**6,918**	**27,070**
Current gap	**2,249**	**3,474**	**11,695**	**33,863**	**17,170**	**68,451**
Cumulative gap	**2,249**	**5,723**	**17,418**	**51,281**	**68,451**	

43.4 Operational Risk

In accordance with CNB Regulation 123/2007, the Group defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events, including loss due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Group put in place a standardised categorisation of operational risks. This classification became the basis of the "Book of Risks of Česká spořitelna", developed in cooperation with the Risk Management and Internal Audit Departments. The Book of Risks is a tool used to achieve unification of risk identification procedures on a group wide level and unification of risk categorisation in order to ensure consistency of risk monitoring and evaluation.

The Group has cooperated with an external supplier in developing a specialised software application to collect data about operational risk which conforms to the data collection requirements set out in BASEL II. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. In addition to monitoring actual occurrence of operational risk, the Group also pays attention to how the operational risk is perceived by the management. This expert risk analysis is assessed annually.

A tool of importance in mitigating losses arising from operational risks is the Group's insurance programme put in place in 2002. This insurance programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank and its subsidiaries have joined the Erste Group insurance programme which expands the Group's insurance protection specifically with regard to damage that may materially impact its profit or loss.

43.5 Capital Risk

As for the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the Basel II Pillar 2 rules (Regulation No. 123/2007 Coll.), the Group switched to the Erste Group methodology in 2009. In December 2008, the methodology was approved by the Board of Directors of Erste Group Bank to serve as a uniform set of rules for capital management within the Erste Group. The group-wide rules concentrate in particular on the following objectives:

- Analysis and monitoring of Erste Group risks including issuance of reports;
- Analysis and monitoring of Erste Group capital adequacy requirements including issuance of reports;
- Forecast of a possible development of the Group risk profile.

Within ICAAP, Erste Group considers the following risks to be completely or partially covered by capital: market risks of the trading portfolio, market risks of the investment portfolio including the interest rate risk, credit and operational risks. Additional risks, e. g. concentration, liquidity, securitisation and macroeconomic risks as well as other risks (reputational and strategic) are already included in the risks covered by capital, or are possibly covered by other risk mitigating techniques, or are not material.

To quantify market and operational risks, the Bank uses the VaR methodology for a one-year period on the confidence level of 99.9 percent. In quantifying credit risks, a method of risk weighted assets is used. The overall risk of the Group is the sum of individual risk volumes, i. e. no diversification effect based on a preference of a more conservative approach is applied. The resulting aggregate risk is compared to capital resources determined as the sum of basic and additional capital and the profit for the current year.

The Erste Group methodology sets limits for maximum risk exposure of individual members of the Group. The limit is based on the amount of capital resources and the previous development of the Bank's risk profile. The Group meets the limit set by the majority shareholder with a sufficient degree of reserve.

The ICAAP results of the Group are submitted to ALCO on a quarterly basis. ALCO is the authoritative body regarding bank capital management within ICAAP.

Erste Group as well as Česká spořitelna Financial Group pay attention to ICAAP in order to gradually improve the risk profile and capital sufficiency management system of the Group with a view to future developments and, additionally, in order to progressively use the ICAAP outputs in the decision-making and planning processes pertaining to business activities and financial management in general.

Furthermore, the Bank manages its capital structure as defined in Pillar 1 of Basel II in compliance with CNB methodology. During the year the Bank complied with the regulatory capital requirements.

Statement of Capital for the Bank's Capital Adequacy calculation per CNB methodology (BASEL II)

CZK mil.	2009	2008
Total capital	**51,113**	**42,956**
Original capital (Tier 1)	43,614	43,561
of which:		
Share capital (Note 30)	15,200	15,200
Share premium	2	2
Reserve funds and retained earnings	31,503	32,025
Deductible items from original capital	(3,091)	(3,666)
Additional capital (Tier 2) (Note 28)	13,404	5,197
Aggregate amount of all deductible items from original and additional capital	(5,905)	(5,802)

44. Contingent Assets and Liabilities

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Legal Disputes

At the reporting date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Group is named are resolved.

The Group is involved in various claims and legal proceedings of a special nature. The Group also acts as a defendant in a number of legal disputes filed with the arbitration court. The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Group believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Group recognises a provision for the litigation (see Note 25).

Assets Pledged

Assets are pledged as collateral under repurchase agreements with other banks and customers in the amount of CZK 13,235 million (2008: CZK 33,775 million). Mandatory reserve deposits are also held with the local central bank in accordance with statutory requirements (refer to Note 6). These deposits are not available to finance the Group's day to day operations.

The Group has received loans to finance investment property for which it has pledged real estate of CZK 9,520 million (2008: CZK 10,404 million) as collateral.

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group 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 borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached the commitments to extend credit represents a potential loss for the Group. The Group estimates the potential loss on the basis of historical developments of credit conversion factors, probability of default and loss given default. Credit conversion factors indicate the likelihood of the Group paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Group believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments is minimal.

In 2009, the Group recorded provisions for off-balance sheet risks to cover potential losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2009, the aggregate balance of these provisions was CZK 270 million (2008: CZK 187 million). Refer to Note 25.

CZK mil.	**2009**	**2008**
Guarantees and letters of credit	17,618	17,913
Undrawn loan commitments	75,740	99,922

Maturity analysis of provided and received commitments and guarantees

The following table presents provided and received commitments and guarantees showing their remaining contractual maturities as at 31 December 2009 and 2008, respectively:

As at 31 December 2009 **CZK mil.**	**Demand and less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Unspecified**	**Total**
Provided guarantees and commitments	11,380	7,992	26,065	21,441	4,432	22,048	**93,358**
Received commitment and guarantees	1,503	1,647	6,874	4,316	9,751	24	**24,115**

As at 31 December 2008 **CZK mil.**	**Demand and less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Unspecified**	**Total**
Provided guarantees and commitments	13,909	6,735	31,806	30,099	4,694	30,592	**117,835**
Received commitment and guarantees	2,696	680	3,973	11,690	8,419	90	**27,548**

Operating Leases

The following table presents future cash flows from operating lease agreements where the Group is a lessee:

As at 31 December 2009 **CZK mil.**	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Future operating lease expenses	1,228	3,948	3,705	**8,881**

As at 31 December 2008 **CZK mil.**	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Future operating lease expenses	1,179	3,763	4,120	**9,062**

45. Segment Reporting

a) Industry Segments

For management purposes, the Group is organised into the following major operating divisions:

- Retail banking (accepting deposits from the public, providing loans to retail clients, services related to credit and debit cards);
- Commercial banking (providing loans to corporate clients and municipalities, issuance of guarantees, opening of letters of credit);
- Investment banking (securities investments, proprietary trading and trading on behalf of the client with securities, foreign exchange assets, entering into futures and options including foreign currency and interest rate transactions, financial brokerage, custodian services, participation in issuance of stock, management, safe keeping and administration of securities or other assets);
- Other operations (leasing, management of investment and mutual funds, investment construction and advisory services). These operations are aggregated in one segment "Other activities" as they are less material than the remaining activities; and
- Discontinued operations – insurance services (in 2008).

2009 CZK mil.	Banking			Other activities	Elimination	Total
	Retail	Commercial	Investment			
Revenue						
External income	33,783	5,592	1,529	4,991	(498)	45,397
Income from other segments	875	576	1,042	103	–	2,596
Segment revenue	**34,658**	**6,168**	**2,571**	**5,094**	**(498)**	**47,993**
Profit						
Segment profit	**15,003**	**884**	**1,344**	**(2,019)**	**(34)**	**15,178**
Profit before tax						15,178
Income tax						(3,362)
Non-controlling interests						206
Total profit						**12,022**
Other information						
Asset acquisition	1,199	17	106	1,061	–	2,383
Write-offs and depreciation	953	–	40	1,694	55	2,742
Impairment losses / (Cancellation) of impairment losses	51	–	–	(21)	–	30
Statement of financial position						
Assets						
Segment assets	383,741	157,210	268,237	99,028	(55,072)	853,144
Equity investments in associates						211
Unallocated assets						1,782
Total consolidated assets						**855,137**
Liabilities						
Segment liabilities	500,115	77,511	172,966	72,382	(53,346)	769,628
Unallocated liabilities						22,049
Total consolidated liabilities						**791,677**

Segment income is composed of "Net interest income", "Net fee and commission income", "Net trading result", "Total other operating income", "Income from the revaluation/sale of securities", and "Gains on the sale of equity investments" (refer to Note 39).

2008 CZK mil.	Banking			Other activities	Elimination	Discontinued operations	Total
	Retail	Commercial	Investment				
Revenue							
External income	30,200	4,268	2,102	7,193	(1,314)	4,504	46,953
Income from other segments	1,106	524	735	57	–	–	2,422
Segment revenue	**31,306**	**4,792**	**2,837**	**7,250**	**(1,314)**	**4,504**	**49,375**
Profit							
Segment profit	**15,716**	**2,050**	**(2,509)**	**2,361**	**(889)**	**4,504**	**21,233**
Unallocated costs							(2,653)
Profit before tax							18,580
Income tax							(2,809)
Non-controlling interests							42
Total profit							**15,813**
Other information							
Asset acquisition	1,604	16	188	854	–	–	2,662
Write-offs and depreciation	934	–	41	1,805	73	–	2,853
Impairment losses / (Cancellation) of impairment losses	2	–	–	–	–	–	2
Statement of financial position							
Assets							
Segment assets	368,864	167,900	262,765	96,934	(36,145)	–	860,318
Equity investments in associates							235
Unallocated assets							1,677
Total consolidated assets							**862,230**
Liabilities							
Segment liabilities	501,741	69,857	179,785	71,277	(35,055)	–	787,605
Unallocated liabilities							9,256
Total consolidated liabilities							**796,861**

Segment income is composed of “Net interest income”, “Net fee and commission income”, “Net trading result”, “Total other operating income” and “Income from the revaluation/sale of securities”, and “Gains on the sale of equity investments” (refer to Note 39); income from discontinued operations includes ‘Net insurance income’ until the date of the sale and deconsolidation as well as profit from the sale.

b) Geographical Segments

The Group operates predominantly within the Czech Republic and has no significant cross border operations.

The geographical concentration of assets and liabilities as at 31 December 2009 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	25,993	2,617	177	584	29,371
Loans and advances to financial institutions	91,640	34,228	7	631	126,506
Loans and advances to customers, net of provisions	445,307	7,553	931	688	454,479
Securities at fair value through profit or loss	30,336	6,030	–	645	37,011
Positive fair value of derivative transactions	5,738	11,891	–	46	17,675
Securities available for sale	23,968	3,551	243	626	28,388
Securities held to maturity	89,938	18,076	255	3,708	111,977
Other assets	46,473	3,125	56	76	49,730
Total assets	**759,393**	**87,071**	**1,669**	**7,004**	**855,137**
Liabilities					
Amounts owed to financial institutions	21,437	25,822	1	174	47,434
Amounts owed to customers	636,082	5,161	1,228	949	643,420
Liabilities at fair value	8,096	19	13	1	8,129
Negative fair value of derivative transactions	3,576	12,725	–	111	16,412
Bonds in issue	42,962	142	15	–	43,119
Subordinated debt	5,984	7,418	2	–	13,404
Other liabilities	19,144	598	16	1	19,759
Total liabilities	**737,281**	**51,885**	**1,275**	**1,236**	**791,677**
Net position	**22,112**	**35,186**	**394**	**5,768**	**63,460**

The line “Other assets” includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction and equity investments in associates and joint ventures.

Information about geographical structure of revenue from external clients is not available and the costs of obtaining such information would be disproportionate to the value derived.

The geographical concentration of assets and liabilities as at 31 December 2008 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	22,117	1,650	221	297	24,285
Loans and advances to financial institutions	33,606	55,355	1,414	2,931	93,306
Loans and advances to customers, net of provisions	442,737	7,876	1,036	855	452,504
Securities at fair value through profit or loss	42,241	12,629	250	815	55,935
Positive fair value of derivative transactions	9,311	17,787	3	37	27,138
Securities available for sale	28,594	5,190	232	999	35,015
Securities held to maturity	89,444	25,184	1,000	3,310	118,938
Other assets	51,297	3,606	109	97	55,109
Total assets	**719,347**	**129,277**	**4,265**	**9,341**	**862,230**
Liabilities					
Amounts owed to financial institutions	34,777	22,300	67	417	57,561
Amounts owed to customers	636,654	3,572	1,372	906	642,504
Liabilities at fair value	7,634	48	13	1	7,696
Negative fair value of derivative transactions	5,401	20,043	–	151	25,595
Bonds in issue	38,838	360	6	–	39,204
Subordinated debt	4,661	536	–	–	5,197
Other liabilities	18,129	888	28	59	19,104
Total liabilities	**746,094**	**47,747**	**1,486**	**1,534**	**796,861**
Net position	**(26,747)**	**81,530**	**2,779**	**7,807**	**65,369**

The line “Other assets” includes other assets, property and equipment, intangible assets, non-current assets held for sale, property investment, assets under construction and equity investments in associates and joint ventures.

46. Trading on Behalf of Clients

a) Assets under Administration

The Group provides custody, trustee, investment management and advisory services to third parties which involve the Group making purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group administered CZK 204,211 million (2008: CZK 166,106 million) of assets as at 31 December 2009 representing certificate securities and other assets received from customers into its custody for administration and safe keeping split as follows:

CZK mil.	2009	2008
Customer securities in custody	21,251	15,331
Customer securities under administration	172,165	142,095
Customer securities for safe-keeping	33	33
Assets received for management	10,762	8,647
Total	**204,211**	**166,106**

In addition to customer assets arising from the provision of investment services (refer to Note 46 (b)), the total balance includes bills of exchange and other securities collateralising loans and other assets that do not relate to the provision of investment services.

The Group also acts as a depositary for several mutual, investment and pension funds, whose assets amounted to CZK 88,302 million as at 31 December 2009 (2008: CZK 81,956 million).

b) Payables Arising from the Provision of Investment Services

Investment services involve receiving and providing instructions related to investment instruments, performing instructions relating to investment instruments to a third party account, proprietary trading with investment instruments, management of customer assets under a contractual arrangement with the client if these assets include an investment instrument, and investment instruments underwriting or placement.

Additional investment services involve administration and custody of investment instruments, issuing loans to the client for the purpose of trading with investment instruments if the issuer of the loan takes part in the transaction, advisory services relating to capital structuring, industrial strategy, investments in investment instruments, provision of advice and services related to mergers and acquisitions, implementation of foreign exchange transactions relating to the provision of investment services, services related to the underwriting of investment instrument issues and rent of safe deposit boxes.

In connection with the provision of these services, the Group received cash and investment instruments from clients or obtained cash or investment instruments for its clients ("customer assets") in exchange for these values, which amounted to CZK 193,636 million as at 31 December 2009 (2008: CZK 148,598 million).

47. Related Party Transactions

Related parties involve connected entities or parties that have a special relation to the Group.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Erste Group Bank. Erste Stiftung exercises significant influence over Erste Group Bank and the remaining investment is held by minority shareholders and institutional investors via freely traded shares on the stock exchanges in Vienna, Prague and Bucharest.

The parties that have a special relationship with the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management, and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the CNB's Banking Board, and legal entities which the Group controls.

Pursuant to the definitions outlined above, the category of the Group's related parties principally comprises members of its Board of Directors and Supervisory Board, and other entities, namely Erste Group Bank, its subsidiary and associated undertakings.

The Group has the following amounts due from/to Erste Group Bank and other related parties as at 31 December 2009 and 2008:

CZK mil.	2009		2008	
	Erste Group Bank	Other	Erste Group Bank	Other
Assets				
Loans and advances to financial institutions	19,961	2,985	26,654	2,168
Loans and advances to customers	–	1,529	–	1,929
Securities at fair value through profit or loss	–	–	73	604
Securities available for sale	–	318	–	–
Securities held to maturity	–	699	–	594
Positive fair value of financial derivative transactions	7,199	55	10,189	9
Other assets	196	62	260	58
Total assets of the Group	**27,356**	**5,648**	**37,176**	**5,362**
Liabilities				
Amounts owed to financial institutions	8,293	1,250	10,824	1,086
Amounts owed to customers	–	530	–	336
Negative fair value of derivative transactions	8,272	7	12,999	18
Bonds in issue	80	80	87	–
Subordinated debt	6,580	299	107	300
Other liabilities	166	561	111	337
Total liabilities of the Group	**23,391**	**2,727**	**24,128**	**2,077**
Off-balance sheet				
Undrawn loans	299	192	166	266
Issued guarantees	2	43	9	2
Received guarantees	–	3	1,174	2
Positive nominal value of derivatives	343,307	1,472	489,428	763
Negative nominal value of financial derivatives	(343,426)	(1,425)	(492,377)	(775)
Income				
Interest income	548	67	636	129
Fee and commission income	14	197	23	248
Net trading gains/(losses)	3,502	65	(4,668)	49
Other operating income	(1,106)	22	797	16
Total income	**2,958**	**351**	**(3,212)**	**442**
Expenses				
Interest expense	308	99	490	193
Fee and commission expense	29	50	1	68
General administrative expenses	87	1,393	197	1,085
Other operating expenses	–	16	–	3
Total expenses	**424**	**1,558**	**688**	**1,349**

The column “Other” includes other companies that are included in the Erste Group (sister companies). Information on associates is not material.

a) Members of the Board of Directors and Supervisory Board

Loans and advances granted to members of the Board of Directors and Supervisory Board amounted to CZK 12 million as at 31 December 2009 (2008: CZK 10 million).

Members of the Board of Directors and Supervisory Board held no shares of the Bank. Under the Employee Stock Option Plan (refer to Note 38 members of the Board of Directors subscribed for 33,719 shares (2008: 41 019 shares) of the parent company, Erste Group Bank. Under the Management Stock Option Plan (refer to 38), members of the Board of Directors hold 9,000 options (2008: 24,000 options) for subscription of shares of the parent company, Erste Group Bank.

b) Related Parties

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis.

48. Dividends

Management of the Bank has proposed that total dividends of CZK 4,560 million be declared in respect of the profit for the year ended 31 December 2009, which represents CZK 30 per both ordinary and priority share (2008: CZK 15,504 million, that is, CZK 102 per both ordinary and priority share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15 percent or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an EU member country and whose interest in a subsidiary's share capital is no less than 10 percent and that hold the entity's shares for at least one year are not subject to a withholding tax.

49. Subsequent Events

No significant events that would have a material impact on the financial statements for the year ended 31 December 2009 occurred subsequent to the reporting date.

Separate Financial Statements

for the Year Ended 31 December 2009

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

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ERNST & YOUNG

Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

We have audited the accompanying financial statements of Česká spořitelna, a. s., ("the Bank"), which comprise the statement of financial position as at 31 December 2009 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on the Bank, see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Česká spořitelna, a. s., as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union

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

Represented by

Martin Zuba
Partner

Magdalena Soucek
Auditor, License No. 1291

9 March 2010
Prague, Czech Republic

A member firm of Ernst & Young Global Limited, Ernst & Young Audit, s. r. o., with its registred office at Karlovo náměstí 10, 120 00 Prague 2,
has been incorporated in the Commercial Register administered by the Municipal court in Prague, Section C, entry No. 88504, under identification No. 26704153.

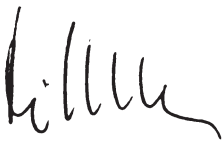
Separate Statement of Financial Position

as at 31 December 2009

CZK mil.	Note	31 Dec 2009	31 Dec 2008
Assets			
1. Cash and balances with the CNB	5	27,250	23,206
2. Loans and advances to financial institutions	6	110,596	78,713
3. Loans and advances to customers	7	422,468	412,481
4. Provisions for losses on loans and advances	8	(13,423)	(8,182)
5. Securities at fair value through profit or loss		36,404	54,993
(a) Securities held for trading	9	29,336	36,512
(b) Securities designated upon initial recognition as at fair value through profit or loss	10	7,068	18,481
6. Positive fair value of derivative transactions	11	18,529	27,216
7. Securities available for sale	12	4,146	8,324
8. Securities held to maturity	13	98,683	97,117
9. Equity investments in subsidiary and associated undertakings	14	7,781	10,092
10. Intangible fixed assets	15	3,091	3,594
11. Property and equipment	16	13,325	13,211
12. Other assets	17	6,143	8,034
Total assets		**734,993**	**728,799**
Liabilities and shareholders' equity			
1. Amounts due to financial institutions	18	43,158	41,452
2. Amounts due to customers	19	517,748	521,571
3. Liabilities at fair value	20	8,129	7,696
4. Negative fair value of derivative transactions	21	16,126	25,460
5. Bonds in issue	22	62,157	51,596
6. Provisions	23	1,989	2,192
7. Other liabilities	24	14,680	11,963
8. Subordinated debt	26	13,404	5,197
9. Shareholders' equity	27, 28	57,602	61,672
Total liabilities and shareholders' equity		**734,993**	**728,799**

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

These financial statements were prepared by the Bank and approved by the Board of Directors on 9 March 2010.



Gernot Mittendorfer
Chairman of the Board and
Chief Executive Officer

Dušan Baran
Vice Chairman of the Board of Directors
and First Deputy CEO

Separate Income Statement

for the Year Ended 31 December 2009

CZK mil.	Note	31 Dec 2009	31 Dec 2008
1. Interest income and similar income	29	35,475	38,694
2. Interest expense and similar expense	30	(7,546)	(11,260)
Net interest income		**27,929**	**27,434**
3. Provisions for credit risks	31	(7,894)	(3,288)
Net interest income after provisions for credit risks		**20,035**	**24,146**
4. Fee and commission income	32	12,880	12,395
5. Fee and commission expense	33	(2,046)	(1,800)
Net fee and commission income		**10,834**	**10,595**
6. Net trading result	34	3,325	1,607
7. General administrative expenses	35	(17,966)	(18,235)
8. Other operating expenses, net	36	(2,466)	(4,248)
9. Gains on the sale of equity investments in subsidiary and associated undertakings	37	328	3,641
Profit before taxes		**14,090**	**17,506**
10. Income tax expense	39	(2,845)	(2,524)
Net profit for the year attributable to the Bank's shareholders		**11,245**	**14,982**

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

Separate Statement of Comprehensive Income

for the Year Ended 31 December 2009

CZK mil.	Note	31 Dec 2009	31 Dec 2008
1. Net profit for the year attributable to the Bank's shareholders		**11,245**	**14,982**
Other comprehensive gains and losses			
Gains and losses on revaluation of financial assets available for sale	38	241	(760)
Deferred tax	39	(52)	151
2. Other comprehensive gains and losses after taxes		**189**	**(609)**
Comprehensive income for the year after taxes attributable to the Bank's shareholders		**11,434**	**14,373**

Separate Statement of Changes in Shareholders' Equity

for the Year Ended 31 December 2009

CZK mil.	Retained earnings	Revaluation of available for sale securities	Statutory reserve fund	Share premium	Share capital	Total equity
At 1 January 2008	**33,946**	**62**	**2,639**	**2**	**15,200**	**51,849**
Net profit for the year	14,982	–	–	–	–	14,982
Other comprehensive gains and losses after taxes	–	(609)	–	–	–	(609)
Comprehensive income for the year after taxes	**14,982**	**(609)**	**–**	**–**	**–**	**14,373**
Dividends	(4,560)	–	–	–	–	(4,560)
Transfer to reserve funds	(401)	–	401	–	–	–
Treasury and Group share transactions	–	–	–	10	–	10
At 31 December 2008	**43,967**	**(547)**	**3,040**	**12**	**15,200**	**61,672**
Net profit for the year	11,245	–	–	–	–	11,245
Other comprehensive gains and losses after taxes	–	189	–	–	–	189
Comprehensive income for the year after taxes	**11,245**	**189**				**11,434**
Dividends	(15,504)	–	–	–	–	(15,504)
Transfer to reserve funds	–	–	–	–	–	–
Treasury and Group share transactions	–	–	–	–	–	–
At 31 December 2009	**39,708**	**(358)**	**3,040**	**12**	**15,200**	**57,602**

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

Separate Statement of Cash Flows

for the Year Ended 31 December 2009

CZK mil.	Note	2009	2008
Profit before taxes		14 090	17 506
Adjustments for non-cash transactions			
Creation of provisions for losses on loans, advances and other assets		7,876	3,428
Depreciation and amortisation of assets	35	2,600	2,696
Impairment of tangible and intangible fixed assets	15, 16	55	2
Unrealised profit on securities at fair value through profit or loss and liabilities at fair value		588	(887)
Creation/(release) of provisions against equity investments	36	2,585	190
Gain on the sale of equity investments	37	(328)	(3,641)
Impairment of securities available for sale	36	–	2,245
(Release)/creation of other reserves		4	(102)
Change in fair values of derivatives		(648)	4,751
Change in fair values of hedged financial instruments		84	
Income from statute-barred savings books		(2)	(1)
Gain on the sale of tangible assets	36	(163)	(174)
Accrued interest, amortisation of discount and premium		2,259	306
Operating profit before changes in operating assets and liabilities		**29,000**	**26,319**
Cash flows from operating activities			
(Increase)/decrease in operating assets			
Minimum reserve deposits with the CNB		(2,415)	568
Loans and advances to financial institutions		(33,325)	(21,815)
Loans and advances to customers		(12,535)	(37,797)
Securities at fair value through profit or loss		16,847	4,595
Securities available for sale		4,401	(596)
Other assets		37	2,406
Increase/(decrease) in operating liabilities			
Amounts due to financial institutions		1,308	1,753
Amounts due to customers		(3,821)	47,167
Liabilities at fair value		433	87
Other liabilities		1,419	(1,201)
Net cash flow from operating activities before income tax		1,349	21,486
Income taxes paid		(2,227)	(2,560)
Net cash flow from operating activities		**(878)**	**18,926**
Cash flows from investing activities			
Increase in securities held to maturity		(16,654)	(12,618)
Decrease in securities held to maturity		10,354	21,914
Proceeds from equity investments		405	5,489
Expenditure related to equity investments		(436)	(2,788)
Purchase of tangible and intangible fixed assets		(2,292)	(2,562)
Proceeds from the sale of tangible and intangible fixed assets		190	453
Net cash flow from investing activities		**(8,432)**	**9,888**

CZK mil.	Note	2009	2008
Cash flows from financing activities			
Dividends paid		(15,504)	(4,560)
Payments with treasury and Group shares		–	10
Bonds in issue – sale		11,685	2,728
Bonds in issue – repurchase		(1,300)	(11,210)
Receipt of subordinated debt		8,207	(408)
Net cash flow from financing activities		**3,088**	**(13,440)**
Net increase/(decrease) in cash and cash equivalents		**(6,222)**	**15,374**
Cash and cash equivalents at beginning of year		**30,509**	**15,135**
Cash and cash equivalents at end of year	**40**	**24,288**	**30,509**

Cash Flow from Interest and Dividends Received

CZK mil.	Note	2009	2008
Dividends received		777	1,782
Interest received		36,103	36,834
Interest paid		(6,849)	(11,049)

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

Notes to the Separate Financial Statements

1. Introduction

Česká spořitelna, a. s., (henceforth the "Bank"), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID: 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services in the Czech Republic.

The Bank's majority shareholder is EGB Ceps Holding GmbH, which is a 100% subsidiary of EGB Ceps Beteiligungen GmbH, a wholly-owned subsidiary of Erste Group Bank AG ("Erste Group Bank"). The change in ownership structure was adopted as part of the technical optimisation of the Erste Group Bank shareholders' structure; the optimisation took place in 2009 and was duly approved by the Czech National Bank ("CNB").

The principal activities of the Bank are as follows:
- Acceptance of deposits from the general public;
- Extension of credit;
- Investing in securities on its own account;
- Payments and clearing;
- Issuance of payment facilities, e. g. payment cards, traveller's cheques;
- Issuance of guarantees;
- Opening of letters of credit;
- Collection services;
- Proprietary or client-oriented trading with foreign currency assets, forward and option contracts, including foreign currency and interest rate transactions, and transferable securities;
- Management of clients' securities on clients' accounts and provision of advisory services;
- Participation in the issuance of shares and provision of related services;
- Safe-keeping and administration of securities or other assets;
- Rental of safe-deposit boxes;
- Provision of business advisory services;
- Issuance of mortgage bonds under special legislation;
- Financial brokerage;
- Depositary activities;
- Foreign exchange services (foreign currency purchases);
- Provision of banking information; and
- Maintenance of a separate part of the Securities Centre's records.

The Bank is subject to the regulatory requirements of the CNB. These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off-balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk and foreign currency position.

2. Basis of Preparation

These statutory financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations approved by the International Accounting Standards Board ("IASB") as adopted by the European Union. All figures are in millions of Czech crowns ("CZK mil."), unless stated otherwise.

These financial statements have been prepared under the historical cost convention as modified by the remeasurement to fair value of available for sale securities, financial assets and liabilities at fair value through profit or loss, all derivatives, issued debt securities which are hedged against interest rate risk and assets held for sale. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i. e. cost less accumulated depreciation and cumulative impairment losses).

The presentation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the reporting date and their reported amounts of revenues and expenses during the reporting period (refer to Note 4). Actual results could differ from those estimates.

Comparative information has been restated, where necessary, on a basis consistent with current year presentation.

These financial statements and notes thereto are unconsolidated and do not include the accounts and results of those companies over which the Bank has control or significant influence. The policies of accounting for equity investments are disclosed in Note 3 (b).

The Bank also prepares consolidated financial statements in accordance with IFRS and interpretations approved by the IASB as adopted by the European Union which present the results of the Bank's financial group.

3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Loans and Advances, Off-balance Sheet Credit Exposures and Provisions for Losses on Loans and Advances

Loans and advances are initially measured at fair value including any directly attributable transaction costs. After initial measurement loans and advances are measured at amortised cost using the effective interest rate, including allowances for impairment. Am-

ortised cost is calculated by taking into account any discount or premium on acquisition as well as fees and costs that are an integral part of the effective interest rate. All loans and advances are recognised when cash is advanced to borrowers.

The Bank classifies its loan receivables according to several criteria.

In terms of market segments, loans and receivables are split into retail receivables and corporate receivables. Retail receivables include amounts due from individuals/households and sole traders and amounts due from individuals businessmen, small businesses with an annual turnover of less than CZK 30 million and small municipalities (the MSE category). Corporate loans include amounts due from small and medium sized businesses with an annual turnover between CZK 30 million and CZK 1,000 million (the SME category), amounts due from large corporations (with an annual turnover of over CZK 1,000 million) and the public sector.

In terms of risk management, loan receivables are segmented into non-defaulted (performing) loans and defaulted (non-performing) loans, i. e. loans in default according to the BASEL II rules.

In terms of accounting and provisioning, receivables are segmented into individually impaired, collectively impaired and unimpaired loans with no indication of impairment.

Provisions for losses on loans and advances are recorded when there is objective evidence that the outstanding loan balance may not be recovered. Provisions for losses on loans and advances represent management's assessment of realised losses in relation to the Bank's on and off-balance sheet activities. Amounts are set aside to cover losses on loans and advances that have been specifically identified (individually impaired loans) and for potential losses which may be present based on portfolio performance (collectively impaired loans). The level of provisions is established by comparing the carrying amount of the loan and the present value of future expected cash flows determined using the original effective interest rate. The level of provisions for individually insignificant loans whose impairment has been identified on the basis of an individual assessment is determined statistically at the product portfolio level. Individually significant loans are assessed individually to determine if they are individually impaired. The provisioning percentage in respect of individually significant loans which are collectively impaired is established on a portfolio basis. The amount of impairment loss is charged to the income statement line "Provisions for credit risks".

Restructuring of doubtful loan receivables reflects Bank's business decisions. Any receivable whose terms and conditions have been renegotiated because of the debtor's distress is considered restructured. Renegotiations of loan terms and conditions include, e. g., payment schedule changes (deferrals and reductions of regular payments, extended maturity), interest rate reductions, penalty interest waivers, or the provision of a new loan specifically for the repayment of the doubtful receivable.

Restructuring may proceed solely on the basis of a new contract. Restructured loans are initially assigned an internal rating of R. This rating can be upgraded no sooner than six months after the restructuring date. Restructured loans continue to be tested for impairment, either individually or on a collective basis. Additional details are disclosed in Note 41.1.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written-off against the account "Provisions for credit risks" in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released back to income. The relevant amount and recoveries of loans and advances previously written-off are reflected in the income statement through "Provisions for credit risks".

(b) Debt and Equity Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. In accordance with IAS 39: Financial Instruments: Recognition and Measurement ("IAS 39"), the Bank categorises its securities into the "Securities at fair value through profit or loss" portfolio, the "Securities available for sale" portfolio and the "Securities held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and their recognition in the financial statements.

All securities held by the Bank are initially recognised at fair value together with transaction costs associated with the investment, the only exception being "Securities at fair value through profit or loss" which are recognised at fair value net of transaction costs.

Securities and liabilities arising from securities measured at fair value are recognized using trade date accounting. Securities and liabilities arising from securities measured at amortised cost are recognized using settlement date accounting.

Securities at Fair Value through Profit or Loss

The portfolio includes debt and equity securities held for trading, including short-sales liabilities, that is, securities held by the Bank with the intention of reselling them, thereby generating profits on price fluctuations in the short-term, and debt and equity securities that were designated, upon initial recognition, as at fair value through profit or loss. Changes in the fair values of assets held for trading are recognised in the income statement as "Net trading result". Changes in the fair values of securities not held for trading are reported as "Other operating expenses, net" in the income statement and interest income is included in "Interest income and similar income".

Fair Value Option

In addition to securities, the portfolio of instruments at fair value through profit or loss includes, upon origination or acquisition,

other financial assets and liabilities if such classification reduces the mismatch in reporting financial expenses or income or if it is a group of financial assets and liabilities which are typically managed and assessed according to fair value changes and such a management and presentation treatment complies with the investment strategy and/or the assets and liabilities management strategy or the financial assets and liabilities contain an embedded derivative other than those which do not modify significantly their cash flows or are inseparable.

For debt and equity securities traded on the Prague Stock Exchange ("PSE") and other stock exchanges, fair values are derived from quoted prices. In respect of securities which are publicly traded but the volumes or frequency are small, management assesses the identified market prices on an individual basis to determine if they provide an actual indication of the fair value. In exceptional cases, management uses its own estimates to make adjustments or uses the Bank's own valuation models. The fair values of securities that are not publicly traded are estimated by the management of the Bank as the best estimation of the cash flow projection reflecting the set of economic conditions that will exist over the remaining maturity of the securities, taking into account the issuer's credit risk.

Securities Available for Sale

Securities available for sale are securities held by the Bank for an indefinite period of time that are available for sale as liquidity requirements arise or market conditions change.

Changes in the fair values of available for sale securities are recognised in equity as "Revaluation gains or losses", with the exception of impairments, interest income and foreign exchange differences on debt securities. Impairment of securities available for sale is accounted for on the same basis as impairment of securities held to maturity (see below). When realised, the relevant revaluation gains or losses are taken to the income statement as "Other operating expenses, net". Interest income on coupons, amortisation of discounts or premiums, and dividends are included in "Interest income and similar income". Foreign exchange differences are reported within "Net trading result".

If a security is determined to be impaired, the loss is reversed from equity and charged to income through "Other operating expenses, net".

When an impairment loss on equity securities is accounted for, the recognised charge is not reversible through the income statement.

The impairment losses on debt securities can be reversed when, following the impairment recognition in expenses, the fair value increases for objective reasons as determined by the Bank.

Securities Held to Maturity

Securities held to maturity are financial assets with a fixed maturity that the Bank has the positive intent and ability to hold to maturity.

Securities held to maturity are initially measured at fair value, net of transaction costs incurred. Securities held to maturity are subsequently reported at amortised cost using the effective interest rate. The amortisation of premiums and discounts is included in "Interest income and similar income".

Impairment of securities

On a quarterly basis, the Bank makes an assessment of the available-to-sale or held-to-maturity portfolios to determine if events occurred indicating that an investment has suffered impairment.

The criteria indicating impairment of a security include, but are not limited to: significant changes with an adverse effect on the investment that have taken place in the market, economic or legislative environment, or such changes that are expected to occur in the near future (e. g., absence of an active market), significant financial difficulties of the issuer or the committed party, or contractual breach such as the non-payment of the principal, interest or delayed payments.

For equity securities classified as available for sale, a significant or prolonged decline in their fair value below their cost is also objective evidence of impairment. The Bank generally treats significant as 30% and prolonged as greater than 18 months.

If there is objective evidence that an available-for-sale security is permanently impaired, the cumulative loss is removed from equity and recognised in profit or loss within "Other operating expenses, net". The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost of security (plus/(less) accrued premium, discount and interest, if any, in the case of debt securities) and its current fair value, less any impairment loss on that security previously recognised in profit or loss.

If subsequently, after the impairment loss was recognised in profit or loss, the fair value of debt securities classified as available for sale increases and the fair value increase is provable, it is recognised in profit or loss within "Other operating expenses, net"; however, the fair value increase does not exceed the amount of the previously recognised impairment loss. The increase in the fair value of equity securities is recognised in equity; previously recognised impairment losses are irreversible.

If there is objective evidence that an impairment loss on bonds classified as held to maturity securities has been incurred, the amount of the loss is measured as the difference between their amortised cost and the present value of estimated future cash flows discounted at the bonds' original effective interest rate. The impairment loss is recognised through a provision presented in profit or loss within "Other operating expenses, net".

Derecognition of Financial Assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of owner-

ship of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Equity Investments

Equity investments in subsidiary and associated undertakings are recorded at acquisition cost including transaction costs less provisions for any temporary diminution in value or write-offs for any permanent diminution in value.

An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50% of its share capital or in which the Bank can exercise more than 50% of the voting rights based on an agreement with another shareholder/owner, or where the Bank can appoint or dismiss a majority of the Board of Directors or Supervisory Board members.

An investment in an associate is one in which the Bank holds, directly or indirectly, 20% to 50% of its share capital or over which the Bank exercises significant influence through representation on the entity's statutory board, participation in the development of the entity's policy, significant transactions between the entity and the Bank, replacement of the entity's management by the Bank, and access to significant technical information of the entity.

At the financial statement date the Bank assesses equity investments in subsidiary or associated undertakings for impairment. An equity investment is impaired if its carrying amount is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and its value in use determined as a sum of discounted expected cash flows (value in use). The fair value less selling costs valuation technique is adopted in respect of the Bank's investments in real estate funds and venture capital funds; the discounted cash flows method is used in valuing other investments in the Bank's subsidiaries and associates. Impairment of equity investments in subsidiaries and associates is recognised in "Other operating income/(expenses), net". Impairment of equity investments in subsidiary or associated undertakings is accounted for through the recognition of provisions.

Dividends from equity investments are recognised in the income statement within "Interest income and similar income" in the period in which they are declared.

(c) Bonds in Issue

Own issues of debt securities are recognised in the statement of financial position within "Bonds in issue", the only exceptions being subordinated bonds, which are recognised within "Subordinated debt", and issued debt securities measured at fair value, which are recognised within "Liabilities at fair value". Bonds in issue and subordinated debt are initially measured at issue price plus any direct costs of issue. The issue price is gradually increased to reflect accrued interest expense, determined using the effective interest rate method, incurred in issued bonds from the issue settlement date to the maturity date. When issued bonds are repurchased, the difference between the agreed price and carrying amount is recognised in profit or loss within „Net trading result".

(d) Off-setting of Financial Instruments

Financial assets and liabilities are not offset, except when the offset reflects the substance of the transaction (i. e., the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously) and is legally enforceable.

(e) Sale and Repurchase Agreements

Where debt or equity securities are sold under a concurrent commitment to repurchase them at a pre-determined price ("repo transactions"), they remain at fair value or amortised cost (refer to Note 3 (b) within the relevant portfolio on the statement of financial position and the consideration received is recorded in "Amounts due to financial institutions" or "Amounts due to customers". Conversely, debt or equity securities purchased under a concurrent commitment to resell them ("reverse repo transactions") are not recognised in the statement of financial position and the consideration paid is recorded in "Loans and advances to financial institutions" or "Loans and advances to customers". Interest is accrued evenly over the life of the agreement.

(f) Liabilities at Fair Value

The Bank classifies as liabilities at fair value liabilities held for trading and liabilities for which it uses the fair value option as set out in IAS 39.

Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the Bank records an obligation to return them which is recognised at fair value as a trading liability and is presented in the statement of financial position line "Liabilities at fair value". Upon the repurchase of securities, the difference between the carrying amount of the obligation and the contracted purchase price is recognised in "Net trading result".

The Bank additionally classifies as liabilities at fair value certain issued bonds and deposits with embedded derivatives because management believes that this classification materially reduces the inconsistency in valuing these liabilities.

(g) Intangible Assets

Intangible assets include identifiable assets without physical substance and which have an estimated useful life exceeding one year. The Bank has determined that, in addition to fulfilling these criteria, intangible fixed assets should include assets with a cost greater than CZK 60,000. Intangible fixed assets are carried at cost less accumulated amortisation and provisions for impairment and are amortised on a straight line basis through "General administrative expenses – amortisation of intangible assets" over

an estimated useful life not exceeding four years. Software acquisition, valuable rights and other intangible assets are treated as intangible assets. Asset items with a cost of less than CZK 60,000 are recognised in expenses in the income statement as part of "General administrative expenses – other administrative expenses" during the period in which they were acquired. Costs associated with the maintenance of intangible assets (software) are expensed through "General administrative expenses – other administrative expenses" as incurred whilst costs of technical improvements, provided they exceed CZK 40,000 per asset upon completion, are capitalised to the intangible asset.

(h) Property and Equipment

Property and equipment includes identifiable tangible assets with physical substance and which have an estimated useful life exceeding one year. The Bank has determined that, in addition to fulfilling these criteria, tangible fixed assets should include assets with a cost greater than CZK 13,000. Property and equipment also includes selected low value tangible assets with a cost of less than CZK 13,000. Property and equipment is stated at historical cost less accumulated depreciation and impairment provisions and is depreciated when ready for use through the income statement line "General administrative expenses – depreciation of property and equipment" on a straight line basis over the estimated useful lives. Depreciation periods for individual categories of assets are as follows:

Land and buildings	
Land	Not depreciated
Buildings and structures	20–50 years
Equipment, fixtures and fittings	
Electronic machines and equipment	6–12 years
Tools and other equipment	4–12 years
Equipment, fixtures and fittings	4–6 years
Selected low value machines and equipment	2 years
Works of art	Not depreciated

Leasehold improvements are depreciated over the lease term and based on their classification in the relevant asset category.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost also includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain and loss arising on the disposal of property and equipment is determined based on its carrying value and is recognised in the income statement line "Other operating expenses, net" in the year of disposal.

Property and equipment costing less than CZK 13,000, and technical improvements costing less than CZK 40,000 are charged to the income statement line "General administrative expenses – other administrative expenses" in the period of acquisition.

Repairs and maintenance of property and equipment are charged to the income statement line "General administrative expenses – other administrative expenses" in the year in which the expenditure is incurred. Completed technical improvements exceeding CZK 40,000 for the taxation period are capitalised and increase the acquisition cost of tangible assets.

(i) Non-current Assets Held for Sale

The category of "non-current assets held for sale" includes non-current assets that are taken out of active use at the date on which criteria for sale are met, that is, the sale is approved by an authorised person, steps to locate a buyer have been initiated, and a draft of a purchase contract and other documentation is being prepared. At the same date, the assets held for sale are measured at the lower of carrying amount and fair value less selling costs. At the same time, depreciation on such assets ceases. The fair value less selling costs is determined based on an expert appraisal (refer to Note 4 (f)).

In circumstances where the fair value less selling costs is lower than the carrying amount, the difference is accounted for through the recognition of an extraordinary write-off in the income statement line "Other operating expenses, net". Any subsequent revaluation of assets arising from the change in the fair value less selling costs is presented in the same income statement line.

(j) Impairment of Non-financial Assets

Where the carrying amount of an asset stated at net book value is greater than its estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount is the greater of the following: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs, and the estimated future economic benefits arising from the use of the asset and its disposal at the end of its service life.

The largest components of the Bank's assets are periodically tested for impairment. Provisions for impairment losses are recognised in the income statement line "Other operating expenses, net".

Significant accounting estimates and decisions in the application of accounting policies are additionally disclosed in Note 4.

(k) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surround-

ing the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(l) Guarantees and Off-balance Sheet Credit Related Commitments

In the normal course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, loan commitments, undrawn loan facilities and letters of credit. The off-balance sheet loan commitments are initially recognised at fair value, which equals the fee charged by the Bank, and subsequently are reported at the higher of accrued fees or the best estimate of losses incurred in the performance of off-balance-sheet commitments.

If a committed guarantee is provided, the paid-out amount is recognised within "Loans and advances to customers". Losses on bank guarantees are estimated using the same method as for undrawn lines of credit. In estimating the losses, the Bank refers to historical data regarding risk parameters such as credit conversion factors ("CCF"), probability of default ("PD") and loss given default ("LGD"). Additional details can be found in Note 41.1.

Provisions are made for estimated losses on these commitments on the same basis as set out in Note 3 (a) in respect of on-balance sheet loan exposures. For these purposes, off-balance sheet items are treated similarly to on-balance sheet exposures. Once a committed guarantee or credit line is drawn the general provision is reversed and a new impairment provision is created against an on-balance sheet receivable, which is tested for impairment.

Any increase in liabilities from guarantees is presented in the income statement within "Provisions for credit risks". Fees received are recognised on a straight-line basis over the term of the guarantee and are presented in the income statement line "Fee and commission income".

(m) Shareholders' Equity

The statutory reserve fund comprises funds equalling 20% of share capital which the Bank is required to retain according to current legislation. The use of the statutory reserve fund is limited by legislation and the articles of the Bank. The fund is not available for distribution to shareholders.

Where the Bank purchases its treasury shares or obtains rights to purchase its treasury shares, the consideration paid including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. In selling treasury shares, the Bank recognises the difference between their selling price and cost as share premium.

Dividends reduce retained earnings in the period in which they are declared by the Annual General Meeting.

(n) Accrued Interest

Accrued but uncredited interest on outstanding loan balances, debt securities, deposit products, bonds in issue and subordinated debt is recognised under accrual accounting and reported within "Other assets" and "Other liabilities", respectively.

(o) Foreign Currency

Items included in the Bank's financial statements are initially measured using the currency of the primary economic environment in which the Bank operates ("functional currency"). The Czech crown is the functional currency.

Transactions denominated in foreign currencies are initially recognised in the functional currency, using official exchange rates as announced by the CNB on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the CNB exchange rate prevailing at the reporting date. Realised and unrealised gains and losses on foreign exchange are recognised in the income statement in "Net trading result", with the exception of foreign exchange rate differences on equity securities included in the available-for-sale portfolio which are reported as a component of a change in the fair value and foreign exchange rate differences on derivatives entered into with a view to hedging currency risk associated with expected foreign currency cash flows from assets or liabilities whose foreign exchange rate differences are not reported in the income statement.

(p) Share-based Payments

With a view to improving the relationship of staff with the Bank, fostering loyalty of the Bank's key employees and attracting new key managers, the Supervisory Board of Erste Group Bank, resolved, based upon authorisation given by the General Meeting of Shareholders dated 8 May 2001, to implement an Employee Erste Bank Stock Ownership Programme ("ESOP") and a Management Erste Bank Stock Option Programme ("MSOP") within the Bank. Discounts related to both programmes are presented within "General administrative expenses – Other personnel expenses". For details see Note 35 (c).

(q) Interest Income and Interest Expense

Interest income and expense are recognised on the accrual basis using the effective interest rate method. Outstanding penalties, contractual sanctions and interest on non-performing loans, which are those loans that have overdue interest and/or principal, or for which management of the Bank otherwise believes the contractual interest or principal due may not be received, are only recognised on their collection.

The Bank also recognises interest income on non-performing loans. This interest income represents interest income using the effective interest rate in respect of the assets less a provision.

(r) Dividend Revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

(s) Fees and Commissions

Fees and commissions are recognised on the accrual basis, with the exception of fees that are considered to be an integral part of the effective interest rate.

The effective interest rate includes the fees directly associated with the provision of the loan, such as loan origination fees, loan application processing fees, etc. The Bank's direct external transaction costs involved in issuing loans are offset against these capitalised fees.

(t) Customer Loyalty Programmes

Customer loyalty programmes comprise the Bonus Programme. In 2009 the Bank modified the accounting treatment of the loyalty programme as follows: It ceased establishing a provision for estimated costs to be incurred for the future use of bonus points and adjusted the recognition of the related revenues. Fees for payment cards are recognized in income when earned. Commissions from traders for transactions via payment cards are deferred and recognized in income as bonus points become due. The provision established in previous years has been reclassified to deferred income which is recognized in income based on the costs actually incurred in the Bonus Programme. At the reporting date, the level of deferred income is adjusted to reflect the current balance of unused points.

(u) Taxation

Tax on the profit or loss for the year comprises the current year tax charge, adjusted for deferred taxation. Current tax comprises the tax payable calculated on the basis of the taxable income for the year, using the tax rate enacted by the reporting date, and any adjustment of the tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. However, this does not apply to temporary differences arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit (tax loss).

The principal temporary differences arise from certain non-tax deductible reserves and provisions, tax and accounting depreciation on tangible and intangible fixed assets and the revaluation of other assets.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be available to allow the asset to be recovered.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

(v) Derivative Instruments

Derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency and interest rate options (both purchased and sold), futures and other derivative financial instruments. The Bank uses various types of derivative instruments in both its trading and hedging activities.

Derivative instruments entered into for trading or hedging purposes are recognised at fair value as "Positive fair value of derivative transactions" and "Negative fair value of derivative transactions." Realised and unrealised gains and losses are recognised in the income statement line "Net trading result", the only exception being unrealised gains and losses on cash flow hedges which are recognised in equity. The fair values of derivatives are based upon quoted market prices or pricing models which take into account current market and contractual prices of the underlying instruments, as well as the time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with gains and losses reported in the income statement.

Hedging derivatives are defined as derivatives that comply with the Bank's risk management strategy, where the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80% to 125%.

If the Bank uses a fair value hedge, the hedged item is remeasured at fair value and the gain or loss from the remeasurement (in respect of an interest rate risk hedge) is recognised as an expense or income in "Interest income and similar income" or "Interest expense and similar expense" as appropriate. The same accounts for income and expense that reflect the gain or loss from remeasuring the hedged item at fair value are also used in accounting for changes in fair values of hedging derivatives that are attributable to the hedged risk. Fair value hedges are used to hedge interest and foreign currency risk exposures. Bonds, issued bond liabilities and granted loans are hedged items while interest rate and foreign currency derivatives serve as hedging instruments.

If the Bank uses a cash flow hedge, the gains or losses from changes in fair values of hedging derivatives that are attributable to the hedged risk are retained in equity in the statement of financial position and are recognised as an expense or income in the periods in which hedged cash flows effect profit or loss. Cash flow hedges are used to secure cash flows from sales of shares and share certificates

denominated in foreign currencies classified as available for sale. Foreign currency derivatives serve as hedging instruments.

Certain derivative transactions do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value remeasurement gains and losses reported in "Net trading result".

(w) Transactions with Securities Undertaken on Behalf of Clients

Securities received by the Bank into custody, administration, management or safe-keeping are typically recorded at market or nominal values if the market value is not available and maintained off balance sheet. "Other liabilities" include the Bank's payables to clients arising from cash received to purchase securities or cash to be refunded to the client.

(x) Segment Reporting

Segment information is based on two segment formats. The primary format represents business segments – retail banking, corporate banking, investment banking and other operations. The secondary format represents the Bank's geographical markets – the Czech Republic, EU countries, other European countries and other regions.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Bank. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Bank's policy. Unallocated items mainly comprise administrative expenses.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Bank's statement of financial position. Segment assets and liabilities do not include income tax items.

(y) Cash and Cash Equivalents

The Bank considers cash and deposits with the CNB, treasury bills with a residual maturity of three months or less, nostro accounts and loro accounts with banks to be cash equivalents. For the purposes of determining cash and cash equivalents, the minimum reserve deposit with the CNB is not included as a cash equivalent due to restrictions on its availability.

(z) Operating Lease

Lease payments under an operating lease where the Bank is a lessee are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the lessee's benefit. Contingent rents arising pursuant to operating lease agreements are charged as expenses in the periods in which they are incurred.

(aa) Changes in Accounting Policies Arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2009

The Bank has adopted the following standards and interpretations:

- Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements; the amendments relate to the measurement of investments in subsidiaries, joint ventures and associates (effective 1 January 2009)
- Amendment to IFRS 2 Share-based Payments, defining vesting conditions and cancellations (effective 1 January 2009);
- Revised IFRS 3: Business Combinations ("IFRS 3") (effective 1 July 2009);
- Amendments to IFRS 7: Financial Instruments: Disclosures, including requirements to disclose additional information about fair value measurement (effective 1 January 2009);
- IFRS 8: Operating Segments (effective 1 January 2009);
- Revised IAS 1: Presentation of Financial Statements, including the requirement to compile the statement of comprehensive income (effective 1 January 2009);
- Amendments to IAS 27: Consolidated and Separate Financial Statements ("IAS 27"), dealing with accounting for non-controlling interests and loss of control over a subsidiary (effective 1 July 2009);
- Amendments to IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements, relating to puttable financial instruments and obligations arising on liquidation (effective 1 January 2009);
- Amendments to IAS 39: Financial Instruments: Recognition and Measurement, relating to qualifying hedged items (effective 1 July 2009);
- May 2008 Improvements to International Financial Reporting Standards including minor amendments to IFRS 7, IAS 1, 2, 7, 8, 10, 16, 19, 20, 23, 27, 28, 29, 31, 32, 34, 36, 38, 39, 40, 41 (effective 1 January 2009) and IFRS 1, 5 (effective 1 July 2009);
- Amendments to IFRIC 9: Reassessment of Embedded Derivatives and IAS 39: Financial Instruments: Recognition and Measurement, concerning embedded derivatives (effective 30 June 2009);
- IFRIC 12: Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13: Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 15: Agreements for the Construction of Real Estate (effective 1 January 2009);
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).

At the date of authorisation of the accompanying financial statements, the following standards and interpretations were in issue and endorsed by the EU but not yet effective:

- Restructured IFRS 1: First-time Adoption of IFRS (effective 1 July 2009)

- Amendments to IAS 32: Financial Instruments: Presentation (effective 1 February 2010);
- IFRIC 17: Distributions of Non-cash Assets to Owners (effective 1 July 2009);
- IFRIC 18: Transfers of Assets from Customers (effective 1 July 2009).

The adoption of these standards in future periods is not expected to have a material impact on profit or equity.

The following standards or interpretations have been issued by the IASB but not yet endorsed by the EU:

- April 2009 Improvements to International Financial Reporting Standards, including minor amendments to IFRS 2, IAS 38, IFRIC 9, 16 (effective 1 July 2009) and IFRS 5, 8, IAS 1, 7, 17, 36, 39 (effective 1 January 2010);
- Amendments to IFRS 1: First-time Adoption of IFRS, defining additional exemptions for first-time adopters (effective 1 January 2010);
- Amendments to IFRS 2: Share-based Payments, regarding group cash-settled share-based payment transactions (effective 1 January 2010);
- IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2010);
- Revised IAS 24: Related Party Disclosures (effective 1 January 2011);
- Amendments to IAS 32: Classification of rights issues (effective 1 February 2010);
- Amendments to IFRIC 14: Prepayments of a minimum funding requirement (effective 1 January 2011);
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010).

These standards are not yet effective as at the reporting date. Endorsement by the EU is expected by the time the standards and interpretations become effective. The Bank believes that the adoption of these standards will not have a material impact on profit or equity.

4. Significant Accounting Estimates and Decisions in the Application of Accounting Policies

The current financial crisis and subsequent impact on financial markets and overall economic environment have triggered significant adjustments to the valuation of the Bank's assets. Management is prudent in monitoring all relevant factors to determine appropriate valuations.

(a) Impairment of Loans and Advances

The Bank regularly assesses its loan portfolio for possible impairment. As part of this analysis, the Bank splits all loans into two categories: defaulted loans according to the BASEL II rules and performing loans. In respect of the first category of loans, the Bank believes that there is objective evidence demonstrating that a loss event occurred subsequent to the initial recognition of these loans which impacts future anticipated cash flows arising from these loans and these loans are therefore impaired on an individual basis. For individually impaired loans, the Bank makes an estimate of realised losses on an individual basis for individually significant loans, and on a portfolio basis for individually insignificant loans by reference to historical indicator statistics. Loans 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 Bank additionally splits performing loans into collectively impaired (an internal rating of 7–8) where an indication of impairment on a portfolio basis exists, and unimpaired (an internal rating of 1–6). With regard to all loans with objective evidence of impairment on a portfolio basis, the Bank makes an estimate of a decrease in the estimated future cash flows from the portfolio although the decrease cannot yet be identified with individual loans. Management of the Bank uses estimates based on historical experience of losses on loans that have similar risk characteristics. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data. Details about provisioning can be found in Note 41.1.

(b) Debt Securities Held to Maturity

Based on a model of predicted future cash flows together with the statement of financial position structure, the Bank invests in securities and categorises a portion of them in the held to maturity portfolio. The key criterion driving this decision is the Bank's ability to hold the security to maturity assuming sufficient financial coverage throughout the whole term of the investment. Should the sale of a significant volume of the held to maturity debt securities take place before their maturity, the Bank would be required to reclassify the held to maturity securities into one of the remaining portfolios, pursuant to IAS 39. In terms of the Bank's asset management policy, where the placement of a debt security into the held to maturity portfolio is primarily considered a tool of banking book interest rate risk management, the ability to hold such a debt security to maturity is a pre-condition for using the debt security as a interest rate risk management tool.

(c) Impairment of Securities

Securities held by the Bank, with the exception of debt securities in the held to maturity portfolio, are regularly marked to market and the revaluation is recognised in the income statement (for the at fair value through profit or loss portfolio) or in equity (for the available for sale portfolio). When a decline in the fair value of an available for sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset in relation to the

following loss events: significant financial difficulty of the issuer or obligor, the borrower entering bankruptcy or other financial reorganisation, etc.

Bonds classified as held to maturity are regularly tested for impairment. If the Bank concludes that there is objective evidence that a bond is impaired it is reclassified to the available for sale portfolio and the loss is recognised in profit and loss.

(d) Valuation of Instruments without Direct Quotations

Financial instruments without direct quotations in an active market are valued using the mark-to-model technique. Each model is calibrated for the most recent available market data. While the models are built on currently available data, their use is subject to certain assumptions and estimates (correlations, volatilities, etc). Changes in the assumptions may affect the reported fair value of the relevant financial instruments.

The valuation of structured bonds, the yields of which are linked to the underlying assets (asset backed securities) is performed monthly on the basis of quotations requested from listing agents. With assistance from Erste Group Bank, the Bank analyses the quoted prices by reference to the results of internal valuation models and other facts. Based on this analysis, the Bank can value its bonds at prices other than the quoted price. Where multiple quotations are available, the Bank uses the lowest quotation.

(e) Provisions

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. Nevertheless the actual results may differ from the estimated losses at the reporting date.

(f) Fair Value of Non-current Assets Held for Sale

Non-current assets held for sale are valued based on independent, expert appraisals.

(g) Impairment of Assets

The Bank tests its assets for impairment at least annually to determine whether there is any indication that they have suffered impairment. If any such indication exists, the Bank compares the carrying amount of the assets with their recoverable amount defined as the higher of fair value less costs to sell or value in use.

With regard to equity investments in subsidiaries and associates that are within the scope of IAS 27 and IFRS 3, the Bank determines the value in use, the only exception being investments in the real estate funds CEE Property Development Portfolio B. V. and Czech and Slovak Property Fund B. V. and investments in the venture capital investment funds Czech TOP Venture Fund B. V. and CS Investment Limited.

The value in use is established as the discounted value of the projected cash flows from individual investments. The discount rate used by the Bank incorporates an assessment of risks that are specific to the investment and which were not considered in estimating the future cash flows.

In respect of real estate funds, the Bank determines the fair values of individual equity investments held via these funds less costs to sell. The fair value of the entire fund represents the sum of the fair values of all individual investments. In determining the fair value of equity investments held via the real estate funds, the Bank uses estimates prepared by recognised real estate appraisers.

With respect to venture capital funds, the Bank compares the historic value of the investment recorded in the general ledger to its current fair value determined by an independent appraiser.

With regard to impaired tangible assets within the scope of IAS 16: Property, Plant and Equipment, the Bank determines the fair value less costs to sell. The fair value is established on the basis of expert appraisals prepared by certified appraisers.

Depreciation periods applicable to individual categories of property, plant and equipment and intangible assets are disclosed in Notes 3 (g) and 3 (h), respectively.

The Bank determines the value in use of intangible assets by estimating discounted future cash inflows and outflows to be derived from their continuing use and ultimate disposal.

The fair value of securities held to maturity and securities available for sale that fall within the scope of IAS 39 is determined on the basis of standard market parameters or valuation models as appropriate.

(h) Fair Value of Collateral

In the course of its lending business, the Bank accepts movable and immovable assets and securities pledged as collateral. The Bank also uses various forms of guarantee statements as security for its loan receivables. Movable and immovable assets pledged as collateral are carried off-balance sheet and are initially valued on the basis of an expert appraisal (nominal value of collateral) which is reduced, based on the Bank's experience, to the realisable (fair) value using a collateral discount coefficient which is dependant on the type of collateral. All coefficients are described in the Bank's internal policy. Guarantees are valued at the nominal value reduced by the collateral coefficient which is derived from the guarantor's solvency. Subsequently, the Bank regularly assesses the realisable value of collateral for impairment. This assessment is mostly conducted as part of the regular (at least annual) monitoring of loan receivables. With respect to a large amount of collateral of the same type, the Bank uses portfolio models to determine if the realisable value of the collateral decreased. The Bank takes into account the realisable value of collateral in calculating provisions for loan receivables. Details about the determination of the realisable (fair) value of collateral are provided in Note 41.1.

5. Cash and Balances with the CNB

CZK mil.	2009	2008
Cash (see Note 40)	19,821	18,668
Nostro accounts with the CNB (see Note 40)	1,079	603
Minimum reserve deposits with the CNB	6,350	3,935
Total	**27,250**	**23,206**

Minimum reserve deposits represent mandatory deposits calculated in accordance with CNB regulations and whose withdrawal is restricted. Minimum reserve deposits accrue interest at the CNB's two week repo rate. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulation. The nostro balances represent balances with the CNB relating to settlement activities and were available for withdrawal at the year end.

6. Loans and Advances to Financial Institutions

CZK mil.	2009	2008
Nostro accounts (see Note 40)	528	1,970
Loans and advances to financial institutions	69,219	25,544
Placements with financial institutions	39,939	50,939
Other	910	260
Total	**110,596**	**78,713**

As at 31 December 2009, the Bank provided certain financial institutions with loans of CZK 63,670 million (2008: CZK 13,670 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 62,999 million (2008: CZK 14,219 million).

7. Loans and Advances to Customers

(a) Analysis of Loans and Advances to Customers by Type of Loan

CZK mil.	2009	2008
Corporate loans	132,096	138,092
Mortgage loans (both retail and corporate customers)	176,251	173,883
Retail loans	96,917	88,062
Public sector loans	17,197	12,435
Fair value of collateralised receivables	7	9
Total	**422,468**	**412,481**

As at 31 December 2009, the Bank provided certain clients with loans of CZK 345 million (2008: CZK 774 million) under reverse repurchase transactions; the loans were collateralised by securities amounting to CZK 506 million (2008: CZK 835 million).

(b) Analysis of Loans and Advances to Customers According to Credit Risk Assessment Policies

31 December 2009 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	13,154	11,618	24,772
Collectively impaired	22,218	11,649	33,867
Unimpaired	160,567	203,262	363,829
Total	**195,939**	**226,529**	**422,468**

31 December 2008 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	6,943	7,079	14,022
Collectively impaired	13,987	8,522	22,509
Unimpaired	174,849	201,101	375,950
Total	**195,779**	**216,702**	**412,481**

Individually significant loans represent corporate loans and retail loans where the Bank's exposure exceeds CZK 5 million. Individually impaired loans are those loans where objective evidence demonstrates that the associated cash flow is at risk (loss event). The Bank defines the loss event in accordance with BASEL II. This classification corresponds to the "R" internal rating (default). Collectively impaired loans are loans that show an indication of impairment on a collective basis, which corresponds to the 7–8 internal rating. Unimpaired loans are loans with an internal rating of 1–6.

The Bank uses various types of collateral in order to mitigate credit risk exposure. The list of collateral instruments is set out in an internal regulation which also outlines the guidance to be followed in determining the values of individual types of collateral. The Bank establishes the nominal value of collateral based upon a market valuation which is subsequently used as a basis for arriving at the realisable value by applying a discount factor set for each type of collateral. Collateral that is valued at the realisable value is taken into account in provisioning (refer to Note 4 (a). Collateral valuation rules also set out when and how often the valuations of individual collateral instruments are updated.

8. Provisions for Losses on Loans and Advances

(a) Creation and Use of Provisions for Losses on Loans and Advances

CZK mil.	2009	2008
At 1 January	8,182	6,105
Charge for provisions (see Note 31)	8,188	5,469
Release of provisions (see Note 31)	(405)	(2,102)
Net charge/(release) of provisions	7,783	3,367
Unwinding of discount (see Note 29)	(620)	(418)
Use of provisions for loans written off and assigned (see Note 41.1 (d))	(1,905)	(877)
FX differences from provisions in foreign currency	(17)	5
At 31 December	**13,423**	**8,182**
Net change in amount of provisions	**5,241**	**2,077**

The use of provisions for loans written-off and assigned of CZK 1,905 million (2008: CZK 877 million) does not impact the Bank's profit.

(b) Provisions for Losses on Loans and Advances by Category

31 December 2009 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	5,006	5,183	10,189
Collectively impaired	1,588	1,026	2,614
Unwinding of discount	201	419	620
Total	**6,795**	**6,628**	**13,423**

31 December 2008 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	2,250	3,835	6,085
Collectively impaired	1,049	630	1,679
Unwinding of discount	195	223	418
Total	**3,494**	**4,688**	**8,182**

The unwinding of discount represents interest income on impaired loans on the basis of the effective interest rate in respect of the discounted value of loans.

9. Securities Held for Trading

CZK mil.	2009	2008
Listed debt securities	29,329	36,339
Listed equity securities and other variable yield securities	7	173
Total	**29,336**	**36,512**

Of the held-for-trading portfolio, securities of CZK 1,916 million (2008: CZK 4,065 million) were transferred as collateral for loans received under repurchase transactions.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in CZK	741	707
Total	**741**	**707**
Fixed income debt securities		
Issued in CZK	28,548	35,502
Issued in other currencies	40	130
Total	**28,588**	**35,632**
Total debt securities	**29,329**	**36,339**

Equity securities and other variable yield securities comprise:

CZK mil.	2009	2008
Shares and share certificates		
Issued in CZK	7	25
Issued in other currencies	–	148
Total	**7**	**173**

Debt securities were issued by:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	28,308	35,377
Foreign state institutions	40	130
Financial institutions in the Czech Republic	21	40
Other entities in the Czech Republic	824	407
Other foreign entities	136	385
Total	**29,329**	**36,339**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil.	2009	2008
Shares and share certificates issued by		
Financial institutions in the Czech Republic	1	13
Foreign financial institutions	4	94
Other entities in the Czech Republic	2	10
Other foreign entities	–	56
Total	**7**	**173**

10. Securities Designated Upon Initial Recognition as at Fair Value Through Profit or Loss

CZK mil.	2009	2008
Debt securities		
Listed	6,024	13,434
Equity securities and other variable yield securities		
Listed	–	3,288
Unlisted	1,044	1,759
Total	**7,068**	**18,481**

The fair-value-through-profit-or-loss portfolio includes securities of CZK 0 million (2008: CZK 1,442 million) that were transferred as collateral for loans received under repurchase transactions.

This portfolio includes asset-backed securities ("ABS") of CZK 1,761 million (2008: CZK 1,721 million). Given the current economic and financial market environment, an increase in the value of these securities was recognised and the Bank generated a gain of CZK 369 million on the revaluation of the CDO/CLO (2008: loss of CZK 1,291 million), which is reported in the income statement line "Other net operating expenses, net" (refer to Note 36). Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence. The fair value of these equity investments is not derived from the market price as these securities are not traded on an active market. The fair value was determined based on the estimate of discounted cash flows.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in other currencies	1,761	1,757
Total	**1,761**	**1,757**
Fixed income debt securities		
Issued in CZK	397	399
Issued in other currencies	3,866	11,278
Total	**4,263**	**11,677**
Total debt securities	**6,024**	**13,434**

Equity securities and other variable yield securities comprise:

CZK mil.	2009	2008
Shares and share certificates		
Issued in CZK	820	1,759
Issued in other currencies	224	3,288
Total	**1,044**	**5,047**

Debt securities were issued by the following issuers:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	101	287
Foreign state institutions	–	802
Financial institutions in the Czech Republic	–	838
Foreign financial institutions	5,748	11,067
Other entities in the Czech Republic	–	203
Other foreign entities	175	237
Total	**6,024**	**13,434**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2009	2008
Shares and share certificates issued by		
Financial institutions in the Czech Republic	820	4,763
Foreign financial institutions	224	284
Total	**1,044**	**5,047**

11. Positive Fair Values of Derivative Transactions

CZK mil.	2009	2008
Derivatives		
Hedging		
– Foreign currency	628	
– Interest rate	605	748
Non-hedging		
– Foreign currency	5,123	10,974
– Interest rate	11,899	15,043
Other	274	451
Total	**18,529**	**27,216**

12. Securities Available for Sale

CZK mil.	2009	2008
Debt securities		
Listed	4,074	8,262
Equity securities and other variable yield securities		
Unlisted	72	62
Total	**4,146**	**8,324**

Unlisted equity securities and other variable yield securities include equity investments and holdings of CZK 68 million (2008: CZK 62 million) that are not participating interests with controlling or significant influence.

In the year ended 31 December 2008, the Bank transferred debt securities with an aggregate carrying amount of CZK 2,382 million from the held to maturity portfolio to the available for sale portfolio. The Bank changed its intention to hold the debt securities to maturity as the debtors were in liquidation/administration and intended to sell the securities. Concurrently, the Bank recognised an impairment loss on the debt securities amounting to CZK 2,230 million in "Other operating expenses, net" (Refer to Note 36). Virtually all the bonds were sold in 2009, generating a profit of CZK 141 million.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in CZK	2,092	2,242
Issued in other currencies	1,824	3,188
Total	**3,916**	**5,430**
Fixed income debt securities		
Issued in CZK	158	2,831
Issued in other currencies	–	1
Total	**158**	**2,832**
Total debt securities	**4,074**	**8,262**

Equity securities and other variable yield securities comprise:

CZK mil.	2009	2008
Shares and share certificates		
Issued in CZK	58	58
Issued in other currencies	14	4
Total	**72**	**62**

Debt securities were issued by the following issuers:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	–	2,636
Financial institutions in the Czech Republic	2,248	2,348
Foreign financial institutions	1,826	3,013
Other foreign entities	–	265
Total	**4,074**	**8,262**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2009	2008
Shares and share certificates issued by		
Financial institutions in the Czech Republic	58	58
Foreign financial institutions	5	–
Other foreign entities	9	4
Total	**72**	**62**

13. Securities Held to Maturity

CZK mil.	2009	2008
Debt securities		
Listed	98,683	97,117
Total	**98,683**	**97,117**

The held-to-maturity portfolio includes securities of CZK 19,231 million (2008: CZK 28,268 million) that were transferred as collateral for loans received under repurchase transactions.

Debt securities comprise:

CZK mil.	2009	2008
Variable yield debt securities		
Issued in CZK	7,454	10,556
Issued in other currencies	2,672	2,907
Total	**10,126**	**13,463**
Fixed income debt securities		
Issued in CZK	88,266	83,358
Issued in other currencies	291	296
Total	**88,557**	**83,654**
Total debt securities	**98,683**	**97,117**

Debt securities were issued by the following issuers:

CZK mil.	2009	2008
Debt securities issued by		
State institutions in the Czech Republic	67,003	57,019
Financial institutions in the Czech Republic	8,341	9,738
Foreign financial institutions	21,120	26,454
Other entities in the Czech Republic	1,300	1,766
Other foreign entities	919	2,140
Total	**98,683**	**97,117**

14. Equity Investments in Subsidiary and Associated Undertakings

Name of the company	Registered office	Principal activities
Associated undertakings		
CBCB-Czech Banking Credit Bureau, a. s.	Prague 4, Na Vítězné pláni 1719/4	Provision of information from the client information banking register
Informations-Technologie Austria CZ, s. r. o.	Prague 4, Antala Staška 32/1292	Provision of IT infrastructure and operation services
ÖCI-Unternehmensbeteiligungs G. m. b. H.	Vienna, Graben 21, Austria	Provision of management services
Procurement Services CZ, s. r. o.	Prague 4, Želetavská 1449/9	Provision of procurement and supply services
První certifikační autorita, a. s.	Prague 9, Podvinný mlýn 2178/6	Digital signature certification services
s IT Solutions CZ, s. r. o.	Prague 4, Antala Staška 32/1292	Provision of software and advisory involving hardware and software
s IT Solutions SK, spol. s r. o.	Bratislava, Prievozská 14, Slovakia	Provision of software
Subsidiary undertakings		
brokerjet České spořitelny, a. s.	Prague 6, Evropská 2690/17	Investment services
CEE Property Development Portfolio B. V.	Naritaweg 165, 1043 BW Amsterdam, Netherlands	Real estate investment
CS Investment Limited	Ogier House, St Julian's Avenue, St Peter Port, Guernsey	Investments and equity holdings
CS Property Investment Limited	Themistokli Dervi, 48, Nicosia, Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B. V.	Fred Roeskerstraat 123, 1076EE, Amsterdam, Netherlands	Real estate investment
Czech TOP Venture Fund B. V.	Postweg 11 6561 Groesbeek, the Netherlands	Management and financing services
Erste Corporate Finance, a. s.	Prague 6, Evropská 2690/17	Consultancy
Factoring České spořitelny, a. s.	Prague 4, Budějovická 1518/13B	Factoring
GRANTIKA České spořitelny, a. s.	Brno, Jakubské nám. 127/5	Business consulting
Informatika České spořitelny, a. s.	Prague 4, Antala Staška 32/1292	Provision of IT services
PARTNER České spořitelny, a. s.	Prague 4, Poláčkova 1976/2	Independent dealers network management
Penzijní fond České spořitelny, a. s.	Prague 4, Poláčkova 1976/2	Pension insurance
Realitní společnost České spořitelny, a. s.	Prague 3, Vinohradská 180/1632	Real estate activities
REICO investiční společnost České spořitelny, a. s.	Prague 4, Antala Staška 2027/79	Real estate investment
s Autoleasing, a. s.	Prague 8, Střelničná 8/1680	Leasing
Stavební spořitelna České spořitelny, a. s.	Prague 3, Vinohradská 180/1632	Construction savings bank

At 31 December 2009 Name of the company	Share capital in CZK mil./ TEUR	Currency	Direct ownership percentage	Voting power in %	Carrying amount in CZK mil.
Associated undertakings					
CBCB-Czech Banking Credit Bureau, a.s.	1	CZK	20.00%	20.00%	0.2
Informations-Technologie Austria CZ, s.r.o.	0.2	CZK	40.00%	40.00%	0.08
ÖCI-Unternehmensbeteiligungs G.m.b.H.	18	EUR	40.00%	40.00%	0.19
Procurement Services CZ, s.r.o.	0.2	CZK	40.00%	40.00%	0.08
První certifikační autorita, a.s.	20	CZK	23.25%	23.25%	8
s IT Solutions CZ, s.r.o.	0.2	CZK	40.00%	40.00%	0.09
s IT Solutions SK, spol. s r.o.	7	EUR	23.50%	23.50%	69
Total associated undertakings					**78**
Subsidiary undertakings					
brokerjet České spořitelny, a.s.	160	CZK	51.00%	51.00%	82
CEE Property Development Portfolio B.V.	20	EUR	20.00%	20.00%	284
CS Investment Limited	8	EUR	99.99%	100.00%	252
CS Property Investment Limited	114	EUR	100.00%	100.00%	3,045
Czech and Slovak Property Fund B.V.	30	EUR	10.00%	10.00%	0
Czech TOP Venture Fund B.V.	19	EUR	84.25%	84.25%	152
Erste Corporate Finance, a.s.	6	CZK	75.00%	75.00%	11
GRANTIKA České spořitelny, a.s.	7	CZK	100.00%	100.00%	30
Factoring České spořitelny, a.s.	84	CZK	100.00%	100.00%	57
Informatika České spořitelny, a.s.	10	CZK	100.00%	100.00%	10
PARTNER České spořitelny, a.s.	2	CZK	100.00%	100.00%	2
Penzijní fond České spořitelny, a.s.	350	CZK	100.00%	100.00%	1,841
Realitní společnost České spořitelny, a.s.	30	CZK	100.00%	100.00%	20
REICO investiční společnost České spořitelny, a.s.	90	CZK	100.00%	100.00%	0
s Autoleasing, a.s.	372	CZK	100.00%	100.00%	682
Stavební spořitelna České spořitelny, a.s.	750	CZK	95.00%	95.00%	1,198
Total subsidiary undertakings					**7,666**
Hedged foreign exchange difference on equity investments denominated in EUR					37
Total equity investments					**7,781**

The Bank presents its investments in the real estate funds CEE Property Development Portfolio B.V. and Czech and Slovak Property Fund B.V. as equity investments in subsidiary undertakings. While the Bank holds 20% and 10%, respectively, of the issued share capital of the funds and has neither the majority of voting rights nor Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank receiving substantially all of the returns and bearing substantially all of the risks of the investments. The second shareholder of CEE Property Development Portfolio B.V. bears minimal risks and receives minimal returns from its investment in the funds. Following the completion of shareholding changes, the Bank also remains the majority shareholder of Czech and Slovak Property Fund B.V. owning an effective 67% of the invested funding.

During the year ended 31 December 2009, the portfolio of equity investments underwent the following changes:

- As at 1 January 2009, the Bank ceased its involvement in Consulting České spořitelny, a. s.; a share sale agreement was entered into in December 2008;
- In March 2009, RAVEN EU Advisory, a. s., changed its name to GRANTIKA České spořitelny, a. s.;
- In April 2009, the Bank increased its share in Erste Corporate Finance, a. s., from 50.17% to 75.00% by acquiring the shares of another shareholder;
- In May 2009, PARTNER České spořitelny, a. s., was established as a new subsidiary fully owned by the Bank;
- In October 2009, a new ownership interest arose by acquiring a 40% share in Informations-Technologie Austria CZ, s. r. o.;
- In October 2009, a new ownership interest arose by acquiring a 40% share in ÖCI-Unternehmensbeteiligungs G. m. b. H.;
- In October 2009, a new ownership interest arose by acquiring a 40% share in Procurement Services CZ, s. r. o.;
- In October 2009, the carrying value of s Autoleasing, a. s., increased to CZK 682 million through non-equity contribution;
- In December 2009, the Bank sold its ownership interest in Investiční společnost České spořitelny, a. s., generating a profit of CZK 328 million;
- In December 2009, the Bank increased the provision established against the ownership interest in REICO investiční společnost České spořitelny, a. s., by CZK 82 million to CZK 130 million;
- In December 2009, the Bank recognised a provision of CZK 1,797 million against its ownership interest in CEE Property Development Portfolio B. V.;
- By way of issuing shares with share premium, the Bank increased its equity investment in CS Property Investment Limited in relation to the expansion of its business activities;
- By way of the payment of the share premium to already owned shares, the equity investment in Czech TOP Venture Fund B. V. was increased in relation to the expansion of its business activities. In December 2009, the Bank recognised a provision of CZK 49 million;
- By way of the payment of the share premium to already owned shares, the equity investment in Czech and Slovak Property Fund B. V. was increased in relation to the expansion of its business activities. In December 2009, the Bank recognised a provision of CZK 658 million; and
- With a view to managing foreign currency risk exposures associated with the Bank's investments in foreign subsidiaries and associates CS Investment Limited, CS Property Investment Limited, Czech TOP Venture Fund B. V., CEE Property Development Portfolio B. V., and Czech and Slovak Property Fund B. V. denominated in EUR, the Bank has defined these investments as a hedged item within the fair value hedge of these shareholdings. Hedging instruments include foreign currency interest rate swaps. The Bank remeasures these investments at fair value to the extent of the hedged foreign currency risk.

CEE Property Development Portfolio B. V., CS Property Investment Limited, Czech and Slovak Property Fund B. V., Czech TOP Venture Fund B. V., s Autoleasing, a. s., and GRANTIKA České spořitelny, a. s., hold investments in other entities with which they form sub-groups (detailed information is provided in the consolidated financial statements).

The following table shows the creation and use of impairment allowances for equity investments:

CZK mil.	**2009**	**2008**
At 1 January	212	50
Charge for provisions	2,585	244
Release of provisions	–	(54)
Net charge/(release) of provisions (see Note 36)	2,585	190
Use of provisions	–	(28)
FX differences from provisions in foreign currency	(310)	–
At 31 December	**2,487**	**212**

At 31 December 2008 **Name of the company**	**Share capital in CZK mil./ TEUR**	**Currency**	**Ownership percentage**	**Voting power in %**	**Carrying amount in CZK mil.**
Associated undertakings					
CBCB-Czech Banking Credit Bureau, a. s.	1	CZK	20.00%	20.00%	0.2
První certifikační autorita, a. s.	20	CZK	23.25%	23.25%	8
s IT Solutions CZ, s. r. o.	0.2	CZK	40.00%	40.00%	0.09
s IT Solutions SK, spol. s r. o.	7	EUR	23.50%	23.50%	69
Total associated undertakings					**77**
Subsidiary undertakings					
brokerjet České spořitelny, a. s.	160	CZK	51.00%	51.00%	82
CEE Property Development Portfolio B. V.	20	EUR	20.00%	20.00%	2,081
Consulting České spořitelny, a. s.	1	CZK	100.00%	100.00%	–
CS Investment Limited	8	EUR	99.99%	100.00%	253
CS Property Investment Limited	112	EUR	100.00%	100.00%	2,987
Czech and Slovak Property Fund B. V.	30	EUR	10.00%	10.00%	617
Czech TOP Venture Fund B. V.	19	EUR	84.25%	84.25%	184
Erste Corporate Finance, a. s.	6	CZK	50.17%	50.17%	3
Factoring České spořitelny, a. s.	84	CZK	100.00%	100.00%	57
Informatika České spořitelny, a. s.	10	CZK	100.00%	100.00%	10
Investiční společnost České spořitelny, a. s.	70	CZK	100.00%	100.00%	77
Penzijní fond České spořitelny, a. s.	350	CZK	100.00%	100.00%	1,841
RAVEN EU Advisory, a. s.	7	CZK	100.00%	100.00%	30
Realitní společnost České spořitelny, a. s.	30	CZK	100.00%	100.00%	20
REICO investiční společnost České spořitelny, a. s.	90	CZK	100.00%	100.00%	82
s Autoleasing, a. s.	372	CZK	100.00%	100.00%	372
Stavební spořitelna České spořitelny, a. s.	750	CZK	95.00%	95.00%	1,198
Total subsidiary undertakings					**9,894**
Foreign exchange difference on equity investments denominated in EUR					121
Total equity investments					**10,092**

15. Intangible Fixed Assets

CZK mil.	Software	Other	Total
Cost			
1 January 2008	4,490	7,176	11,666
Additions	–	667	667
Disposals	(1)	–	(1)
Transfers	1,011	(1,011)	–
31 December 2008	**5,500**	**6,832**	**12,332**
1 January 2009	5,500	6,832	12,332
Additions	–	332	332
Disposals	(114)	(17)	(131)
Transfers	277	(277)	–
31 December 2009	**5,663**	**6,870**	**12,533**
Accumulated amortisation including impairment and provisions			
1 January 2008	(2,264)	(5,088)	(7,352)
Amortisation (see Note 35)	(886)	(500)	(1,386)
Disposals	–	–	–
31 December 2008	**(3,150)**	**(5,588)**	**(8,738)**
1 January 2009	(3,150)	(5,588)	(8,738)
Amortisation (see Note 35)	(853)	(393)	(1,246)
Disposals	335	208	543
Impairment loss	(1)	–	(1)
31 December 2009	**(3,669)**	**(5,773)**	**(9,442)**
Net book value			
31 December 2008	**2,350**	**1,244**	**3,594**
31 December 2009	**1,994**	**1,097**	**3,091**

The balances as at 31 December 2009 shown above include CZK 703 million (2008: CZK 997 million) in assets under construction.

The acquisition cost of fully amortised intangible assets was CZK 5,185 million as at 31 December 2009 (2008: CZK 4,742 million).

16. Property and Equipment

CZK mil.	Land and buildings	Machinery and equipment	Total
Cost			
1 January 2008	16,070	10,831	26,901
Additions	1,385	505	1,890
Disposals	(858)	(588)	(1,446)
31 December 2008	**16,597**	**10,748**	**27,345**
1 January 2009	16,597	10,748	27,345
Additions	831	717	1,548
Disposals	(100)	(1,755)	(1,855)
31 December 2009	**17,328**	**9,710**	**27,038**
Accumulated depreciation including impairment and provisions			
1 January 2008	(5,459)	(8,536)	(13,995)
Depreciation (see Note 35)	(477)	(833)	(1,310)
Disposals	218	953	1,171
31 December 2008	**(5,718)**	**(8,416)**	**(14,134)**
1 January 2009	(5,718)	(8,416)	(14,134)
Depreciation (see Note 35)	(566)	(788)	(1,354)
Disposals	95	1,734	1,829
Impairment loss	(44)	(10)	(54)
31 December 2009	**(6,233)**	**(7,480)**	**(13,713)**
Net book value			
31 December 2008	**10,879**	**2,332**	**13,211**
31 December 2009	**11,095**	**2,230**	**13,325**

The balances as at 31 December 2009 shown above include CZK 1,064 million (2008: CZK 1,390 million) in assets under construction.

The acquisition cost of fully depreciated tangible assets was CZK 6,221 million as at 31 December 2009 (2008: CZK 6,425 million).

17. Other Assets

CZK mil.	2009	2008
Accrued income	2,486	3,857
of which:		
– Interest and fees on loans and advances to financial institutions and customers	77	848
– Coupons on bonds	2,401	3,003
– Other	8	6
Deferred tax asset (refer to Note 25)	348	435
Income tax receivable	–	412
Other tax receivables	157	115
Assets held for sale	–	9
Deferred expenses	1,047	1,106
Receivables from securities trading	304	645
Various receivables	1,801	1,455
Total	**6,143**	**8,034**

18. Amounts Due to Financial Institutions

CZK mil.	2009	2008
Loro accounts	1,922	1,524
Term deposits	16,906	17,521
Loans received	24,330	22,407
Total	**43,158**	**41,452**

As at 31 December 2009, the Bank received loans of CZK 13,895 million (2008: CZK 17,167 million) from other financial institutions under repurchase transactions which were collateralised by securities amounting to CZK 13,734 million (2008: CZK 17,145 million).

19. Amounts Due to Customers

CZK mil.	2009	2008
Repayable on demand	388,131	368,330
Other deposits	129,617	153,241
Total	**517,748**	**521,571**

As at 31 December 2009, the Bank received loans from customers of CZK 693 million (2008: CZK 6,796 million) under repurchase transactions which were collateralised by securities amounting to CZK 667 million (2008: CZK 6,826 million).

Analysis of amounts due to customers

CZK mil.	2009	2008
Savings deposits	90,846	85,422
Other amounts due to customers		
– Public sector	46,254	61,692
– Corporate clients	102,841	95,177
– Retail clients	277,807	279,280
Total	**517,748**	**521,571**

20. Liabilities at Fair Value

CZK mil.	2009	2008
Customer deposits	4,109	3,443
Liabilities arising from issued securities	1,947	1,741
Payables arising from short sales – debt securities	2,072	2,424
Payables arising from short sales – shares	1	88
Total	**8,129**	**7,696**

The Bank issued the following bonds which are presented within "Liabilities arising from issued securities at fair value":

	ISIN	Date of issue	Maturity	Interest rate	2009 CZK mil.	2008 CZK mil.
Bonds	CZ0003701237	February 2007	April 2011	x)	289	282
Bonds	CZ0003701278	March 2007	March 2010	xx)	740	740
Bonds	CZ0003701351	September 2007	September 2011	x)	285	279
Bonds	CZ0003701518	April 2008	May 2011	x)	291	282
Bonds	CZ0003701690	July 2008	January 2012	x)	237	158
Bonds	CZ0003701955	May 2009	June 2012	xxx)	54	–
Bonds	CZ0003701963	May 2009	June 2012	xxx)	51	–
Total					**1,947**	**1,741**

x) Bonds bear no interest, the yield of bonds increases on a one-off basis as at the final maturity date.
xx) The yield depends on the development of the EUR/PLN spot exchange rate.
xxx) Bonds bear no interest, yield is determined as a difference between the rate of issue and the bond value payable at its final maturity date.

The ISIN CZ0003701237, CZ0003701351, CZ0003701518, CZ0003701690, CZ0003701955 and CZ0003701963 issues were placed as structured bonds, the yield of which is determined as equal to the difference between the issue rate and "reference value" in accordance with the issue terms and conditions. The amount of the "reference value" will be based on a set of indexes and an equity bucket and will be payable as at the final maturity of the bonds. Similarly, the ISIN CZ0003701278 issue was placed as a structured bond, the yield of which is derived from the development of the EUR/PLN spot exchange rate. The ISIN CZ0003701278 is traded on the official regulated market of the PSE; other issues are not yet traded.

Change in the Fair Value of Debt Securities:

CZK mil.	2009	2008
Change in the fair value arising from the changes in the credit profile of the issuer		
Customer deposits	24	175
Liabilities arising from issued securities at fair value	39	41
Total	**63**	**216**
Difference between the carrying amount and the contractual agreed nominal value due at maturity		
Customer deposits	78	21
Liabilities arising from issued securities at fair value	(8)	63
Total	**70**	**84**

Short sales are short-term trading liabilities which mature between one and three months. Changes in the fair value of these trading liabilities are not analysed since the liabilities are different at each reporting date.

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

21. Negative Fair Values of Derivative Transactions

CZK mil.	2009	2008
Derivatives		
– Foreign currency	3,440	9,295
– Interest rate hedging	66	470
– Interest rate non-hedging	12,246	14,689
– Other	374	1,006
Total	**16,126**	**25,460**

22. Bonds in Issue

	ISIN	Date of issue	Maturity	Nominal interest rate	2009 CZK mil.	2008 CZK mil.
Mortgage bonds	CZ0002000342	April 2004	April 2009	3.50%	–	299
Mortgage bonds	CZ0002000409	August 2004	August 2009	3.60%	–	699
Mortgage bonds	CZ0002000524	May 2005	May 2010	4.50%	3,010	3,039
Mortgage bonds	CZ0002000573	June 2005	June 2010	4.05%	3,009	3,048
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	7,778	5,170
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	6,772	4,697
Mortgage bonds	CZ0002000896	October 2006	October 2011	Floating	1,129	1,146
Mortgage bonds	CZ0002000904	October 2006	October 2014	3.65%	1,026	1,022
Mortgage bonds	CZ0002000920	October 2006	October 2011	3.00%	796	770
Mortgage bonds	CZ0002000995	May 2007	May 2012	5.90%	1,044	1,063
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	759	760
Mortgage bonds	CZ0002001084	July 2007	July 2014	Floating	1,596	1,618
Mortgage bonds	CZ0002001126	August 2007	August 2012	3.70%	1,504	843
Mortgage bonds	CZ0002001134	August 2007	August 2017	Floating	2,998	2,998
Mortgage bonds	CZ0002001191	October 2007	October 2022	Floating	1,998	1,998
Mortgage bonds	CZ0002001274	November 2007	November 2014	Floating	280	600
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,071	2,094
Mortgage bonds	CZ0002001290	November 2007	November 2010	4.00%	999	999
Mortgage bonds	CZ0002001407	December 2007	December 2022	Floating	3,997	3,997
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	460	464
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,314	5,376
Mortgage bonds	CZ0002001613	December 2007	December 2022	Floating	–	–
Mortgage bonds	CZ0002001639	December 2007	December 2012	3.70%	2,522	414
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	308	42
Mortgage bonds	CZ0002001654	December 2007	December 2022	Floating	1,401	1,493
Mortgage bonds	CZ0002002132	October 2009	October 2012	3.20%	354	–
Mortgage bonds	CZ0002002157	November 2009	May 2011	0.25%	133	–
Mortgage bonds	CZ0002002165	November 2009	November 2014	3.55%	61	–
Mortgage bonds	CZ0002002173	November 2009	November 2013	3.20%	193	–
Bonds	CZ0003700767	February 2004	February 2014	Floating	1,253	1,168
Bonds	CZ0003701047	July 2005	July 2012	3.55%	557	584
Bonds	CZ0003701054	September 2005	September 2017	x)	227	219
Bonds	CZ0003701062	October 2005	October 2013	x)	267	259
Bonds	CZ0003701286	March 2007	March 2012	3.49%	820	970
Bonds	CZ0003701740	September 2008	September 2009	Floating	–	293
Bonds	CZ0003701781	December 2008	December 2010	0.50%	982	11
Bonds	CZ0003701948	April 2009	October 2010	xx)	489	–
Bonds	CZ0003702011	July 2009	January 2014	xxx)	512	–
Bonds	CZ0003702037	October 2009	October 2016	xxx)	424	
Bonds	CZ0003702078	November 2009	November 2016	xxx)	473	–
Bonds	CZ0003702268	December 2009	December 2012	3.50%	2,319	–
Depository bills of exchange					1,453	2,434
Cumulative change in carrying amount due to fair value hedging					869	1,009
Total					**62,157**	**51,596**

x) Bonds were issued with a combined yield.
xx) Bonds bear no interest, yield is determined as a difference between the rate of issue and the bond nominal value.
xxx) Bonds bear no interest, yield is determined as a difference between the rate of issue and the bond value payable at its final maturity date.

Of the aggregate carrying value of the mortgage bonds, CZK 11,676 million (2008: CZK 11,997 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

The ISIN CZ0003700767 and CZ0003701047 issues of bonds are remeasured at fair value because they are hedged against interest rate risk and early repayment options are attached to the bonds. Of the aggregate carrying value of the mortgage bonds, CZK 88 million (2008: CZK 1,752 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate.

The ISIN CZ0003701013, CZ0003701054 and CZ0003701062 issues were placed with a share index option which is recorded separately and is remeasured at fair value.

The ISIN CZ0002001126, CZ0002001613, CZ0002001639, CZ0002001647, CZ0002001654, CZ0002002132, CZ0002002157, CZ0002002165, CZ0002002173 mortgage bonds issues and the ISIN CZ0003701781, CZ0003702011, CZ0003702037, CZ0003702078 bond issues are not traded on any regulated market. Other mortgage bond and bond issues are traded on the official regulated market of the PSE.

23. Provisions

(a) Structure of Provisions

CZK mil.	2009	2008
Provision for legal disputes relating to credit transactions	1,471	1,451
Provision for off-balance sheet credit risks	270	187
Other provisions	248	554
Total	**1,989**	**2,192**

Other provisions include the provisions for legal disputes, onerous contracts and other risks. In 2008 these provisions also included the provision for the Bonus Programme maintained to cover the cost of providing clients with awards for the use of payment cards in making cash-free payments, which was reclassified as deferred income in 2009 (refer to Note 3(t)).

(b) Charge for and Use of Provisions

CZK mil.	2009	2008
Balance at 1 January	2,192	3,011
Charge for provisions	151	129
Use of provisions	(6)	(760)
Release of provisions	(38)	(188)
Reclassification	(310)	–
Balance at 31 December	**1,989**	**2,192**

The provision for the customer loyalty programme settlement was reclassified as deferred income in previous years (refer to Note 3 (t)).

(c) Provisions for Other Credit Risks and Off-balance Sheet Credit Exposures

Provisions for other credit risks and off balance sheet credit exposures are recorded to cover specific risks arising from pending legal disputes relating to loan transactions and to cover losses that result from off balance sheet and other exposures.

CZK mil.	2009	2008
Balance at 1 January	1,638	2,129
Charge for provisions (see Note 31)	127	116
Use of provisions	(6)	(534)
Release of provisions (see Note 31)	(18)	(73)
Balance at 31 December	**1,741**	**1,638**

24. Other Liabilities

CZK mil.	2009	2008
Accrued expenses	2,032	1,336
of which:		
– Interest on amounts owed to financial institutions and customers	1,077	489
– Interest on bonds in issue	804	798
– Other	151	49
Deferred income	1,300	1,056
Various creditors	1,426	2,118
Payables from securities trading	3,537	803
Payables from payment transactions	1,747	2,476
Estimated payables	4,178	3,839
Other liabilities	323	335
Income tax liability	137	–
Total	**14,680**	**11,963**

Estimated payables largely comprise estimated payables for staff and management bonuses, unbilled supplies and contributions to the Deposit Insurance Fund.

Deferred income principally includes deferred commissions and fees related to amounts due from customers in respect of the effective interest rate.

25. Deferred Tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19% (2008: 20%).

Net deferred tax assets/(liabilities) are as follows:

CZK mil.	2009	2008
Balance at the beginning of the year	435	249
Movement for the year – equity	(52)	151
Movement for the year – (expense)/income	(35)	35
Net balance at year end – asset/(liability)	**348**	**435**

Deferred tax assets and liabilities are attributable to the following items:

CZK mil.	2009	2008
Deferred tax assets		
Non-tax deductible reserves and provisions	242	244
Changes in the fair value of securities available for sale	84	136
Other temporary differences	193	187
Total deferred tax asset	**519**	**567**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(171)	(132)
Total deferred tax liability	**(171)**	**(132)**
Net deferred tax asset (liability)	**348**	**435**

The impact of deferred tax assets on equity arises from changes in the fair value of securities available for sale. The deferred tax (charge)/credit in the income statement consists of the following temporary differences:

CZK mil.	2009	2008
Provisions and reserves	(2)	(96)
Accelerated depreciation	(39)	46
Other temporary differences	6	85
Total (Note 39)	**(35)**	**35**
of which: impact of the change of rate	**14**	**–**

26. Subordinated Debt

	Date of issue	Maturity of the issue	Interest rate	Nominal value	Carrying amount at 31 December 2009	Carrying amount at 31 December 2008
1	16 May 2005	16 May 2015	6M PRIBOR +0.46%	3,000	2,724	2,780
2	2 October 2006	2 October 2016	6M PRIBOR +0.45%	3,000	2,214	2,417
3	12 March 2009	12 March 2019	5% p. a.	2,000	1,966	–
4	23 April 2009	23 April 2019	6M PRIBOR +1.50%	6,500	6,500	–
	Total				**13,404**	**5,197**

Issues 1 and 2 of subordinated debt were made in certificate form and placed on the regulated market of the PSE. If the Bank does not exercise its option for premature repayment of the debt after a lapse of five years, the interest rates attached to each issue shall increase to 6M PRIBOR + margin + 1.4% p. a. In compliance with the terms and conditions of issues 1 and 2 of subordinated debt, the margin has been set at 0.46% and 0.45%, respectively. Interest is payable semi-annually in arrears. The debt is unsecured and unconditional.

Issues 3 and 4 of subordinated debt were made in certificate form, bonds are represented by a collective bond. The bonds are not placed on a regulated market. The debt is unsecured and unconditional. For the third issue, interest income is payable once a year retrospectively, for the fourth issue twice a year retrospectively. Upon its discretion, the Bank is entitled to repay the bonds prematurely, as at 12 March 2014 (issue 3) and 23 April 2014 (issue 4) at 100% of the bonds' nominal value together with unpaid interest to date (if relevant). If the Bank's bonds are not prematurely repaid as per the prior sentence, the fixed interest rate will be increased by 1.50% p. a. for issue 3 and set as the total of 6M PRIBOR + margin + 1.5% p. a. for issue 4.

On 5 May 2005 (issue 1), 13 September 2006, (issue 2), 6 March 2009 (issue 3) and 21 April 2009 (issue 4) the CNB issued certificates confirming that these issues of subordinated debt are compliant with all regulatory requirements and may be included in the additional capital of the Bank for the purposes of calculating the capital adequacy ratio (see Note 41.5).

27. Share Capital

Authorised, called-up and fully paid share capital was as follows:

	2009 Number of shares	2009 CZK mil.	2008 Number of shares	2008 CZK mil.
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Preference shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, preference shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Preference shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Registered preference shares can only be issued to municipalities and local governments in the Czech Republic and can only be transferred to entities other than municipalities and local governments of the Czech Republic subject to the approval of the Board of Directors.

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities, focusing on maximum return for shareholders while maintaining compliance with all capital regulatory requirements.

The Bank's capital principally consists of share capital, reserve funds, retained earnings, revaluation gains or losses and additional capital in the form of subordinated debt.

28. Revaluation Gains or Losses

CZK mil. Securities available for sale	2009	2008
At 1 January		
Gain on fair value changes	(683)	77
Deferred tax liability	136	(15)
Total at 1 January	**(547)**	**62**
Changes during the year		
Profit (loss) on fair value changes	241	(760)
Deferred tax (liability)/asset	(52)	151
Other comprehensive income statement	**189**	**(609)**
At 31 December		
Gain/(loss) on fair value changes	(442)	(683)
Deferred tax (liability)/asset	84	136
Total at 31 December	**(358)**	**(547)**

29. Interest Income and Similar Income

CZK mil.	2009	2008
Loans and advances to financial institutions	2,003	5,101
Loans and advances to customers	27,448	26,216
of which: unwinding of discount (see Note 8)	620	418
Debt securities	5,158	5,446
of which:		
– securities designated upon initial recognition as at fair value through profit or loss	469	788
– securities available for sale	261	470
– securities held to maturity	4,428	4,188
– proceeds from shares and other variable yield securities	777	1,782
of which:		
– securities designated upon initial recognition as at fair value through profit or loss	94	668
– securities available for sale	1	83
– equity investments	682	1,031
Other	89	149
Total	**35,475**	**38,694**

30. Interest Expense and Similar Expense

CZK mil.	2009	2008
Amounts owed to financial institutions	701	1,533
Amounts owed to customers	4,550	7,180
of which: remeasured at fair value	129	108
Bonds in issue	1,894	2,299
of which: remeasured at fair value	14	34
Subordinated debt	401	248
Total	**7,546**	**11,260**

31. Provisions for Credit Risks

CZK mil.	2009	2008
Charge for reserves for the year (refer to Note 23)	(127)	(116)
Release of reserves for the year (refer to Note 23)	18	73
Net (charge)/release of reserves for the year	**(109)**	**(43)**
Charge for provisions for the year (refer to Note 8)	(8,188)	(5,469)
Release of provisions for the year (refer to Note 8)	405	2,102
Net (charge)/release of provisions for the year	**(7,783)**	**(3,367)**
Write-offs of loans not covered by provisions	(61)	(16)
Recoveries	59	138
Total	**(7,894)**	**(3,288)**

32. Fee and Commission Income

CZK mil.	2009	2008
Lending activities	3,583	2,654
Payment transactions	7,355	7,044
Custody, trustee and administration of assets	222	232
Securities transactions	567	890
Mediation of insurance activities	380	333
Mediation of construction savings activities	381	795
Foreign exchange transactions	37	41
Other financial activities	355	406
Total	**12,880**	**12,395**

33. Fee and Commission Expense

CZK mil.	2009	2008
Lending activities	789	604
Payment transactions	807	686
Securities transactions	104	155
Mediation of insurance activities	18	51
Mediation of construction savings activities	182	210
Foreign exchange transactions	1	1
Other financial activities	145	93
Total	**2,046**	**1,800**

34. Net Trading Result

CZK mil.	2009	2008
Realised and unrealised gains/(losses) on securities held for trading	1,095	825
Derivative instruments	(112)	(717)
Foreign exchange trading	1,908	1,322
Other	434	177
Total	**3,325**	**1,607**

With effect from 4 February 2008, the Bank transferred its financial markets trading operations to Erste Group Bank's newly implemented business model for Group Capital Markets. The market risk arising from the sales activities of the Financial Markets Division (i. e., transactions with retail and corporate clientele), with the exception of equity risk and transactions for the Bank's liquidity management purposes (money market), was transferred to Erste Group Bank. Trading gains (i. e. from Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in "Net trading result".

The basic principle underlying these rules involves the Erste Group Bank absorbing potential losses in individual classes of assets in exchange for the risk premium derived from the VaR indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets in individual asset groups.

The net trading result includes income from the market positions of Erste Group Bank structured as follows:

CZK mil.	2009	2008
Gains from foreign exchange transactions	413	354
Gain from fixed income securities	492	195
Gains from commodity derivatives	1	–
Total	**906**	**549**

35. General administrative Expenses

(a) Composition of General Administrative Expenses

CZK mil.	2009	2008
Staff costs		
Wages and salaries	5,713	5,801
Social security costs	1,750	1,709
Other staff costs	420	409
Total staff costs	**7,883**	**7,919**
Other administrative expenses		
Data processing expenses	3,193	2,798
Building maintenance and rent	1,766	1,589
Costs of business transactions	1,212	1,237
Advertising and marketing	728	944
Advisory and legal services	59	341
Other administrative expenses	525	711
Total other administrative expenses	**7,483**	**7,620**
Depreciation		
Amortisation of intangible assets (Note 15)	1,246	1,386
Depreciation of property and equipment (Note 16)	1,354	1,310
Total depreciation and amortisation	**2,600**	**2,696**
Total	**17,966**	**18,235**

(b) Board of Directors and Supervisory Board Remuneration

CZK mil.	2009	2008
Remuneration	86	100
Total	**86**	**100**

Remuneration to the members of the Board of Directors and Supervisory Board are accounted for as short-term employee benefits.

(c) Average Number of Employees and Board Members

	2009	2008
Board of Directors	7	7
Supervisory Board	9	10
Staff	10,219	10,145

In 2009, all employees of the Bank were entitled to subscribe for shares under the ESOP. Each employee was entitled to subscribe for a maximum of 200 Erste Group Bank shares (2008: 200 shares). The price of one share was established on the basis of the average rate in April 2009 decreased by a 20% discount. The 20% discount is conditional upon the shares being held for a period of one year. A total of 869 employees (2008: 767) participated in the programme and subscribed for 136,035 shares (2008: 105,872 shares).

Under the MSOP 2002 and 2005 no tranches of options were granted in 2009. The options acquired under the MSOP 2005 entitle the holders to acquire Erste Group Bank's shares for the price of EUR 43 which was determined as the average price of the shares ruling in April 2005 plus a 10% mark-up, rounded to EUR 0.5. For the options subscribed until 2004 under the MSOP 2002, the price of the share was EUR 16.50. In 2009 no options were exercised as the share market value did not reach their exercisable value (2008: 1,550 options granted for which 6,200 shares were purchased). All options granted within the MSOP 2002 and not exercised in 2009 cease to exist and the MSOP

2002 program terminates. No options granted under the MSOP 2005 were exercised in 2009 and 2008 since the market value of the shares did not reach their exercisable value.

No management option programme was announced in 2009 and therefore no options were granted.

The aggregate amount of the discount in respect of both programmes was CZK 19 million (2008: CZK 32 million).

36. Other Operating Expenses, Net

CZK mil.	2009	2008
Release of other reserves	20	115
Gain on the sale of tangible assets	163	174
Income from other services	62	68
Received compensation for deficits and damage	63	135
Release of provisions against non-credit receivables	16	17
Tangible and intangible assets write-up	7	–
Other operating income	196	139
Total other operating income	**527**	**648**
Charges for other reserves	(25)	(13)
Contribution to the Deposit Insurance Fund	(497)	(486)
Loss on the sale of tangible assets	(6)	(18)
Deficits and damage, fines and penalties	(121)	(185)
Charge for provisions against non-credit receivables	(40)	(70)
Impairment of tangible and intangible assets	(62)	–
Other operating charges	(35)	(37)
Other taxes	(63)	(48)
Total other operating expense	**(849)**	**(857)**
Gains (losses) from the revaluation/sale of securities at fair value through profit or loss that are not held for trading	339	(2,142)
Gains (losses) from the sale of securities available for sale	102	538
Impairment of securities available for sale	–	(2,245)
(Recognition)/release of provisions for equity investments	(2,585)	(190)
Total other operating expenses, net	**(2,466)**	**(4,248)**

The line "Losses from the revaluation/sale of securities at fair value through profit or loss that are not held for trading" includes a gain from the revaluation of securitised notes of CZK 369 million (2008: a loss of CZK 1,291 million) (refer to Note 10).

In 2008, the line "Impairment of securities available for sale" includes impairment of the bonds issued by Lehman Brothers and Icelandic banks in the amount of CZK 2,245 million (refer to Note 12).

37. Gains on the Sale of Equity Investments in Subsidiary and Associated Undertakings

The line "Gains on the sale of equity investments in subsidiary and associated undertakings" for the year ended 31 December 2009 includes gains from the sale of equity investments in Investiční společnost České spořitelny, a. s., at an amount of CZK 328 million. The line "Gains on the sale of equity investments in subsidiary and associated undertakings" for the year ended 31 December 2008 includes gains from the sale of an equity investment in Pojišťovna České spořitelny, a. s., of CZK 3,639 million, and from the sale of Consulting České spořitelny, a. s., of CZK 2 million.

38. Other Comprehensive Gains and Losses

CZK mil.	2009	2008
Available for sale financial assets		
Gains/(losses) during the year	179	(858)
Reclassification adjustments to income statement	62	98
Total	**241**	**(760)**

39. Income Tax Expense

(a) Income statement

CZK mil.	2009	2008
Current tax expens	(2,810)	(2,559)
Deferred tax income/(expense) (Note 25)	(35)	35
Total	**(2,845)**	**(2,524)**

(b) Other Comprehensive Gains and Losses

CZK mil.	2009	2008
(Losses)/gains on revaluation of available for sale financial assets	(52)	151
Total	**(52)**	**151**

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Czech Republic as follows:

CZK mil.	2009	2008
Profit before tax	14,090	17,506
Tax calculated at a tax rate of 20% (2008: 21%)	**2,818**	**3,676**
Income not subject to tax	(540)	(1 626)
Expenses not deductible for tax purposes	739	462
Tax allowances and credits, including the utilisation of tax losses, tax recoveries and additional taxes for prior periods	(186)	12
Other items	14	–
Income tax expense	**2,845**	**2,524**
Effective tax rate	**20.19%**	**14.42%**

An increase in the effective tax rate in 2009 in comparison to 2008 is a result of non-taxable revenues generated in the sale of Pojišťovna České spořitelny, a. s.

Further information about deferred tax is presented in Note 25.

40. Cash and Cash Equivalents

Cash and cash equivalents at the end of the year as shown in the statement of cash flows are composed of the following balances:

CZK mil.	2009	2008
Cash (Note 5)	19,821	18,668
Nostro accounts with the CNB (Note 5)	1,079	603
Treasury bills with maturity of less than three months	4,782	10,792
Nostro accounts with financial institutions (Note 6)	528	1,970
Loro accounts with financial institutions (Note 18)	(1,922)	(1,524)
Total cash and cash equivalents	**24,288**	**30,509**

41. Risk Management and Financial Instruments

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

The Bank classifies financial instruments into the trading and banking (investment) portfolios in accordance with BASEL II rules as per CNB Regulation No. 123/2007 as amended by Regulation 282/2008 Coll., on the rules of prudent business for banks, savings and lending associates and securities traders (henceforth "Regulation 123/2007"). The Bank uses various risk management techniques for both the banking and trading books.

Financial instruments may result in certain risks to the Bank. The most significant is credit risk or counterparty risk. In addition, the investment portfolio of the Bank is exposed to interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate and equity risks and other risks relating to trading with complex instruments. All transactions with financial instruments also carry operational risk.

In 2007, a division managed by the Chief Risk Officer was formed as part of the reorganisation of the Bank's structure. This division, which is completely independent of the business divisions of the Bank, centralises all departments tasked with risk management such as Legal and Compliance, Central Risk Management, Credit Risk Management, Credit Risk Controlling and Credit Portfolio Management. Central Risk Management is further divided into Financial Markets Risk Management, Operational Risks and Economic Capital.

Internal management and control systems are reviewed by the internal audit function on an annual basis.

- In accordance with IAS 39, the Bank classifies financial instruments into the following categories:
  - Loans and advances (not intended for trading);
  - Investments held to maturity;
  - Financial assets at fair value through profit or loss;
  - Financial assets available for sale;
  - Financial liabilities measured at amortised cost; and
  - Financial liabilities at fair value through profit or loss.
- The Bank records the following categories of financial instruments:
  - Cash and balances with CNB;
  - Loans and advances to financial institutions;
  - Loans and advances to customers – retail and corporate,
  - Securities held for trading;
  - Securities designated upon initial recognition as at fair value through profit or loss;
  - Derivative instruments;
  - Securities available for sale;
  - Securities held to maturity;
  - Other assets;
  - Amounts owed to financial institutions;
  - Amounts owed to customers;
  - Liabilities at fair value;
  - Bonds in issue;
  - Other assets; and
  - Subordinated debt.

The balances of financial instruments in the individual categories are as follows:
The table below shows the comparison between categories of financial assets and liabilities reported according to IFRS 7 and categories of financial assets and liabilities reported according to IAS 39.

At 31 December 2009	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities measured at amortised value	Financial liabilities at fair value
Financial assets						
Cash and balances with CNB	27,250					
Loans and advances to financial institutions	110,596					
Loans and advances to customers	409,045					
Securities held for trading			29,336			
Securities designated upon initial recognition as at fair value through profit or loss			7, 068			
Derivative instruments			18,529			
of which: trading			17,296			
of which: hedging			1,233			
Securities available for sale				4,146		
Securities held to maturity		98,683				
Other assets	6, 143					
Financial liabilities						
Amounts owed to financial institutions					43,158	
Amounts owed to customers					517,748	
Liabilities at fair value						8,129
Derivative instruments						16,126
of which: trading						16,060
of which: hedging						66
Bonds in issue					62,157	
Other liabilities					14,680	
Subordinated debt					13,404	

At 31 December 2008	Loans and advances not intended for trading	Investments held to maturity	Financial assets at fair value	Financial assets available for sale	Financial liabilities measured at amortised value	Financial liabilities at fair value
Financial assets						
Cash and balances with CNB	23,206					
Loans and advances to financial institutions	78,713					
Loans and advances to customers	404,299					
Securities held for trading			36,512			
Securities designated upon initial recognition as at fair value through profit or loss			18,481			
Derivative instruments			27,216			
of which: trading			26,468			
of which: hedging			748			
Securities available for sale				8,324		
Securities held to maturity		97,117				
Other assets	8,034					
Financial liabilities						
Amounts owed to financial institutions					41,452	
Amounts owed to customers					521,571	
Liabilities at fair value						7,696
Derivative instruments						25,460
of which: trading						24,990
of which: hedging						470
Bonds ion issue					51,596	
Other liabilities					11,963	
Subordinated debt					5,197	

41.1 Credit Risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Loans and advances are categorised into non-default receivables (performing loans), where neither principal nor interest are overdue for more than 90 days and default receivables (non-performing loans). There are 2 large subportfolios defined within these categories, i. e. receivables which are individually significant comprising receivables from corporate entities or receivables where the Bank's credit exposure is higher than CZK 5 million and receivables which are individually insignificant. Within these 2 subportfolios the Bank also monitors 5 customer portfolios for individually significant receivables and 15 product portfolios for individually insignificant receivables. The Bank monitors risk parameters relating to PD, LGD and CCF within these portfolios. PD is further monitored at various internal rating levels.

The Bank's customer and product portfolios are further divided into portfolios per individual internal rating levels that total 13 plus 1 (debtor default). For more details – see Note 41.1 (h).

From an accounting and provisioning policy perspective, loans and advances are categorised into individually impaired, for which objective evidence exists that indicates that a loss event occurred after initial recognition which had an impact on the estimated cash flows receivable and therefore the receivables are impaired on an individual basis, collectively impaired for which these circumstances were not identified on an individual basis and unimpaired exposures with no indication of impairment.

Receivables with debtor default correspond to individually impaired receivables. Receivables without debtor default have internal ratings of 1–6 and are unimpaired while receivables with an internal rating of 7–8 are collectively impaired.

Credit Risk Management Methodology

In managing credit risk, the Bank applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy includes:

- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities;
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan;
- Standard methods for arriving at an internal rating of a borrower and its periodic review;
- Basic principles underlying the determination of the system of limits and the structure of approval authorities;
- Risk parameters calculation methodology;
- Rules of loan collateral management;
- Structure of basic product categories;
- Provision calculation methodology;
- Stress testing methodology; and
- Credit risk pricing methodology.

Breakdown of the Portfolio for Credit Risk Management Purposes

For credit risk management purposes, the Bank's loan portfolio is broken down as follows:

- Retail receivables are receivables from individuals and small enterprises with an annual turnover of up to CZK 30 million. The portfolio of retail receivables is categorised by type of counterparty and product for the purpose of regular analyses. The portfolio is further divided into smaller subportfolios (e. g., based on retail channels, level of collateral, grant period, etc.) as part of ad hoc analyses. The methods for managing credit risk of retail receivables are based on statistical models calibrated using historical data.
- Receivables from corporate counterparties include receivables from legal entities which do not comply with the "small enterprise" definition and receivables from banks. The portfolio of corporate receivables is further divided by counterparty type (large enterprises, mid-size enterprises, project financing, municipalities, and banks) for the purposes of regular analyses. While the methods for managing credit risk of corporate receivables are based on statistical models (namely for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular individual analysis of particular customers.

With the exception of sporadic, border-line cases, the breakdown of the portfolio corresponds to the asset classes defined in CNB Regulation 123/2007 which follows the BASEL II rules.

For the purpose of provisioning, monitoring and predicting losses, the Bank differentiates between individually significant and individually insignificant exposures when managing credit risk. Credit risk attached to individually significant exposures is managed on an individual basis with minor use of portfolio models. The Bank aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis. The Bank's category of individually significant exposures include corporate loans, small and medium sized enterprises ("SME") and private sector loans. Individually insignificant exposures include retail loans to households, individuals, individuals – entrepreneurs and small municipalities ("MSE").

Individually significant loans predominantly include loans from the Bank's corporate portfolio. These loans are split into 7 portfolios: large corporate clients which are managed using a consistent method within the Erste Group, project financing and corporate mortgages which are also managed using a consistent method within the Erste Group, large corporate customers administered and managed on a Bank level (turnover over CZK 1,000 million), small and medium sized enterprises (turnover from CZK 30 to 1,000 million), project funding and corporate mortgages, municipality loans and loans from the Workout Department. Corporate loans additionally match the corporate class (segment) of assets under BASEL II or special funding.

Individually insignificant loans, including MSE loans, principally encompass the Bank's retail loans. These loans are additionally split into 15 product portfolios. The key portfolios include mortgage retail loans, cash and consumer loans, credit card loans and overdraft loans. The Bank's retail loans additionally match the "individuals/households' assets class (segment) under BASEL II.

All loans are additionally segmented into non-default loans (performing) and default loans (non-performing). Default is defined using BASEL II criteria (where a receivable is past due for more than 90 days or its full repayment is assessed as being unlikely).

Collection of Key Risk Management Information

In managing credit risk, the Bank refers not only to its own portfolio information but also the portfolio information of other members of the Česká spořitelna Financial Group. The Bank additionally uses information obtained from external sources such as the Credit Bureau or ratings provided by reputable rating agencies. The data used for modelling and managing credit risk is held in the Bank's data warehouse. On an ongoing basis within the Bank there are projects aimed at improving the quantity and quality of collected data. This data provides a basis for modelling credit risk and as support collection of receivables, valuation of receivables and calculation of losses.

Internal Rating Tools

The internal ratings of the Bank reflect the ability of counterparties to meet their financial liabilities. The degree of risk is reflected in the internal rating as a probability of default of the debtor in the following twelve months. This degree of risk complies with the definition of capital requirements set out in CNB Regulation 123/2007 (BASEL II).

The Bank allocates internal ratings to all loan receivables from customers. In addition to the rating of individuals and households, the Bank uses the 13-degree rating scale of non-default categories and one group for "R" default customers. The scale for individuals and households is 8 + R.

The definition of default of a debtor complies with the CNB Regulation referred to above and thus reflects the debt status of any portion of the receivable with the limit of 90 days and more past the due date, bankruptcy proceedings, insolvency or forced restructuring.

Individual customer segments (classes) are, under BASEL II, subject to various rating tools which are currently used across the Erste Group.

Counterparties from the sovereign and banking segments are evaluated using a model which is consistent for the whole of the Erste Group. The model places great emphasis on independent external ratings combined with other information.

Counterparties under specialised financing and projects are also subject to a Group-wide application tool, but the rating model reflects local specifics of the legislative and economic environment as well as the specifics of project financing and is primarily based on projected cash flows.

Corporate customers are evaluated on the basis of their financial strength, business information, business plan and credit history data. The primary source of information includes financial statements; less significant weight is given to soft factors (such as industry developments, supplier dependence or quality of management).

The rating of the small enterprises segment is based on similar foundations as the rating of corporations, but the overall rating substantially takes into account the solvency of the enterprise owner or the entrepreneur himself.

Individuals/households are evaluated on the basis of socio-demographic data, behavioural scoring and loan history, obtained primarily from external registers of debtors (credit bureaus) and historical data of the Bank and the Group.

The Bank uses its own model based on analysis of budgets in arriving at the internal ratings of its clients from among budget-driven and subsidised organisations.

Ratings for the corporate, small enterprises and individuals segments are prepared using a single Group-wide database designed to ensure conceptual compliance with the Group standard, but the setting of the models is adjusted to local economic and legislative conditions. This database tool uses outputs from individual rating tools and facilitates the combination of multiple sources of information into one rating, for example, for corporate clients, the outputs of financial analysis and soft factors or behavioural scoring and repayment ability.

The Bank reviews ratings in respect of all segments on a regular basis. The rating of the banking, corporate and sovereign segments is analysed at least annually on an individual basis. The Bank has developed "behavioural rating' for retail customers where the Bank updates the rating of a customer based on its activities in the Bank and its delinquency on a monthly basis.

In addition to the internal ratings outlined above, the Bank allocates risk-profile groups to individual assets arising from the loan arrangement according to CNB Regulation 123/2007. In accordance with this Regulation, the Bank maintains five groups of risk profiles, namely standard, watch, substandard, doubtful and loss. Individual groups are differentiated according to the number of past due dates of any portion of a receivable, bankruptcy status of a customer, forced restructuring of a receivable and the internal expectation of the Bank with regard to the repayment of the whole balance.

The Bank also uses independent external ratings provided by reputable rating agencies. Based upon its historical experience, the Bank has determined a transfer bridge between its own internal ratings and external ratings (see Note 41.1(h)).

In compliance with the regulatory requirements arising from BASEL II, rating tools are subject to regular annual validation by the Risk Management Department and Internal Audit). In addition, the rating tools are periodically adjusted to reflect changing economic conditions and the Bank's strategy, based on validations (back-testing) and performance testing undertaken by the Credit Risk Controlling and Portfolio Management Department.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Bank may accept in respect of a client with a given rating and collateral. In setting the system of limits, the Bank strives to protect its revenues and capital from concentration risk. Concentration risk is measured through the amount of the loss of twenty groups to which the Bank records the highest exposure and several other indicators for which limits have been established (particularly level of exposure to client's related parties).

Structure of Approval Authorities

The structure of approval authorities is derived from the materiality of the impact of a potential loss from a loan on the Bank's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Board of Directors, with the Credit Committee of the Supervisory Board only having an advisory role. Lower approval authorities are categorised taking account of the seniority of the staff of the Credit Risk Management Department and the Credit Service Department.

Risk Parameters

The Bank uses its own internal models in determining risk parameters such as the PD, LGD and CCF. All of the models are developed according to BASEL II requirements and until 2007 were subject to review by the regulator. The monitoring of historic risk parameters and their prediction serve as a basis for quantitative management of the portfolio credit risk. The Bank currently uses these risk parameters in monitoring portfolio risks, default loan portfolio management, portfolio protection measurement and risk valuation. The active use of the risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments on both internal and external changes. The PD risk parameter is monitored for individual internal rating grades (see above) with the exception of non-performing loans in default where it is equal to 1. The LDG risk parameter is monitored in respect of 5 homogenous corporate product portfolios and 15 retail product portfolios with respect to non-performing loans in default. The CCF risk parameter is monitored for guarantees, overdraft loans and credit card loans.

All models are back-tested at least annually and validated by the Bank's independent specialists in the Risk Management Department.

Provisions for Loan Losses

The Bank recognises provisions for incurred losses. These losses are determined and recognised in accordance with IAS 39. In determining the amount of the loss, the Bank uses risk parameters estimated as part of the implementation of BASEL II rules.

Loan loss provisions are determined for all impaired loans. For individually impaired loans the anticipated loss is determined on the basis of assessment of individual debts, for collectively impaired loans (i. e. receivables without default) the anticipated loss is determined on the basis of historic loss experience on similar loan portfolio.

Individual Loss Component

Individually impaired receivables are receivables in default (with an internal rating of R) where the definition of default complies with BASEL II requirements.

The individual loss component covers losses arising from receivables impaired on an individual basis. Impairment of a receivable is identified based on loss making events that can be ascertained individually. Impairment of corporate receivables and retail receivables with a value exceeding CZK 5 million (individually significant exposures) is measured on an individual basis. The impairment represents the difference between the net present value of expected future cash flows arising from the receivable discounted at the original effective interest rate and the carrying amount of the receivable.

The level of impairment of retail receivables (individually insignificant) is determined using the provisioning coefficient matrix. Provisioning coefficients are derived from the historic values of LGD in respect of portfolios of individually insignificant exposures. The coefficients additionally reflect duration of default.

All receivables are assessed by the Bank on a monthly basis to determine whether a loss event or other changes occurred.

The anticipated loss on the impairment of individually significant exposures is reviewed at least quarterly for each exposure.

Collective Loss Component

The collective loss component represents the loss on collective impairment of individually unimpaired exposures. Collective impairment is the anticipated incurred loss from the portfolio of individually unimpaired exposures determined based on experience with similar exposures. Collective impairment losses represent the Bank's reasonable estimate made on the basis of historical experience with the risk profile of sub-portfolios of individually unimpaired exposures. Given the current economic conditions, the actual future losses may differ from those estimated based on historical experience as at the reporting date.

The level of provisioning for these receivables is determined in accordance with the Group methodology reflecting the PD, LGD and loss identification period ("LIP"). In determining the amount of incurred loss, the Bank adopts the same method of calculating

historic PDs and LGDs which are used as a basis for the calculation of risk weighted assets under BASEL II. The LIP parameter is set depending on the counterparty type – for corporate counterparties, it is anticipated that the default is identified within one year, the default on retail receivables is anticipated to be identified within four months at the latest. Given that the Bank has a customer definition of the default in place, the LIP parameter is identical for all retail products.

Restructured receivables are given an internal rating of "R". As part of the half-year reviews of restructured receivables, the Bank decides to upgrade the internal rating or to extend the monitoring period by another six months.

Management of the Credit Risk in the Trading Portfolio

The credit risk inherent in the trading portfolio is managed through the imposition of limits approved for individual counterparties.

Collateral

Collateralisation of the Bank's receivables arising from lending transactions is governed by the following principles: collateral safeguards and protects the Bank's position as a creditor and, in addition to the collateralising function itself, it is exclusively a secondary source of repayment. The selection of individual collateral instruments and the composition of collateral depend on the Bank's loan products, requirements and professional assessment by the Bank's responsible employee, always taking into account the ease of realisation of the collateral.

The value of collateral is determined by reference to market price valuation (nominal value of collateral). The market price is taken to mean the arm's length price (selling) or the price determined using a different valuation technique in terms of Section 2 (1) and (3) of Property Valuation Act No. 151/1997 Coll.; however, always determined taking into account all the circumstances which have a pricing impact, namely defects. If multiple market prices are determined using various valuation techniques the lower/lowest price is used.

If the collateral instrument involves real estate, movable assets, a business or its branch, trade marks, an asset declared as a historical monument, antiquities, paintings, jewels, manuscripts, etc. the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Bank or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate must not be older than six months at the date of entering into the loan contract. For real estate valuation purposes, a tailored "Methodology of Valuation of Real Estate for the Purpose of Advancing of a Loan, Including Mortgage Loans, at Česká spořitelna" is used.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. In determining the collateral coefficient resp. / the realisable (fair) value of the collateral, it is necessary to assess individual instruments by their specific features, e. g. real estate by the character of its construction, etc. and always following a physical inspection. The expert appraisal/price estimate always has to be reviewable. Other conditions taken into account in determining the realisable value of the collateral are, among others, as follows:

- Comprehensive assessment of the significant circumstances and all available background documentation, for each particular case,;
- Insurance and pledge of a receivable arising from the insurance proceeds in favour of the Bank;
- Possibilities of the realisation of collateral at a particular time and place and the amount of the costs of the realisation which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

In the event of doubt or any suspicion, the loan officer has to personally verify the actual condition and nature of collateral prior to determining the coefficient of recoverability.

The realisable value of collateral is determined using the collateral coefficient according to the Collateral Catalogue. The Collateral Catalogue also includes requirements for the periodic revaluation of collateral. Typically, the collateral value is analysed and updated during the regular monitoring/credit review of clients. With respect to credit product portfolios with a significant amount of collateral, the Bank uses portfolio models for updating realisable collateral values.

In addition, the Bank regularly monitors the loan-to-value ratio, mainly in respect of mortgage loans and project financing loans.

Credit Risk Pricing

In determining risk mark-ups for individual types of counterparties and deals the Bank uses historically observed values for the PD, LGD and CCF risk parameters. In calculating the mark-ups the Bank also takes into consideration changes in the macroeconomic environment and changes in the credit process of the Bank, which may have an impact on the risk level of the credit portfolio.

Stress Testing

The Bank regularly performs stress testing of the sensitivity of its portfolio to the deterioration in credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Bank also performs scenario analyses modelling the impact of adverse developments in macroeconomic factors (such as changes in the economic growth rate, changes in interest rates and changes in inflation).

The breakdown on credit risk by industries is shown in Note 41.1 (f).

(a) Analysis of Individually Impaired Loans

CZK mil.	Individually impaired		Fair value of collateral	
	2009	2008	2009	2008
Retail loans / loans to households				
Overdraft loans	405	347	–	–
Credit cards	265	217	–	–
Other loans	5,180	3,234	460	240
Mortgage loans	4,180	2,480	2,937	1,704
Subtotal	**10,030**	**6,278**	**3,397**	**1,944**
MSE[x)]				
Overdraft loans	202	219	25	38
Other loans	2,081	925	907	406
Mortgage loans	1,229	656	817	493
Municipal loans	22	20	7	2
Subtotal	**3,534**	**1,820**	**1,756**	**939**
Total retail loans	**13,564**	**8,098**	**5,153**	**2,883**
Corporate loans				
Corporate customers	4,687	1,831	1,106	258
Small and medium sized enterprises (SMEs)[xx)]	3,697	3,503	2,094	1,773
Corporate mortgage loans	2,805	573	2,185	360
Municipalities	19	17	7	14
Total corporate loans	**11,208**	**5,924**	**5,392**	**2,405**
Total	**24,772**	**14,022**	**10,545**	**5,288**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

The fair value of collateral is the lower of the collateral nominal value times collateral coefficient and the receivable balance. The saleability of collateral is not always certain. For details of fair values of collateral, see Note 4 (h).

(b) Restructuring of Loans

The Bank has restructured loans that would otherwise be in default or impaired in the aggregate amount of CZK 5,741 million (2008: CZK 4,009 million).

CZK mil.	2009	2008
Other loans	2,646	2,508
Mortgage loans	3,095	1,501
Total	**5,741**	**4,009**

(c) Loans Past their Due Dates

As at 31 December 2009 and 2008, the Bank reports the following loans which are past their due dates, but which are not individually impaired:

At 31 December 2009 CZK mil.	Past due date by less than 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans/loans to households					
Overdraft loans	81	63	36	180	–
Credit cards	560	56	24	640	–
Other loans	4,060	931	453	5,444	573
Mortgage loans	495	1,214	511	2,220	1,804
Subtotal	**5,196**	**2,264**	**1,024**	**8,484**	**2,377**
MSE[x)]					
Overdraft loans	12	23	17	52	4
Other loans	482	367	199	1,048	499
Mortgage loans	149	253	153	555	469
Municipal loans	7	–	6	13	1
Subtotal	**650**	**643**	**375**	**1,668**	**973**
Total retail loans	**5,846**	**2,907**	**1,399**	**10,152**	**3,350**
Corporate loans					
Corporate customers	388	19	48	455	243
Small and medium sized enterprises (SMEs)[xx)]	1,652	169	113	1,934	1,247
Corporate mortgage loans	35	204	23	262	242
Municipalities	32	–	–	32	–
Total corporate loans	**2,107**	**392**	**184**	**2,683**	**1,732**
Total	**7,953**	**3,299**	**1,583**	**12,835**	**5,082**

x) MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million.
xx) SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million.

At 31 December 2008 CZK mil.	Past due date by less than 30 days	Past due date by 30–60 days	Past due date by 60–90 days	Total	Fair value of collateral
Retail loans / loans to households					
Overdraft loans	85	58	31	174	–
Credit cards	506	57	19	582	–
Other loans	3,576	858	328	4,762	596
Mortgage loans	276	995	385	1,656	1,358
Subtotal	**4,443**	**1,968**	**763**	**7,174**	**1,954**
MSE[x)]					
Overdraft loans	15	24	10	49	8
Other loans	589	224	140	953	478
Mortgage loans	145	324	111	580	486
Municipal loans	27	–	–	27	–
Subtotal	**776**	**572**	**261**	**1,609**	**972**
Total retail loans	**5,219**	**2,540**	**1,024**	**8,783**	**2,926**
Corporate loans					
Corporate customers	550	–	–	550	6
Small and medium sized enterprises (SMEs)[xx)]	1,747	157	131	2,035	1,069
Corporate mortgage loans	333	1,216	18	1,567	1,386
Municipalities	64	–	–	64	–
Total corporate loans	**2,694**	**1,373**	**149**	**4,216**	**2,461**
Total	**7,913**	**3,913**	**1,173**	**12,999**	**5,387**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

(d) Losses from Impairment by Individual Categories of Financial Assets

2009 CZK mil.	At 1 Jan	Creation of impairment allowances	Write-off of loans	Amounts recovered during the year	Unwinding of discounts[x)]	Foreign exchange rate gains or losses	At 31 Dec	Change in the balance
Retail loans/loans to households								
Overdraft loans	313	263	(114)	(98)	(18)	–	346	33
Credit cards	188	170	(90)	(47)	(16)	–	205	17
Other loans	2,523	2,732	(1,207)	(295)	(184)	–	3,569	1,046
Mortgage loans	984	627	(14)	(236)	(113)	–	1,248	264
Subtotal	**4,008**	**3,792**	**(1,425)**	**(676)**	**(331)**	**–**	**5,368**	**1,360**
MSE[xx)]								
Overdraft loans	220	95	(46)	(60)	(3)	–	206	(14)
Other loans	615	903	(105)	(55)	(48)	–	1,310	695
Mortgage loans	291	290	(26)	(28)	(36)	–	491	200
Municipal loans	5	5	–	(4)	(1)	–	5	–
Subtotal	**1,131**	**1,293**	**(177)**	**(147)**	**(88)**	**–**	**2,012**	**881**
Corporate loans								
Corporate customers	787	1,709	26	(2)	(77)	(17)	2,426	1,639
Small and medium sized enterprises (SMEs)[xxx)]	1,949	1,580	(294)	(372)	(81)	–	2,782	833
Corporate mortgage loans	291	589	(35)	11	(43)	–	813	522
Municipalities	16	8	–	(2)	–	–	22	6
Subtotal	**3,043**	**3,886**	**(301)**	**(367)**	**(201)**	**(17)**	**6,043**	**3,000**
Total	**8,182**	**8,971**	**(1,905)**	**(1,188)**	**(620)**	**(17)**	**13,423**	**5,241**

[x)] Unwinding of discounts – interest income from impaired financial receivables
[xx)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xxx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

2008 CZK mil.	At 1 Jan	Creation of impairment allowances	Write-off of loans	Amounts recovered during the year	Unwinding of discounts[x)]	Foreign exchange rate gains or losses	At 31 Dec	Change in the balance
Retail loans / loans to households								
Overdraft loans	216	210	(36)	(67)	(10)	–	313	97
Credit cards	225	121	(88)	(58)	(12)	–	188	(37)
Other loans	1,811	1,652	(412)	(425)	(103)	–	2,523	712
Mortgage loans	721	518	(13)	(185)	(57)	–	984	263
Subtotal	**2,973**	**2,501**	**(549)**	**(735)**	**(182)**	**–**	**4,008**	**1,035**
MSE[xx)]								
Overdraft loans	227	112	(78)	(40)	(1)	–	220	(7)
Other loans	433	348	(37)	(110)	(19)	–	615	182
Mortgage loans	153	192	(7)	(26)	(21)	–	291	138
Municipal loans	–	5	–	–	–	–	5	5
Subtotal	**813**	**657**	**(122)**	**(176)**	**(41)**	**–**	**1,131**	**318**
Corporate loans								
Corporate customers	434	472	(19)	(32)	(73)	5	787	353
Small and medium sized enterprises (SMEs)[xxx)]	1,646	994	(161)	(451)	(79)	–	1,949	303
Corporate mortgage loans	230	186	(26)	(56)	(43)	–	291	61
Municipalities	9	12	–	(5)		–	16	7
Subtotal	**2,319**	**1,664**	**(206)**	**(544)**	**(195)**	**5**	**3,043**	**724**
Total	**6,105**	**4,822**	**(877)**	**(1,455)**	**(418)**	**5**	**8,182**	**2,077**

[x)] Unwinding of discounts – interest income from impaired financial receivables
[xx)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xxx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

(e) Structure of Credit Risk by On-balance Sheet and Off-balance Sheet Items

The Bank is exposed to credit risk arising from the following items:

CZK mil.	2009	2008
Credit risk exposures relating to on-balance sheet items		
Cash and with the CNB	7,429	4,538
Loans and advances to financial institutions	110,596	78,713
Loans and advances to customers, net of provisions	409,045	404,299
a) Retail loans	**199,044**	**191,854**
– Overdraft loans	6,072	5,890
– Credit cards	4,530	3,529
– Other loans	71,904	67,314
– Mortgage loans	116,538	115,121
b) Retail loans – businessmen and small companies (MSE)	**53,692**	**49,603**
– Overdraft loans	2,728	2,737
– Other loans	20,091	16,215
– Mortgage loans	21,924	20,953
– Municipal loans	8,949	9,698
c) Corporate loans	**156,309**	**162,842**
– Large enterprises	53,662	64,284
– Small and medium sized enterprises (SMEs)	54,933	52,774
– Corporate mortgages	34,919	35,346
– Municipalities	12,795	10,438
Derivatives with positive fair value	18,529	27,216
Financial assets at fair value through profit or loss		
– Debt securities held for trading	29,329	36,339
– Debt securities designated upon initial recognition as at fair value through profit or loss	6,024	13,434
Debt securities available for sale	4,074	8,262
Debt securities held to maturity	98,683	97,117
Credit risk exposure relating to off-balance sheet items		
Amounts owed from guarantees and letters of credit	31,568	37,567
Undrawn loan commitments	73,910	101,049
Total	**789,187**	**808,534**

The resulting credit exposure as at 31 December 2009 and 2008 represents a worst case scenario, without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 66% of the total exposure is derived from loans and advances to financial institutions and customers (2008: 60%); 18% represent investments in debt securities (2008: 19%).

The credit risk exposure also includes accrued interest of CZK 2,478 million (2008: CZK 3,851 million), presented within other assets.

Collateral securing the above receivables is as follows:

CZK mil.	2009	2008
Loans and advances to financial institutions	78,391	48,421
Loans and advances to customers, net of provisions	230,096	218,429
a) Retail loans	117,237	111,453
b) Retail loans – businessmen and small companies (MSE)	26,232	25,828
c) Corporate loans	86,627	81,148
Total	**308,487**	**266,850**

(f) Credit Risk by Individual Sectors

Set out below is a summary of loans and advances to customers and financial institutions and debt securities by individual sectors in the distribution of the credit exposure of the Bank:

CZK mil.		2009		2008
Financial institutions	169,786	25%	155,033	24%
Resident individuals	204,279	30%	195,861	30%
Trade	31,751	5%	33,676	5%
Energy sector	5,744	1%	5,735	1%
State institutions	94,991	14%	96,252	15%
Public sector	16,730	3%	14,165	2%
Construction industry	8,066	1%	6,965	1%
Hotels, public catering services	3,651	1%	2,912	1%
Manufacturing industry	39,107	6%	43,650	7%
Other	97,069	14%	92,088	14%
Total	**671,174**	**100%**	**646,337**	**100%**

Given the allocation of credit risk of on-balance and off-balance sheet items presented in Table 41.1 (e), this does not include "Cash and balances with the CNB", "Derivatives with positive fair value" and "Credit risk exposure relating to off-balance sheet items". In addition, loans and advances to customers are not presented net of provisions.

The geographical concentration of assets and liabilities is detailed in Note 43 (b).

(g) Assessment of Asset Quality Using External Ratings by a Reputable Rating Agency

At 31 December 2009 CZK mil.	AAA	AA− to AA+	A− to A+	Lower than A	Unrated	Total
Securities held for trading	–	–	28,770	1	565	29,336
Securities at fair value through profit or loss	1,004	3,160	2,162	505	237	7,068
Securities available for sale	–	240	1,105	799	2,002	4,146
Securities held to maturity	419	34,323	52,131	6,801	5,009	98,683
Total	**1,423**	**37,723**	**84,168**	**8,106**	**7,813**	**139,233**

At 31 December 2008 CZK mil.	AAA	AA− to AA+	A− to A+	Lower than A	Unrated	Total
Securities held for trading	280	–	35,709	523	–	36,512
Securities at fair value through profit or loss	3,616	1,325	5,214	8,326	–	18,481
Securities available for sale	1,270	–	3,731	3,323	–	8,324
Securities held to maturity	10,588	296	68,925	17,058	250	97,117
Total	**15,754**	**1,621**	**113,579**	**29,230**	**250**	**160,434**

(h) Assessment of Asset Quality Based on Risk Profile

31 December 2009 CZK mil.	Investment grade	Standard monitoring	Special monitoring	Sub-standard	Total
Retail loans / loans to households					
– Overdraft loans	4,994	672	495	257	6,418
– Credit cards	3,868	412	255	200	4,735
– Other loans	61,679	6,066	4,268	3,460	75,473
– Mortgage loans	106,395	6,027	3,048	2,316	117,786
MSE[x)]					
– Overdraft loans	2,033	686	31	184	2,934
– Other loans	14,982	4,276	228	1,915	21,401
– Mortgage loans	18,400	2,764	119	1,132	22,415
– Municipal loans	7,418	1,472	64	–	8,954
Corporate loans					
– Large enterprises	37,663	12,268	1,470	4,687	56,088
– Small and medium sized enterprises (SMEs)[xx)]	20,873	28,559	4,586	3,697	57,715
– Corporate mortgage loans	20,825	10,645	1,457	2,805	35,732
– Municipalities	9,708	3,021	69	19	12,817
Total loans and advances to customers	**308,838**	**76,868**	**16,090**	**20,672**	**422,468**
Total loans and advances to financial institutions	**108,861**	**1,735**	**–**	**–**	**110,596**
Positive fair values of outstanding derivatives	**16,757**	**1,207**	**285**	**280**	**18,529**
Securities held to maturity unrated (see Note 41.1 (g))	**7,584**	**199**	**–**	**30**	**7,813**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

In the Bank's transfer bridge, an external rating lower than BB+ and higher than B corresponds to the Standard Monitoring internal rating grade, an external rating lower than B− and higher than CCC corresponds to the Special Monitoring internal rating grade and an external rating lower than C corresponds to the Non-standard internal rating grade.

31 December 2008 CZK mil.	Investment grade	Standard monitoring	Special monitoring	Sub-standard	Total
Retail loans / loans to households					
– Overdraft loans	5 046	608	294	255	6 203
– Credit cards	2 967	377	174	199	3 717
– Other loans	59 792	4 935	2 387	2 724	69 838
– Mortgage loans	107 115	4 885	2 276	1 830	116 106
MSE[x)]					
– Overdraft loans	2 039	678	30	211	2 958
– Other loans	14 519	4 411	124	838	19 892
– Mortgage loans	17 659	2 897	52	636	21 244
– Municipal loans	6 132	1 399	20	–	7 551
Corporate loans					
– Large enterprises	50 286	10 253	989	2 632	64 160
– Small and medium sized enterprises (SMEs)[xx)]	31 478	17 701	2 040	3 503	54 722
– Corporate mortgage loans	24 884	9 116	1064	573	35 637
– Municipalities	8 742	1 694	0	17	10 453
Total loans and advances to customers	**330 659**	**58 954**	**9 450**	**13 418**	**412 481**
Total loans and advances to financial institutions	**76 802**	**1 911**	**–**	**–**	**78 713**
Positive fair values of outstanding derivatives	**25,349**	**1,263**	**198**	**406**	**27,216**
Securities held to maturity unrated (see note 41.1 (g))	**250**	**–**	**–**	**–**	**250**

[x)] MSE – individuals businessmen and small companies with annual turnover of less than CZK 30 million
[xx)] SME – small and medium sized enterprises with annual turnover between CZK 30 million and CZK 1,000 million

41.2 Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, equity and commodity financial instruments, the value of which changes subject to general and specific financial market movements. The Bank is primarily exposed to the market risk arising from open positions in the trading book. A significant component of market risk is the interest rate risk associated with assets and liabilities included in the banking book.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:
- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Proprietary trading in the interbank, derivative and capital markets.

The Bank trades in the following derivative financial instruments through the over-the-counter ("OTC") market:
- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives (for gold, silver, copper, crude oil, oil, rape and zinc); and
- Credit derivatives.

With respect to exchange-traded derivatives, the Bank trades in the following instruments:
- Bond futures;
- Equity and equity indices futures;
- Interest rate futures;
- Commodity derivatives (gold and crude oil futures); and
- Options in respect of bond futures.

The Bank also trades, on behalf of its clients, with other less common currency options, such as digital, barrier or windowed options. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the investment book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (FX swaps and cross currency swaps).

During the 1st quarter of 2008, Erste Group revised its business model. The majority of open positions arising from client transactions in the Bank's trading book are transferred to the Group portfolio through "back-to-back" transactions. As such, the market risk arising from the Group's OTC transactions is managed on a consolidated basis within the Erste Group Bank portfolio. The Bank retains the money market risk due to liquidity management, equity risk, interest rate risk from trading with Czech Government bonds and, partially, a residual risk from previously closed transactions in the trading portfolio. This residual risk is hedged dynamically at a macro-level in line with the Bank's limits set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Bank uses "value at risk" methodology ("VaR") to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The Board of Directors establishes VaR limits for the trading and banking portfolios as the Bank's maximum exposure of the Bank to market risk that may be accepted.

For the trading portfolio VaR sub-limits in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, equity prices, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is also calculated for the banking book using specific models for current accounts and other liabilities without specified maturities. The VaR of the banking book is reported to the Assets and Liabilities Committee ("ALCO") on a monthly basis. The acceptable level of risk is based on an assessment of the capital available to cover risks based on Internal Capital Adequacy Assessment Process ("ICAAP") methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the banking book, from the perspective of both strategic portfolio management and accounting distribution of securities portfolios.

The VaR methodology includes all risk factors while reflecting their mutual diversification effect. As at 31 December 2009, the VaR for the trading book for one day at a 99% confidence level, i. e. the maximum loss during one day, was CZK 30 million (2008: CZK 26 million) which corresponds to a monthly VaR of CZK 138 million (2008: CZK 121 million). The average of daily VaR for 2009 was CZK 22 million (2008: CZK 14 million). The monthly VaR for the banking book as at 31 December 2009, i. e. the maximum loss during one month, was CZK 1,676 million (2008: CZK 2,074 million). The average monthly VaR for 2009 was CZK 1,783 million (2008: CZK 1,298 million).

The VaR method is complemented by "back-testing" which is designed to review the model for correctness. Back-testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading day. Back-testing results have, to date, confirmed the accuracy of the VaR calculation model.

In addition, the Bank uses stress testing or an analysis of the impact of adverse developments in market risk factors on the market value of the trading book and on the parts of the banking book which are revalued to fair value. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. Stress testing is undertaken on a monthly basis and the results are reported to the ALCO.

The current financial and economic crisis markedly affects the economy, principally in terms of the significant volatility of market prices of financial instruments, increased interest rates, decreased liquidity, and general uncertainty regarding future developments, fair market values of financial assets and their potential impairment. In view of these changes, the Bank has intensified its efforts in monitoring events and developments that could impact its financial position. For this purpose, the Bank has been monitoring, on an ongoing basis, financial intelligence sources, analysing the market, and developing possible scenarios that reflect these current economic developments.

41.2.1 Interest Rate Risk

(a) Interest Rate Risk Management

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages the interest rate risk of the banking book through the monitoring of the repricing dates of Bank's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Bank's net interest income.

In order to measure the interest rate risk exposure within the trading portfolio, the Bank uses the Present Value of Basis Point ("PVBP") defined as a matrix of sensitivity factors to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency. The limits are compared to the value that represents the greater of the sum of positive PVBP values or the sum of negative PVBP values in absolute terms for each period to maturity. By adopting this approach, the Bank manages not only the risk attached to a parallel shift of the yield curve, but also any possible "flip" of the yield curve. With regard to foreign currency options, the PVBP limits also include the Rho and Phi equivalents. In addition, the Bank monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

VaR methodology is also used for the calculation of the interest rate risk of both the trading and banking books. The VaR value for the interest rate risk of the trading book for one day at a 99% confidence level as at 31 December 2009 was CZK 25 million (2008: CZK 17 million.) which corresponds to a VaR value for one month of CZK 114 million (2008: CZK 80 million). The average of daily VaR values for 2009 was CZK 17 million (2008: CZK 10 million).

The monthly VaR for the banking book as at 31 December 2009 was CZK 1,625 million (2008: CZK 2,070 million). The average of monthly VaR values for the interest rate risk for 2009 was CZK 1,779 million (2008: CZK 1,238 million).

For monitoring and measuring the banking book interest rate exposures, the Bank uses a simulation model focused on monitoring potential impacts of market interest rate movements on the Bank's net interest income. Simulations are performed over a period of 36 months. A basic analysis focuses on the sensitivity of the Bank's net interest income to a one-off change(s) of market interest rates (rate shock). In addition, the Bank undertakes probability modelling of its net interest income (stochastic simulation) and the traditional gap analysis. The analyses noted above are performed on a monthly basis. The current level of the interest rate exposure is assessed by the ALCO on a monthly basis in the context of the overall development of financial markets, the Czech banking sector and structural changes in the Bank's statement of financial position.

The following sensitivity analysis is based on the exposure of the Bank to interest rates for derivative and non-derivative instruments as at the reporting date and the determined changes which occurred at the beginning of the year and which are constant during the reported period for the instruments with a variable interest rate. i.e., the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be reinvested in assets and liabilities with the same interest rate sensitivity. As such, the model assumes the fixed structure of the statement of financial position according to interest rate sensitivity.

If Czech Republic interest rates sharply increased/decreased by 100 points at the beginning of the year and other variable interest rates remain unchanged:

- The profit for 2010 would increase by CZK 960 million / decrease by CZK 1,170 million (2009: an increase of CZK 570 million / decrease of CZK 680 million); and
- The gains / losses from revaluation would change by CZK (15) / 15 million (2009: CZK (67) / 67 million), namely as a result of the changes in the fair value of securities with a fixed interest rate in the available-for-sale portfolio.

The Bank monitors the impact of stress scenarios of the shifts of yield curves on the market value of the banking book. These stress scenarios are determined in accordance with the regulatory rules as 1% or 99% of the year-on-year changes in interest rates based on the five year history of time series of individual maturities of yield curves in all currencies. As at 31 December 2009, this stress scenario would trigger a loss in the market value of the banking book of 5.4% of the Bank's capital (a total of the original and additional capital; 2008: 1.1%).

(b) Interest Rate Repricing Analysis

The following tables present the distribution of assets and liabilities according to the interest rate repricing dates. They include significant financial assets and liabilities in CZK, EUR and USD as

at 31 December 2009 and 2008. Variable yield assets and liabilities have been reported according to their next rate repricing date. Fixed income assets and liabilities have been reported according to their remaining maturities.

At 31 December 2009 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	7,429	–	–	–	–	7,429
Loans and advances to financial institutions	85,689	24,014	503	–	1	110,207
Loans and advances to customers, net of provisions	60,444	105,176	68,734	141,569	32,032	407,955
Securities at fair value through profit or loss	30,214	888	754	3,491	234	35,581
Securities available for sale	2	2,144	1,248	679	–	4,073
Securities held to maturity	2,614	6,576	11,980	33,663	43,850	98,684
Total selected assets	**186,392**	**138,798**	**83,219**	**179,402**	**76,117**	**663,928**
Selected liabilities						
Amounts owed to financial institutions	14,038	17,702	3,990	5,000	1,000	41,730
Amounts owed to customers	69,137	74,190	131,575	242,466	–	517,368
Bonds in issue[x)]	4,715	5,723	15,697	12,503	24,584	63,222
Subordinated debt	6,500	–	4,938	1,966	–	13,404
Total selected liabilities	**94,390**	**97,615**	**156,200**	**261,935**	**25,584**	**635,724**
Current gap	**92,002**	**41,183**	**(72,981)**	**(82,533)**	**50,533**	**28,204**
Cumulative gap	**92,002**	**133,185**	**60,204**	**(22,329)**	**28,204**	

[x)] Includes liabilities at fair value from issued securities

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	4,538	–	–	–	–	4,538
Loans and advances to financial institutions	50,444	16,976	10,449	–	–	77,869
Loans and advances to customers, net of provisions	64,688	101,957	69,720	140,051	27,874	404,290
Securities at fair value through profit or loss	2,259	6,612	12,037	21,348	7,314	49,570
Securities available for sale	1,156	3,222	1,092	2,792	–	8,262
Securities held to maturity	4,877	13,939	5,773	43,347	29,181	97,117
Total selected assets	**127,962**	**142,706**	**99,071**	**207,538**	**64,369**	**641,646**
Selected liabilities						
Amounts owed to financial institutions	28,993	8,943	2,603	–	–	40,539
Amounts owed to customers	96,263	71,172	117,499	233,228	–	518,162
Bonds in issue[x)]	5,434	4,382	9,462	11,466	19,843	50,587
Subordinated debt	–	–	5,197	–	–	5,197
Total selected liabilities	**130,690**	**84,497**	**134,761**	**244,694**	**19,843**	**614,485**
Current gap	**(2,728)**	**58,209**	**(35,690)**	**(37,156)**	**44,526**	**27,161**
Cumulative gap	**(2,728)**	**55,481**	**19,791**	**(17,365)**	**27,161**	

[x)] Includes liabilities at fair value from issued securities

In addition, the Bank enters into interest rate swaps to manage its interest rate risk exposure.

41.2.2 Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments in both the trading and banking books will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions, including delta equivalents of currency options. In addition, the Bank monitors special sensitivity limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract fair value sensitivity to the exchange rate volatility in the form of the vega equivalent. The Bank also monitors the fair value sensitivity of options in the period to maturity (Theta) and interest rate sensitivity (Rho, Phi) which is measured, together with other interest rate instruments, in the form of the PVBP. The foreign currency risk of all financial instruments is transferred in the Trading Department's positions which manages these currency positions in accordance with the set currency sensitivity limits. In addition to the monitoring of limits, the Bank uses the VaR concept for measuring the risk arising from open positions on all currency instruments.

The value of currency risk in the form of VaR for one day at a 99% confidence level was CZK 12 million (2008: CZK 21 million) as at 31 December 2009. The average of daily VaR values for foreign currency risk for 2009 was CZK 17 million (2008: CZK 8 million). The VaR value for the currency volatility of the trading book was CZK 2 million (2008: CZK 5 million). The average of daily VaR values for the foreign currency volatility for 2009 was CZK 4 million (2008: CZK 4 million).

Net Foreign Exchange Position

The net foreign exchange positions of the Bank as at 31 December 2009 and 2008 were as follows:

At 31 December 2009 CZK mil.	CZK	EUR	USD	GBP	HUF	PLN	Other	Total
Assets								
Cash and balances with the CNB	24,557	1,668	514	95	52	75	289	27,250
Loans and advances to financial institutions	83,904	22,724	3,579	66	38	20	265	110,596
Loans and advances to customers, net of provisions	387,229	20,007	726	574	27	290	192	409,045
Securities at fair value through profit or loss	30,512	5,543	349	–	–	–	–	36,404
Positive fair value of derivative transactions	15,946	2,285	288	–	6	4	–	18,529
Securities available for sale	2,307	1,725	114	–	–	–	–	4,146
Securities held to maturity	95,720	2,963	–	–	–	–	–	98,683
Equity investments in subsidiary and associated undertakings	3,942	3,839	–	–	–	–	–	7,781
Other assets	21,334	1,128	5	6	48	–	38	22,559
	665,451	**61,882**	**5,575**	**741**	**171**	**389**	**784**	**734,993**
Liabilities								
Amounts owed to financial institutions	31,181	8,290	2,259	374	0	174	880	43,158
Amounts owed to customers	495,496	18,530	2,760	361	97	193	311	517,748
Liabilities at fair value	8,129	–	–	–	–	–	–	8,129
Negative fair value of derivative transactions	13,161	2,686	269	–	2	8	–	16,126
Bonds in issue	62,097	47	–	–	–	13	–	62,157
Other liabilities	29,268	730	22	2	48	–	3	30,073
	639,332	**30,283**	**5,310**	**737**	**147**	**388**	**1,194**	**677,391**
Net foreign exchange position – on balance sheet	**26,119**	**31,599**	**265**	**4**	**24**	**1**	**(410)**	**57,602**
Net foreign exchange position – off balance sheet	**19,130**	**(17,217)**	**196**	**–**	**(4)**	**(3)**	**430**	**2,532**

The line "Other assets" includes other assets, property and equipment, intangible fixed assets. The line "Other liabilities" includes other liabilities, provisions, and subordinated debt.

At 31 December 2008 CZK mil.	CZK	EUR	USD	GBP	SKK	HUF	PLN	Other	Total
Assets									
Cash and balances with the CNB	21,006	1,338	254	65	209	31	18	285	23,206
Loans and advances to financial institutions	52,797	20,177	4,895	283	74	15	6	466	78,713
Loans and advances to customers, net of provisions	384,737	18,182	780	31	162	25	142	240	404,299
Securities at fair value through profit or loss	38,392	11,393	1,934	–	130	3,004	67	73	54,993
Positive fair value of derivative transactions	24,738	1,875	449	–	69	54	26	5	27,216
Securities available for sale	5,132	3,097	95	–	–	–	–	–	8,324
Securities held to maturity	93,913	3,204	–	–	–	–	–	–	97,117
Equity investments in subsidiary and associated undertakings	3,779	6,313	–	–	–	–	–	–	10,092
Other assets	23,859	593	130	2	5	233	2	15	24,839
	648,353	**66,172**	**8,537**	**381**	**649**	**3,362**	**261**	**1,084**	**728,799**
Liabilities									
Amounts owed to financial institutions	27,060	11,096	2,375	15	63	20	39	784	41,452
Amounts owed to customers	496,384	19,234	3,068	364	–	2,083	111	327	521,571
Liabilities at fair value	7,680	12	4	–	–	–	–	–	7,696
Negative fair value of derivative transactions	21,975	2,576	528	–	81	268	32	–	25,460
Bonds in issue	51,409	187	–	–	–	–	–	–	51,596
Other liabilities	17,341	1,711	212	8	–	1	70	9	19,352
	621,849	**34,816**	**6,187**	**387**	**144**	**2,372**	**252**	**1,120**	**667,127**
Net foreign exchange position – on balance sheet	**26,504**	**31,356**	**2,350**	**(6)**	**505**	**990**	**9**	**(36)**	**61,672**
Net foreign exchange position – off balance sheet	**48,411**	**(30,738)**	**(2,324)**	**15**	**(481)**	**(1,218)**	**(3)**	**51**	**13,713**

The line “Other assets” includes other assets, property and equipment, intangible fixed assets. The line “Other liabilities” includes other liabilities, provisions, and subordinated debt.

41.2.3 Equity Risk

To monitor and manage the equity risk inherent in the trading and banking books, the Bank uses the VaR method and sensitivity analysis which is based on exposure to the risk of changes in the value of shares as at the reporting date. With respect to the increased volatility of share prices, equity risk represents a significant component of risk despite smaller volumes of share positions.

As at 31 December 2009, the VaR value of the equity risk of the trading portfolio was CZK 0 million (2008: CZK 0 million) for one day at a 99% confidence level which corresponds to the VaR value for one month of CZK 1 million (2008: CZK 1 million). The average of daily VaR values for 2009 was CZK 0 million (2008: CZK 1 million). The VaR for equity risk in the banking book for one month as at 31 December 2009 and at the same confidence level was CZK 21 million (2008: CZK 4 million). The average of monthly VaR values for the equity risk for 2009 was CZK 15 million (2008: CZK 118 million).

41.2.4 Fair Value

Fair Value of Derivative Instruments

The Bank maintains strict control limits on net open derivative counterparty positions, i. e., the difference between the fair values of purchase and sale contracts. At any one time the amount subject to credit risk is limited to the positive fair value of derivative financial instruments, which is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers. Limits are established reflecting the risk of fair value fluctuations arising from market movements. Collateral or other security is not usually obtained for credit risk exposures on the derivative financial instruments, except where the Bank requires deposits from counterparties.

All derivatives are stated at fair value in the statement of financial position as at 31 December 2009 and 2008 (refer to Notes 11 and 21).

Foreign Currency Contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes.

Interest Rate Swaps

Interest rate swap contracts obligate two parties to exchange one or more payments calculated by reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. The notional principal is the amount to which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were principally transacted for propriety trading purposes, to hedge customer oriented transactions or to hedge against interest rate risk.

The Bank has applied hedge accounting in respect of the interest rate exposure arising from its own issue of mortgage bonds. Hedged mortgage bonds issued with a fixed interest rate were linked to a floating market rate through interest rate swaps.

Option Contracts

Option contracts represent a formal reservation of the right to buy or sell an asset at a specified quantity, within a given time in the future and at a certain price. The buyer of the option has the right, but not the obligation, to exercise the right to buy or sell an asset and the seller has the obligation to sell or purchase the asset at the specified quantity and at the price defined in the option contract.

Forward Rate Agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in market interest rates. In principle, the Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. All of the Bank's forward rate agreements were entered into for trading purposes.

Swap and Forward Contracts with Securities

Swap and forward contracts with securities are agreements to purchase or sell the securities for a specific amount at a future date. The swap and forward contracts with securities are used by the Bank for trading purposes.

Cross Currency Swaps and Forwards

Cross currency swaps are combinations of interest rate swaps and foreign currency contracts. As with interest rate swaps, the Bank agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, and are settled on a gross basis. Unlike interest rate swaps, the notional balances of the different currencies are typically exchanged at the beginning and re-exchanged at the end of the contract period.

Futures

Futures contracts represent the obligation to sell or purchase a financial instrument in the organised market at a certain price at a certain agreed date in the future. The Bank entered into futures contracts in respect of debt securities and equities for trading purposes.

Commodity Swaps

Commodity swaps are agreements to exchange future payments depending upon the prices of a certain commodity. One element of the transaction (the fixed arm) always represents a fixed, predetermined amount while the other element (the floating arm) is determined based on the average prices of the relevant commodity for a period. In certain cases, an option is embedded in the floating arm, restricting its overall payment. Each client commodity swap is offset by a mirror transaction with Erste Group Bank, hence the Bank carries no market risk.

(a) Nominal and Fair Values of Derivative Instruments

At 31 December 2009 CZK mil.	Nominal value		Fair value	
	Positive	Negative	Positive	Negative
Hedging instruments				
Interest rate option contracts	–	–	–	–
Interest rate swaps	11,465	11,465	605	66
Foreign currency interest rate swaps	5,428	4,779	628	–
Total hedging instruments	**16,893**	**16,244**	**1,233**	**66**
Trading instruments				
Spot contracts				
– interest rate	28	28		
– currency	1,447	1,454		
Option contracts:				
– interest rate	9,140	9,140	71	47
– currency	61,064	60,437	1,125	732
– equity	807	807	55	46
– commodity	1,202	1,202	29	30
Forward contracts:				
– interest rate	9,000	9,000	3	47
– foreign currency interest rate	38,156	38,103	759	721
– equity	–	–	–	–
– commodity	757	755	52	51
Swaps:				
– interest rate	541,337	541,337	11,825	12,152
– foreign currency interest rate	84,714	83,507	3,239	1,987
– equity	4,458	4,458	48	156
– commodity	575	575	90	91
Other derivatives	–	–	–	–
Futures	1	1	–	–
Total trading instruments	**752,686**	**750,804**	**17,296**	**16,060**
Total	**769,579**	**767,048**	**18,529**	**16,126**

At 31 December 2008 CZK mil.	Nominal value		Fair value	
	Positive	Negative	Positive	Negative
Hedging instruments				
Interest rate option contracts	601	601	–	–
Interest rate swaps	13,585	13,585	748	166
Foreign currency interest rate swaps	5,450	4,911	–	302
Total hedging instruments	**19,636**	**19,097**	**748**	**468**
Trading instruments				
Spot contracts				
– interest rate	3	3		
– currency	728	729		
Option contracts:				
– interest rate	19,626	19,627	82	39
– currency	119,680	117,935	3,018	2,260
– equity	1,355	1,355	–	68
– commodity	1,071	1,071	182	185
Forward contracts:				
– interest rate	127,305	127,306	184	207
– foreign currency interest rate	61,304	61,430	2,634	2,595
– equity	2,787	3,004	0	222
– commodity	39	40	9	8
Swaps:				
– interest rate	695,892	695,892	14,777	14,349
– foreign currency interest rate	124,912	124,653	5,322	4,354
– equity	5,610	5,610	27	279
– commodity	2,038	2,038	232	243
Other derivatives	1,766	1,766	1	183
Futures	2	2	–	–
Total trading instruments	**1,164,118**	**1,162,461**	**26,468**	**24,992**
Total	**1,183,754**	**1,181,558**	**27,216**	**25,460**

(b) Remaining Maturity of Derivative Instruments

At 31 December 2009 Fair value CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate swaps	–	–	36	39	464
Foreign currency interest rate swaps	–	–	–	–	628
Total hedging instruments	**–**	**–**	**36**	**39**	**1,092**
Trading instruments					
Spot contracts					
– interest rate	–	–	–	–	–
– currency	–	–	–	–	–
Option contracts:					
– interest rate	–	–	–	10	13
– currency	5	14	70	305	–
– equity	–	–	–	14	(6)
– commodity	–	–	(3)	–	–
Forward contracts:					
– interest rate	(28)	3	(19)	–	–
– foreign currency interest rate	–	(5)	21	19	3
– equity	–	–	–	–	–
– commodity	–	–	1	–	–
Swaps:					
– interest rate	(47)	136	(363)	(397)	347
– foreign currency interest rate	90	(95)	711	(641)	1,186
– equity	4	7	9	(70)	(58)
– commodity	–	–	(1)	1	–
Other derivatives	–	–	–	–	–
Futures	–	–	–	–	–
Total trading instruments	**24**	**60**	**426**	**(759)**	**1,485**
Total	**24**	**60**	**462**	**(720)**	**2,577**

At 31 December 2008 Fair value CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Hedging instruments					
Interest rate option contracts	–	–	(4)	28	558
Interest rate swaps	–	–	–	–	(302)
Total hedging instruments	**–**	**–**	**(4)**	**28**	**256**
Trading instruments					
Spot contracts					
Option contracts:					
– interest rate	–	–	–	27	17
– currency	12	(206)	202	719	30
– equity	(3)	(13)	(50)	(1)	(1)
– commodity	–	–	(3)	–	–
Forward contracts:					
– interest rate	46	(34)	(12)	(23)	–
– foreign currency interest rate	(13)	11	31	5	5
– equity	(222)	–	–	–	–
– commodity	1	–	–	–	–
Swaps:					
– interest rate	(13)	(57)	83	23	392
– foreign currency interest rate	(390)	491	36	590	241
– equity	(1)	12	7	(196)	(74)
– commodity	–	–	–	(11)	–
Other derivatives	–	1	–	(120)	(63)
Futures	–	–	–	–	–
Total trading instruments	**(583)**	**205**	**294**	**1,013**	**547**
Total	**(583)**	**205**	**290**	**1,041**	**803**

Fair Value of Other Financial Instruments Except for Derivatives

Fair value estimates are made based on relevant market data and information about the financial instruments. Because no readily available market prices exist for a significant portion of the Bank's financial instruments, fair value estimates for these instruments are based on judgements regarding current economic conditions, currency and interest rate characteristics as well as other factors.

Many of these estimates involve uncertainties and matters of significant judgement and cannot be determined with precision. Therefore, the calculated fair value estimates cannot always be substantiated by comparison to market values and, in many cases, may not be realised in the current sale of the financial instrument. Changes in underlying assumptions used to determine fair value could significantly affect the determined fair value.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented in the statement of financial position at their fair value.

CZK mil.	Carrying value 2009	Estimated fair value 2009	Carrying value 2008	Estimated fair value 2008
Financial assets				
Loans and advances to financial institutions	110,596	109,815	78,713	80,151
Loans and advances to customers, net of provisions	409,045	407,267	404,299	402,611
Securities held to maturity	98,683	102,361	97,117	97,654
Financial liabilities				
Amounts owed to financial institutions	43,158	43,177	41,452	41,323
Amounts owed to customers	517,748	517,579	521,571	521,238
Bonds in issue	62,157	62,892	51,596	52,218
Subordinated debt	13,404	13,085	5,197	4,921

(a) Loans and Advances to Financial Institutions

The fair value of loans and advances to financial institutions is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by Erste Group banks.

(b) Loans and Advances to Customers

Loans and advances to customers are carried net of provisions. The fair value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by Erste Group banks.

(c) Securities and Other Assets Held to Maturity

The fair value of securities held to maturity is based on market prices or price quotations obtained from brokers or dealers. If this information is not available, the fair value is estimated using quoted market values for securities with similar credit risk characteristics, maturities or yield rates or, as and when appropriate, according to the recoverability of the net asset value of these securities.

(d) Amounts Owed to Financial Institutions and Customers

The estimated fair value of amounts owed to financial institutions and customers with no stated maturity which include non-interest bearing deposits, is equal to the amount payable on demand. The fair value of fixed income deposits and other liabilities with no stated market value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar maturities. The fair value of products with no contractually stated maturity (such as sight deposits, passbooks, overdraft facilities) is considered equal to their carrying value.

(e) Bonds in Issue

The aggregate fair value is based on quoted market prices. The fair value of securities where no market price is available is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rate adjusted by the Bank's own credit risk.

(f) Subordinated Debt

Issued subordinated debt is traded on the free market of the PSE. Its fair value is based on quoted market price.

Fair value hierarchy

The Bank uses the following fair value hierarchy reflecting the importance of individual inputs in the process of determining the fair value of financial instruments:

- Level 1: Listed (unaltered) prices on active markets applicable for identical assets or liabilities;
- Level 2: Inputs other than the listed prices included in Level 1 that can be ascertained for the assets or liabilities in question, either directly (i. e. the prices itself) or indirectly (i. e. amounts derived from the prices);
- Level 3: Inputs related to relevant assets or liabilities that are not based on ascertainable market data (i. e. non-ascertainable inputs).

The following table shows the classification of financial instruments at fair value in accordance with the above levels which were used to determine the fair value of the financial instruments as at 31 December 2009:

CZK mil.	Level 1	Level 2	Level 3	Total
Assets				
Securities held for trading	10,594	18,742	–	29,336
Debt securities	10,587	18,742	–	29,329
Equity securities and other variable yield securities	7	–	–	7
Securities designated upon initial recognition as at fair value through profit or loss	4,083	2,165	820	7,068
Debt securities	3,859	2,165	–	6,024
Equity securities and other variable yield securities	224	–	820	1,044
Positive fair value of derivative transactions	14	18,515	–	18,529
Securities available for sale	1,148	2,930	68	4,146
Debt securities	1,144	2,930	–	4,074
Equity securities and other variable yield securities	4	–	68	72
Total assets	**15,839**	**42,352**	**888**	**59,079**
Liabilities				
Liabilities at fair value	4,020	4,109	–	8,129
Customer deposits	–	4,109	–	4,109
Liabilities arising from issued securities at fair value	1,947	–	–	1,947
Payables arising from short sales – debt securities	2,072	–	–	2,072
Payables arising from short sales – shares	1	–	–	1
Negative fair value of derivative transactions	16,126	–	–	16,126
Total liabilities	**20,146**	**4,109**	**–**	**24,255**

The following table shows the classification of financial instruments at fair value in accordance with the above levels which were used to determine the fair value of the financial instruments as at 31 December 2008:

CZK mil.	Level 1	Level 2	Level 3	Total
Assets				
Securities held for trading	25,717	10,795	–	36,512
Debt securities	25,555	10,784	–	36,339
Equity securities and other variable yield securities	162	11		173
Securities designated upon initial recognition as at fair value through profit or loss	8,259	7,770	2,451	18,481
Debt securities	8,259	3,529	1,646	13,434
Equity securities and other variable yield securities	–	4,242	805	5,047
Positive fair value of derivative transactions	9,760	17,456	–	27,216
Securities available for sale	4,732	3,369	223	8,324
Debt securities	4,732	3,369	161	8,262
Equity securities and other variable yield securities	–	–	62	62
Total assets	**48,469**	**39,390**	**2,674**	**90,533**
Liabilities				
Liabilities at fair value	4,253	3,443	–	7,696
Customer deposits	–	3,443	–	3,443
Liabilities arising from issued securities at fair value	1,741	–	–	1,741
Payables arising from short sales – debt securities	2,424	–	–	2,424
Payables arising from short sales – shares	88	–	–	88
Negative fair value of derivative transactions	9,073	16,387	–	25,460
Total liabilities	**13,326**	**19,830**	**–**	**33,156**

The following table shows the changes in the fair value of financial instruments the fair value of which is determined using valuation models not based on ascertainable market data (Level 3):

CZK mil.	Gains/losses from revaluation						Unrealised
	As at 1 January 2009	In income statement	In capital	Sales	Transfer to/from Level 3	As at 31 December 2009	Gains/ losses[x)]
Assets							
Securities designated upon initial recognition as at fair value through profit or loss	2,451	(48)	–	(84)	(1,499)	820	–
Securities available for sale	223	–	9	(162)	(2)	68	–
Total assets	**2,674**	**(48)**	**9**	**(246)**	**(1,501)**	**888**	**–**

[x)] Included in the income statement from instruments held as at 31 December 2009.

There were no significant transfers between Level 1 and 2 in 2009. Several securities were transferred from level 3 to level 2 in 2009 due to the decreased importace of non market observable impulse into the valuation models.

41.3 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet its financial liabilities as they mature or for financing its assets. The Bank's short-term liquidity position is monitored and managed based on expected cash flows and adjusting the structure of interbank deposits and placements accordingly and/or taking other decisions aimed at adjusting the short-term liquidity position of the Bank, for example, balancing the short-term liquidity position in individual currencies.

Mid-term and long-term liquidity is monitored and stressed tested on a monthly basis through the Traffic Light System simulation model which takes into account the anticipated possibility of renewal, preliminary repayment or sale of the Bank's individual positions. The results are presented and discussed in the Operating Liquidity Committee and the ALCO which decide on the need to take measures with respect to liquidity risk exposure.

(a) Maturity Analysis

The table below analyses assets and liabilities of the Bank into relevant maturity groupings as at 31 December 2009, based on the period remaining from the reporting date to the contractual maturity date (remaining maturity). In this analysis, derivatives are reported at their fair values as at the reporting date.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	19,775	–	–	–	–	7,475	27,250
Loans and advances to financial institutions	83,534	19,946	3,978	1,827	1,304	7	110,596
Loans and advances to customers, net of provisions	10,631	16,343	62,567	118,301	155,988	45,215	409,045
Securities at fair value through profit or loss	2,287	2,495	15,021	11,585	3,964	1,052	36,404
Positive fair value of derivative transactions	773	781	2,852	8,058	6,065	–	18,529
Securities available for sale	–	–	408	1,334	2,332	72	4,146
Securities held to maturity	200	1,147	16,380	36,077	44,879	–	98,683
Equity investments in subsidiary and associated undertakings	–	–	–	–	–	7,781	7,781
Other assets	700	501	1,881	1	–	19,476	22,559
Total	**117,900**	**41,213**	**103,087**	**177,183**	**214,532**	**81,078**	**734,993**
Liabilities							
Amounts owed to financial institutions	15,217	7,516	3,990	5,000	11,435	–	43,158
Amounts owed to customers	425,553	18,087	27,314	46,794	–	–	517,748
Liabilities at fair value	140	1,008	3,042	3,330	609	–	8,129
Negative fair value of financial derivative transactions	750	721	2,386	8,783	3,486	–	16,126
Bonds in issue	1,127	216	8,648	16,435	35,731	–	62,157
Subordinated debt	–	–	–	–	13,404	–	13,404
Other liabilities	4,648	528	959	251	34	10,249	16,669
Total	**447,435**	**28,076**	**46,339**	**80,593**	**64,699**	**10,249**	**677,391**
Current gap	**(329,535)**	**13,137**	**56,748**	**96,590**	**149,833**	**70,829**	**57,602**
Cumulative gap	**(329,535)**	**(316,398)**	**(259,650)**	**(163,060)**	**(13,227)**	**57,602**	

The line “Other assets” includes other assets, property and equipment, intangible fixed assets. The line “Other liabilities” includes other liabilities and provisions.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings as at 31 December 2008, based on the remaining maturity.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	20,738	–	–	–	–	2,468	23,206
Loans and advances to financial institutions	47,110	1,842	14,386	5,023	10,345	7	78,713
Loans and advances to customers, net of provisions	13 309	15,341	70,549	126,625	155,398	23,077	404 299
Securities at fair value through profit or loss	1,004	5,802	11,802	21,749	9,416	5,220	54,993
Positive fair value of derivative transactions	1,021	1,725	5,128	11,329	8,013	–	27,216
Securities available for sale	–	213	492	5,255	2,302	62	8,324
Securities held to maturity	250	5,908	8,712	52,473	29,774	–	97,117
Equity investments in subsidiary and associated undertakings	–	–	–	–	–	10 092	10 092
Other assets	526	703	2,452	30	149	20 979	24 839
Total	**83,958**	**31,534**	**113,521**	**222,484**	**215,397**	**61,905**	**728,799**
Liabilities							
Amounts owed to financial institutions	21,646	3,883	2,603	8,079	5,241	–	41,452
Amounts owed to customers	436,226	14,799	19,751	50,795	0	–	521,571
Liabilities at fair value	159	279	885	4,801	1,484	88	7,696
Negative fair value of financial derivative transactions	1,604	1,520	4,838	10,288	7,210	–	25,460
Bonds in issue	1,818	216	1,641	13 611	34 310	–	51 596
Subordinated debt	–	–	–	–	5,197	–	5,197
Other liabilities	2,306	388	572	204	876	9 809	14,155
Total	**463,759**	**21,085**	**30,290**	**87 778**	**54 318**	**9 897**	**667,127**
Current gap	**(379,801)**	**10,449**	**83,231**	**134 706**	**161 079**	**52 008**	**61,672**
Cumulative gap	**(379,801)**	**(369,352)**	**(286,121)**	**(151 415)**	**9 664**	**61 672**	

The line “Other assets” includes other assets, property and equipment, intangible fixed assets. The line “Other liabilities” includes other liabilities and provisions.

(b) Interest Rate Payments

The following tables present expected cash flows from interest received/paid on selected assets and liabilities according to individual time buckets:

At 31 December 2009 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	3	–	–	–	–	3
Loans and advances to financial institutions	64	26	2	–	–	92
Loans and advances to customers, net of provisions	1,958	3,084	9,909	26,174	10,144	51,269
Securities at fair value through profit or loss	14	17	67	177	35	310
Securities available for sale	14	19	45	102	–	180
Securities held to maturity	354	678	2,762	10,729	9,704	24,227
	2,407	**3,824**	**12,785**	**37,182**	**19,883**	**76,081**
Selected liabilities						
Amounts owed to financial institutions	41	46	100	233	83	503
Amounts owed to customers	323	552	1,864	3,912	–	6,651
Bonds in issue	163	298	1,082	3,961	3,948	9,452
Subordinated debt	32	44	127	150	–	353
	559	**940**	**3,173**	**8,256**	**4,031**	**16,959**
Current gap	**1,848**	**2,884**	**9,612**	**28,926**	**15,852**	**59,122**
Cumulative gap	**1,848**	**4,732**	**14,344**	**43,270**	**59,122**	

At 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	4	–	–	–	–	4
Loans and advances to financial institutions	142	105	132	–	–	379
Loans and advances to customers, net of provisions	2,043	3,185	10,116	26,053	9,252	50,649
Securities at fair value through profit or loss	67	88	321	749	147	1,372
Securities available for sale	33	42	94	210	–	379
Securities held to maturity	346	623	2,474	8,898	6,380	18,721
	2,635	**4,043**	**13,137**	**35,910**	**15,779**	**71,504**
Selected liabilities						
Amounts owed to financial institutions	64	33	27	–	–	124
Amounts owed to customers	429	704	2,395	5,101	–	8,629
Bonds in issue	153	274	1,032	3,861	3,671	8,991
Subordinated debt	20	40	90	–	–	150
	666	**1,051**	**3,544**	**8,962**	**3,671**	**17,894**
Current gap	**1,969**	**2,992**	**9,593**	**26,948**	**12,108**	**53,610**
Cumulative gap	**1,969**	**4,961**	**14,554**	**41,502**	**53,610**	

41.4 Operational Risk

In accordance with CNB Regulation 123/2007, the Bank defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human errors, failures of systems or the risk of loss arising from external events, including loss due to the breach of, or failure to fulfil, legal regulations.

With assistance from Erste Group Bank, the Bank put in place a standardised categorisation of operational risks. This classification became the basis of the "Book of Risks of Česká spořitelna", developed in cooperation with the Risk Management and Internal Audit Departments. The Book of Risks is a tool used to achieve unification of risk identification procedures on a group-wide level and unification of risk categorisation in order to ensure consistency of risk monitoring and evaluation.

The Bank has cooperated with an external supplier in developing a specialised software application to collect data about operational risk which conforms to the data collection requirements set out in BASEL II. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. In addition to monitoring actual occurrence of operational risk, the Bank also pays attention to how the operational risk is perceived by management. This risk analysis is assessed annually.

A tool of importance in mitigating losses arising from operational risks is the Bank's insurance programme put in place in 2002. This insurance programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank has joined the Erste Group insurance programme which expands the Bank's insurance protection specifically with regard to damage that may materially impact its profit or loss.

41.5 Capital Risk

As for the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with the BASEL II Pillar 2 rules (Regulation No. 123/2007 Coll.), the Bank switched to Erste Group Bank methodology in 2009. In December 2008, the methodology was approved by the Board of Directors of Erste Group Bank to serve as a uniform set of rules for capital management within the Erste Group. The group-wide rules concentrate in particular on the following objectives:

- Analysis and monitoring of Erste Group risks including issuance of reports;
- Analysis and monitoring of Erste Group capital adequacy requirements including issuance of reports; and
- Forecast of the possible development of the Erste Group risk profile.

Within ICAAP, Erste Group considers the following risks to be completely or partially covered by capital: market risks of the trading portfolio, market risks of the banking portfolio including interest rate, credit and operational risks. Additional risks, e. g. concentration, liquidity, securitisation and macroeconomic risks as well as other risks (reputational and strategic) are already included in the risks covered by capital, or are possibly covered by other risk mitigating techniques, or are not material.

To quantify market and operational risks, the Bank uses VaR methodology for a one year period at a confidence level of 99.9%. In quantifying credit risks, risk weighted assets are used. The overall risk of the Group is the sum of individual risk volumes, i. e. no diversification effect based on a preference of a more conservative approach is applied. The resulting aggregate risk is compared to capital resources determined as the sum of basic and additional capital and the profit for the current year.

The Erste Group methodology determines a limit for maximum risk exposure of individual members of the Group. The limit is based on the amount of capital resources and the previous development of the Bank's risk profile. Česká spořitelna meets the limit set by the majority shareholder with a sufficient degree of reserve.

The ICAAP results of Česká spořitelna are submitted to the ALCO on a quarterly basis. ALCO is the authoritative body regarding capital management within ICAAP.

Erste Group as well as Česká spořitelna monitors ICAAP in order to gradually improve the risk profile and capital sufficiency management system of the Group with a view to future developments and, additionally, in order to progressively use the ICAAP outputs in the decision-making and planning processes pertaining to business activities and financial management in general.

Furthermore, the Bank manages its capital structure as defined in Pillar 1 of BASEL II in compliance with CNB methodology. During the year the Bank complied with the regulatory capital requirements.

Statement of Capital for Capital Adequacy calculation per CNB methodology (BASEL II)

CZK mil.	2009	2008
Total capital	**51,113**	**42,956**
Original capital (Tier 1)	43,614	43,561
of which:		
Share capital (see Note 27)	15,200	15,200
Share premium	2	2
Reserve funds and retained earnings	31,503	32,025
Deductible items from original capital	(3,091)	(3,666)
Additional capital (Tier 2) (see Note 26)	13,404	5,197
Aggregate amount of all deductible items from original and additional capital	(5,905)	(5,802)

42. Contingent Assets, Commitments and Liabilities

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected in the statement of financial position and are referred to as off-balance sheet financial instruments. The following represent the notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Legal Disputes

At the reporting date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Bank is named are resolved.

The Bank is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Bank believes that the various asserted claims and any litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Bank recognises a provision for the litigation (see Note 23).

Assets Pledged

Assets are pledged as collateral under repurchase agreements with other banks and customers in the amount of CZK 7,235 million (2008: CZK 33,775 million). Mandatory reserve deposits are also held with the CNB in accordance with statutory requirements (refer to Note 5). These deposits are not available to finance the Bank's day to day operations.

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, 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 borrowing.

Commitments represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to these commitments represents a potential loss for the Bank. The Bank estimates the potential loss on the basis of the historic development of CCF, PD and LGD. Credit conversion factors indicate the likelihood of the Bank paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Bank believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

In 2009, the Bank recorded provisions for off-balance sheet risks to cover potential losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2009, the aggregate balance of these provisions was CZK 270 million (2008: CZK 187 million). Refer to Note 23.

CZK mil.	2009	2008
Guarantees and letters of credit	31,568	37,567
Undrawn loan commitments	73,910	101,049

Maturity analysis of provided and received commitments and guarantees

The following table presents provided and received commitments and guarantees showing their remaining contractual maturities as at 31 December 2009 and 2008, respectively:

As at 31 December 2009 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unspecified	Total
Provided guarantees and commitments	11,358	7,917	26,917	33,355	4,432	21,499	**105,478**
Received commitment and guarantees	1,503	1,647	6, 874	4,316	9,751	24	**24,115**

As at 31 December 2008 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unspecified	Total
Provided guarantees and commitments	13,888	6,682	31,870	46,364	9,304	30,508	**138,616**
Received commitment and guarantees	2,696	680	3,973	11,690	8,419	90	**27,548**

Operating Leases

The following table presents future cash flows from operating lease agreements where the Bank is a lessee:

As at 31 December 2009 CZK mil.	Less than 1 year	1 to 5 years	Over 5 years	Total
Future operating lease expenses	814	2 311	406	**3 531**

As at 31 December 2008 CZK mil.	Less than 1 year	1 to 5 years	Over 5 years	Total
Future operating lease expenses	764	2 176	409	**3 349**

43. Segment Reporting

(a) Industry Segments

For management purposes, the Bank is organised into the following major operating divisions:

- Retail banking (accepting deposits from the public, providing loans to retail clients, services related to credit and debit cards);
- Commercial banking (providing loans to corporate clients and municipalities, issuance of guarantees, opening of letters of credit);
- Investment banking (securities investments, proprietary trading and trading on behalf of clients with securities, foreign exchange assets, entering into futures and options including foreign currency and interest rate transactions, financial brokerage, custodial services, participation in issuance of stock, management, safe-keeping and administration of securities or other assets); and
- Other operations (such as support services, administrative expenses, payment system, provisions, equity investments, etc.).

2009 CZK mil.	Retail	Commercial	Banking Investment	Other activities	Total
Revenue					
External income	32,180	6,168	2,571	2,528	43,447
Income from other segments	–	–	–	–	–
Segment revenue	**32,180**	**6,168**	**2,571**	**2,528**	**43,447**
Profit					
Segment profit	**13,240**	**884**	**1,344**	**(1,378)**	**14,090**
Unallocated costs					
Profit before tax					14,090
Income tax					(2,845)
Total profit					**11,245**
Other information					
Asset acquisition	1,148	17	106	1,021	2,292
Write-offs and depreciation	914	–	40	1,646	2,600
Impairment losses	51	–	–	3	54
Statement of financial position					
Assets					
Segment assets	282,954	157,210	268,237	24,810	733,211
Unallocated assets					1,782
Total assets					**734,993**
Liabilities					
Segment liabilities	404,838	77,511	172,966	27	655,342
Unallocated liabilities					22,049
Total liabilities					**677,391**

Segment income is composed of "Net interest income", "Net fee and commission income", "Net trading result", "Total other operating income", "Income from the revaluation/sale of securities", and "Gains on the sale of equity investments" (refer to Note 36).

2008 CZK mil.	Retail	Commercial	Banking Investment	Other activities	Total
Revenue					
External income	28,970	4,792	2,837	7,962	44,561
Income from other segments	–	–	–	–	–
Segment revenue	**28,970**	**4,792**	**2,837**	**7,962**	**44,561**
Profit					
Segment profit	**13,960**	**2,050**	**(2,509)**	**6,658**	**20,159**
Unallocated costs					(2,653)
Profit before tax					17,506
Income tax					(2,524)
Total profit					**14,982**
Other information					
Asset acquisition	1,563	16	188	795	2,562
Write-offs and depreciation	895	–	41	1,760	2,696
Cancellation of Impairment losses	2	–	–	–	2
Statement of financial position					
Assets					
Segment assets	270,777	167,900	262,765	25,680	727,122
Unallocated assets					1,677
Total assets					**728,799**
Liabilities					
Segment liabilities	408,149	69,857	179,785	80	657,871
Unallocated liabilities					9,256
Total liabilities					**667,127**

Segment income is composed of "Net interest income", "Net fee and commission income", "Net trading result", "Total other operating income", "Income from the revaluation/sale of securities", and "Gains on the sale of equity investments" (refer to Note 36).

(b) Geographical Segments

The Bank operates predominantly within the Czech Republic and has no significant cross border operations.

The geographical concentration of assets and liabilities as at 31 December 2009 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	24,719	1,770	177	584	27,250
Loans and advances to financial institutions	77,502	32,456	7	631	110,596
Loans and advances to customers, net of provisions	400,219	7,269	869	688	409,045
Securities at fair value through profit or loss	30,076	5,683	0	645	36,404
Positive fair value of derivative transactions	5,963	12,520	0	46	18,529
Securities available for sale	2,305	1,825	7	9	4,146
Securities held to maturity	76,644	18,076	255	3,708	98,683
Equity investments in subsidiary and associated undertakings	3,941	3,840	0	0	7,781
Other assets	21,787	691	9	72	22,559
Total assets	**643,156**	**84,130**	**1,324**	**6,383**	**734,993**
Liabilities					
Amounts owed to financial institutions	22,376	20,607	1	174	43,158
Amounts owed to customers	510,510	5,067	1,225	946	517,748
Liabilities at fair value	8,096	19	13	1	8,129
Negative fair value of derivative transactions	3,509	12,506	0	111	16,126
Bonds in issue	62,000	142	15	0	62,157
Subordinated debt	5,984	7,418	2	0	13,404
Other liabilities	16,501	166	1	1	16,669
Total liabilities	**628,976**	**45,925**	**1,257**	**1,233**	**677,391**
Net position	**14,180**	**38,205**	**67**	**5,150**	**57,602**

The line “Other assets” includes other assets, property and equipment, intangible fixed assets. The line “Other liabilities” includes other liabilities and provisions.

Information about the geographical structure of revenue from external clients is not available and the cost of obtaining such information would be disproportionate.

The geographical concentration of assets and liabilities as at 31 December 2008 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	21,038	1,650	221	297	23,206
Loans and advances to financial institutions	20,487	53,881	1,414	2,931	78,713
Loans and advances to customers, net of provisions	395,176	7,343	925	855	404,299
Securities at fair value through profit or loss	41,938	12,105	236	714	54,993
Positive fair value of derivative transactions	9,389	17,787	3	37	27,216
Securities available for sale	5,041	3,120	89	74	8,324
Securities held to maturity	68,523	24,284	1,000	3,310	97,117
Equity investments in subsidiary and associated undertakings	3,780	6,312	–	–	10,092
Other assets	23,271	1,440	35	93	24,839
Total assets	**588,643**	**127,922**	**3,923**	**8,311**	**728,799**
Liabilities					
Amounts owed to financial institutions	23,596	17,372	67	417	41,452
Amounts owed to customers	515,739	3,560	1,369	903	521,571
Liabilities at fair value	7,634	48	13	1	7,696
Negative fair value of derivative transactions	5,266	20,043	–	151	25,460
Bonds in issue	51,230	360	6	–	51,596
Subordinated debt	4,661	536	–	–	5,197
Other liabilities	13,804	289	3	59	14,155
Total liabilities	**621,930**	**42,208**	**1,458**	**1,531**	**667,127**
Net position	**(33,287)**	**85,714**	**2,465**	**6,780**	**61,672**

The line "Other assets" includes other assets, property and equipment, intangible fixed assets. The line "Other liabilities" includes other liabilities and provisions.

44. Trading on Behalf of Clients

(a) Assets Under Administration

The Bank provides custodial, trustee, investment management and advisory services to third parties which involve the Bank making purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Bank administered CZK 226,719 million (2008: CZK 188,534 million) of assets as at 31 December 2009 representing securities and other assets received from customers into its custody for administration and safe-keeping split as follows:

CZK mil.	2009	2008
Customer securities in custody	21,251	15,331
Customer securities under administration	165,815	137,660
Customer securities for safe-keeping	33	33
Assets received for management	39,620	35,510
Total	**226,719**	**188,534**

In addition to customer assets arising from the provision of investment services (refer to Note 51), the total balance includes bills of exchange and other securities collateralising loans and other assets that do not relate to the provision of investment services.

The Bank also acts as a depositary for several mutual, investment and pension funds, whose assets amounted to CZK 88,302 million as at 31 December 2009 (2008: CZK 81,956 million).

(b) Payables arising from the Provision of Investment Services

Investment services involve receiving and providing instructions related to investment instruments, performing instructions relating to investment instruments to a third party account, proprietary trading with investment instruments, management of customer assets under a contractual arrangement with the client if these assets include an investment instrument, and investment instrument underwriting or placement.

Additional investment services involve administration and custody of investment instruments, issuing loans to clients for the purpose of trading with investment instruments if the issuer of the loan takes part in the transaction, advisory services relating to capital structuring, industrial strategy, investments in investment instruments, provision of advice and services related to mergers and acquisitions, implementation of foreign exchange transactions relating to the provision of investment services, services related to the underwriting of investment instrument issues and the rental of safety deposit boxes.

In connection with the provision of these services, the Bank received cash and investment instruments from clients or in exchange for these assets the Bank obtained cash or investment instruments on behalf of its clients ("customer assets"), which amounted to CZK 185,666 million as at 31 December 2009 (2008: CZK 142,822 million).

45. Related Party Transactions

Related parties involve connected entities or parties that have a special relationship to the Bank.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other in making financial or operational decisions. The Bank is controlled by Erste Group Bank. Erste Stiftung exercises significant influence over the Bank. The remaining investment in the Bank is held by minority shareholders and institutional investors via freely traded shares on the stock exchanges in Vienna, Prague and Bucharest.

The parties that have a special relationship to the Bank are considered to be members of the Bank's statutory and supervisory bodies and management, legal entities exercising control over the Bank (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Bank's statutory and supervisory bodies, management, and entities exercising control over the Bank, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Bank and any other legal entity under their control, members of the CNB's Banking Board, and legal entities which the Bank controls.

Pursuant to the definitions outlined above, the Bank's related parties principally comprises its subsidiary and associated undertakings, members of its Board of Directors and Supervisory Board, and other entities, namely Erste Group Bank, its subsidiary and associated undertakings, and subsidiary and associated undertakings owned by the Bank's subsidiaries.

The Bank has the following amounts due to/from related parties as at 31 December 2009 and 2008:

2009 CZK mil.	Parent bank	Subsidiaries	Associates	Members of the Board of Directors and Supervisory Board	Other related parties
Assets					
Loans and advances to financial institutions	19,961	–	–	–	2,976
Loans and advances to customers	–	11,424	–	12	1,033
Securities held to maturity	–	–	–	–	699
Positive fair value of financial derivative transactions	7,826	225	–	–	55
Other assets	196	132	–	–	50
Total assets	**27,983**	**11,781**	**–**	**12**	**4,813**
Liabilities					
Amounts owed to financial institutions	8,137	12,225	–	–	281
Amounts owed to customers	–	4,034	67	15	392
Bonds in issue	80	19,038	–	–	80
Negative fair value of derivative transactions	8,053	4	–	–	7
Other liabilities	166	552	280	–	279
Subordinated debt	6,580	–	–	–	299
Total liabilities	**23,016**	**35,853**	**347**	**15**	**1,338**
Off balance sheet					
Undrawn loans	299	235	–	–	242
Issued guarantees	2	13,949	–	–	43
Received guarantees	–	–	–	–	3
Positive nominal value of derivatives	343,307	8,425	–	–	1,472
Negative nominal value of financial derivatives	(343,426)	(8,424)	–	–	(1,425)
Income					
Interest income	548	434	–	1	66
Dividends received	–	669	–	–	9
Fee and commission income	15	930	–	–	76
Net trading result	3,502	170	–	–	57
Other operating income		79	–	–	20
Total income	**4,065**	**2,282**	**–**	**1**	**228**
Expenses					
Interest expense	301	903	–	–	14
Fee and commission expense	29	87	–	–	3
General administrative expenses	86	264	1,205	–	318
Other operating expenses	1,106	–	–	–	–
Total expenses	**1,522**	**1,254**	**1,205**	**–**	**335**

2008 CZK mil.	Parent bank	Subsidiaries	Associates	Members of the Board of Directors and Supervisory Board	Other related parties
Assets					
Loans and advances to financial institutions	26,654	–	–	–	2,158
Loans and advances to customers	–	8,220	–	10	1,463
Securities at fair value through profit or loss	73	–	–	–	–
Securities held to maturity	–	–	–	–	594
Positive fair value of financial derivative transactions	10,189	182	–	–	9
Other assets	260	215	7	–	19
Total assets	**37,176**	**8,617**	**7**	**10**	**4,243**
Liabilities					
Amounts owed to financial institutions	10,659	4,372	–	–	103
Amounts owed to customers	–	3,519	38	17	352
Bonds in issue	87	12,392	–	–	–
Negative fair value of derivative transactions	12,999	–	–	–	18
Other liabilities	111	305	19	–	164
Subordinated debt	107	–	–	–	300
Total liabilities	**23,963**	**20,588**	**57**	**17**	**937**
Off balance sheet					
Undrawn loans	166	4,614	–	–	316
Issued guarantees	9	19,685	–	–	2
Received guarantees	1,174	–	–	–	2
Positive nominal value of derivatives	489,428	2,657	–	–	763
Negative nominal value of financial derivatives	(492,377)	(2,631)	–	–	(775)
Income					
Interest income	636	408	2	8	137
Dividends received	–	831	5	–	–
Fee and commission income	23	1,489	–	–	118
Net trading result	(4,668)	145	–	–	52
Other operating income	797	60	1		12
Total income	**(3,212)**	**2,933**	**8**	**8**	**319**
Expenses					**–**
Interest expense	480	704	–	–	34
Fee and commission expense	1	41	–	–	7
General administrative expenses	106	265	514	–	502
Total expenses	**587**	**1,010**	**514**	**–**	**543**

Subsidiaries include both direct and indirect investments with controlling influence, associates include both direct and indirect investments with significant influence, other related parties include companies directly or indirectly controlled by Erste Group Bank.

(a) Members of the Board of Directors and Supervisory Board

Loans and advances granted to members of the Board of Directors and Supervisory Board amounted to CZK 12 million as at 31 December 2009 (2008: CZK 10 million).

Members of the Board of Directors and Supervisory Board hold no shares of the Bank. Under the ESOP (refer to Note 35), members of the Board of Directors subscribed for 33,719 shares (2008: 41,019 shares) of the parent company, Erste Group Bank. Under the MSOP (refer to Note 35), members of the Board of Directors hold 9,000 options (2008: 24,000 options) for subscription of shares of the parent company, Erste Group Bank.

(b) Related Parties

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis.

46. Dividends

Management of the Bank has proposed that total dividends of CZK 4,560 million be declared in respect of the profit for the year ended 31 December 2009, which represents CZK 30 per both ordinary and preference share (2008: CZK 15,504 million, that is, CZK 102 per both ordinary and preference share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an EU member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to a withholding tax.

47. Subsequent Events

No significant events that would have a material impact on the financial statements for the year ended 31 December 2009 occurred subsequent to the reporting date.

Report on Relations between Related Parties

Pursuant to § 66a (9) of Act No. 513/1991 Coll., The Commercial Code for the Accounting Period from 1 January 2009 to 31 December 2009

Česká spořitelna, a. s., with its registered office at Olbrachtova 1929/62, 140 00 Prague 4, Business registration No. 45244782, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 1171 (henceforth **"Česká spořitelna"**), is part of a business group (holding) in which the following relations between Česká spořitelna and controlling parties and between Česká spořitelna and persons controlled by the same controlling parties (henceforth the **"related parties"**) exist.

This report on relations between the parties hereunder was prepared pursuant to the provision of § 66a(9) of Act No. 513/1991 Coll., The Commercial Code, as amended, for the accounting period from 1 January 2009 to 31 December 2009 (henceforth the **"accounting period"**). In this accounting period, Česká spořitelna and the parties hereunder entered into the following contracts and adopted or enacted the following legal acts and other de facto measures. This report provides the financial details of transactions with related parties for the accounting period from 1 January 2009 to 31 December 2009.

A. Chart of Parties Whose Relationships are Described

Erste Group Bank

Other related parties*

EGB Ceps Beteiligungen

EGB Ceps Holding

Česká spořitelna

Becon	BGA Czech	brokerjet ČS
CEE Property Development	CP Praha	CPDP 2003
CPDP IT Centrum	CPDP Jungmannova	CPDP LPK I
CPDP LPK II	CPDP Polygon	CPDP SMK
CPP Lux	CSPF Residential	CS Property Investment
Czech and Slovak Property	Dinesia	Erste Corporate Finance
Factoring ČS	Gallery Myšák	GRANTIKA ČS
Informatika ČS	ISČS PF1	NHS Czech
Nové Butovice	PARTNER ČS	Penzijní fond ČS
Realitní společnost ČS	REICO ČS	s Autoleasing
s Autoúvěr	Stavební spořitelna ČS	Smíchov Real Estate
Solitaire Real Estate	Satpo Jeseniova	Tavaresa

* enterprises listed in Part C. Other related parties, Erste Group Bank

B. Controlling Parties

– **Erste Group Bank AG,**
Am Graben 21, Vienna, Austria ("Erste Group Bank")
Relationship to the Company: controlling party

– **EGB Ceps Beteiligungen GmbH,**
Am Graben 21, Vienna, Austria ("EGB Ceps Beteiligungen")
Relationship to the Company: controlling party

– **EGB Ceps Holding GmbH,**
Am Graben 21, Vienna, Austria ("EGB Ceps Holding")
Relationship to the Company: controlling party

C. Other Related Parties whose Relationships Are Described

Other Related Parties, Erste Group Bank

– **Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft,**
Promenade 11, Linz, Austria
Relationship to the Company: related party

– **Banca Comerciala Romana,**
Regina Elisabeta Blvd 5, Bucharest, Romania
Relationship to the Company: related party

– **Bankhaus Krentschker & Co. Aktiengesellschaft,**
Am Eisernen Tor 3, Graz, Austria
Relationship to the Company: related party

– **CT Borská Pole, a. s.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **CT Brno Heršpická, spol. s r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **CT Iota, spol. s r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **CT Rho, spol. s r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **CTFinance s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **CTP Heršpická, spol. s r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **CTPark Bor, spol. s r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Dezentrale IT-Infrastruktur Services GmbH,**
Geiselbergstrasse 21, Vienna, Austria
Relationship to the Company: related party

– **ecetra Central European e–Finance AG,**
Neutorgasse 2, Vienna, Austria
Relationship to the Company: related party

– **Epsilon Immorent s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Erste Asset Management GmbH,**
Habsburgergasse 2, Vienna, Austria
Relationship to the Company: related party

– **Erste Bank der österreichischen Sparkassen AG,**
Am Graben 21, Vienna, Austria
Relationship to the Company: related party

– **Erste Bank Hungary Nyrt,**
Hold utca 16, Budapest, Hungary
Relationship to the Company: related party

– **Erste Corporate Finance GmbH,**
Obere Donaustrasse 17-19, Vienna, Austria
Relationship to the Company: related party

– **Erste Reinsurance S. A.,**
rue de Scillas 45, Howald, Luxembourg
Relationship to the Company: related party

– **Erste Securities Polska S. A.,**
ul. Królewska 16, Warsaw, Poland
Relationship to the Company: related party

– **Erste-Sparinvest Kapitalanlagegesellschaft m. b. H.,**
Habsburgergasse 1, Vienna, Austria
Relationship to the Company: related party

– **Erste & Steiermärkische bank d. d., Rijeka,**
Jadranski trg 3, Rijeka, Croatia
Relationship to the Company: related party

– **Factoring Slovenskej sporiteľni, a. s.,**
Tomášikova 48, Bratislava, Slovakia
Relationship to the Company: related party

– **Grand Hotel Marienbad s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Aktiengesellschaft,**
Windmühlgasse 22–24, Vienna, Austria
Relationship to the Company: related party

– **Immorent Avenir 3 s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Brno Retail, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent ČR, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Development s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Financeprojekt s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Hrádek, a. s.,**
Národní 41/973, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Cheb s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Chomutov, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Inprox Budweis s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Investment XVII, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Investment XX, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Investment XXV, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Jilská s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Kladno, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Leasfinance s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Orange s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Orange Ostrava s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Ostrava I s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Plzeň s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent PTC, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent TMIS s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Immorent Vega, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Informations-Technologie Austria CZ, s. r. o.,**
Antala Staška 32/1292, Prague 4, Czech Republic
Relationship to the Company: related party

– **Informations-Technologie Austria SK, spol. s r. o.,**
Prievozská 10, Bratislava, Slovakia
Relationship to the Company: related party

– **Inprox Frýdek-Místek s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Investiční společnost České spořitelny, a. s.,**
Evropská 2690/17, Prague 6, Czech Republic
Relationship to the Company: related party

– **Jablonecká realitní a. s.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Lambda Immorent s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Logcap ČR s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Malá Štěpánská 17 s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Mocero reality s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **ÖCI – Unternehmensbeteiligungs-gesellschaft m. b. H.,**
Am Graben 21, Vienna, Austria
Relationship to the Company: related party

– **OM Objektmanagement GmbH,**
Schwarzenbergplatz 2, Vienna, Austria
Relationship to the Company: related party

– **Omega Immorent s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Procurement Services CZ, s. r. o.,**
Želetavská 1449/9, Prague 4, Czech Republic
Relationship to the Company: related party

– **Procurement Services GmbH,**
Brehmstrasse 12, Vienna, Austria
Relationship to the Company: related party

– **Proxima Immorent, s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Public Company Erste Bank,**
Proreznaja 6, Kiev, Ukraine
Relationship to the Company: related party

– **Retail Kopřivnice spol. s r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Retail Příbram spol. s r. o. ,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **s IT Solutions AT Spardat GmbH,**
Geiselbergstrasse 21–25, Vienna, Austria
Relationship to the Company: related party

– **s IT Solutions CZ, s. r. o.,**
Antala Staška 32/1292, Prague 4, Czech Republic
Relationship to the Company: related party

– **s IT Solutions Holding GmbH,**
Geiselbergstrasse 21–25, Vienna, Austria
Relationship to the Company: related party

– **s IT Solutions SK, spol. s r. o.,**
Prievozská 14, Bratislava, Slovakia
Relationship to the Company: related party

– **S Morava leasing, a. s.,**
Horní náměstí 264/18, Znojmo, Czech Republic
Relationship to the Company: related party

– **Senior Park a. s.,**
Na Strži 1702/65, Prague 4, Czech Republic
Relationship to the Company: related party

– **Slovenská sporiteľňa, a. s.,**
Tomášikova 48, Bratislava, Slovakia
Relationship to the Company: related party

– **Sparkasse Schwaz AG,**
Franz-Josef-Strasse 8-10, Schwaz, Austria
Relationship to the Company: related party

– **Sparkasse der Sdadt Kitzbühel AG,**
Bahnhofstrasse 6, Kitzbühel, Austria
Relationship to the Company: related party

– **Theta Immorent s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

– **Waldviertler Sparkasse von 1842 AG,**
Hauptplatz 22, 3830 Waidhofen a.d. Thaya, Austria
Relationship to the Company: related party

– **Weinviertler Sparkasse AG,**
Hauptplatz 10, Hollabrunn, Austria
Relationship to the Company: related party

– **Zeta Immorent s. r. o.,**
Národní 973/41, Prague 1, Czech Republic
Relationship to the Company: related party

Other Related Parties, Česká spořitelna Financial Group

– **Becon s. r. o.,**
Rozkošného 1058/3, Prague 5, Czech Republic (“Becon”)
Relationship to the Company: indirectly controlled party

– **BGA Czech s.r.o.,**
Rozkošného 1058/3, Prague 5, Czech Republic
("BGA Czech")
Relationship to the Company: indirectly controlled party

– **brokerjet České spořitelny, a.s.,**
Evropská 2690/17, Prague 6, Czech Republic
("brokerjet ČS")
Relationship to the Company: directly controlled party

– **CEE Property Development Portfolio B.V.,**
Naritawes 165 Telestone 8, 1043 BW Amsterdam,
Netherlands ("CEE Property Development")
Relationship to the Company: directly controlled party

– **CP Praha s.r.o.,**
Koněvova 929/19, Prague 3, Czech Republic
("CP Praha")
Relationship to the Company: indirectly controlled party

– **CPDP 2003 s.r.o.,**
Vodičkova 710/31, Prague 1, Czech Republic
("CPDP 2003")
Relationship to the Company: indirectly controlled party

– **CPDP IT Centrum s.r.o.,**
Vodičkova 710/31, Prague 1, Czech Republic
("CPDP IT Centrum")
Relationship to the Company: indirectly controlled party

– **CPDP Jungmannova s.r.o.,**
Vodičkova 710/31, Prague 1, Czech Republic
("CPDP Jungmannova")
Relationship to the Company: indirectly controlled party

– **CPDP Logistics Park Kladno I a.s.,**
Vodičkova 710/31, Prague 1, Czech Republic
("CPDP LPK")
Relationship to the Company: indirectly controlled party

– **CPDP Logistics Park Kladno II a.s.,**
Vodičkova 710/31, Prague 1, Czech Republic
("CPDP LPK II")
Relationship to the Company: indirectly controlled party

– **CPDP Polygon s.r.o.,**
Vodičkova 710/31, Prague 1, Czech Republic
("CPDP Polygon")
Relationship to the Company: indirectly controlled party

– **CPDP Shopping Mall Kladno, a.s.,**
Vodičkova 710/31, Prague 1, Czech Republic
("CPDP SMK")
Relationship to the Company: indirectly controlled party

– **CPP Lux S.'ar.l.,**
Rue de la Poste 20, Luxembourg, Luxembourg
("CPP Lux")
Relationship to the Company: indirectly controlled party

– **CSPF Residential B.V.,**
Fred Roeskestraat 123, Amsterdam, Netherlands
("CSPF Residential")
Relationship to the Company: indirectly controlled party

– **CS Property Investment Limited,**
Themistokli Dervi 48, Nicosia, Cyprus
("CS Property Investment")
Relationship to the Company: directly controlled party

– **Czech and Slovak Property Fund B.V.,**
Fred Roeskerstraat 123, Amsterdam, Netherlands
("Czech and Slovak Property")
Relationship to the Company: directly controlled party

– **Dinesia a.s.,**
Střelničná 8, Prague 8, Czech Republic ("Dinesia")
Relationship to the Company: indirectly controlled party

– **Erste Corporate Finance, a.s.,**
Evropská 2690/17, Prague 6, Czech Republic
("Erste Corporate Finance")
Relationship to the Company: directly controlled party

– **Factoring České spořitelny, a.s.,**
Budějovická 1518/13B, Prague 4, Czech Republic
("Factoring ČS")
Relationship to the Company: directly controlled party

– **Gallery Myšák s.r.o.,**
Vodičkova 710/31, Prague 1, Czech Republic
("Gallery Myšák")
Relationship to the Company: indirectly controlled party

– **GRANTIKA České spořitelny, a.s.,**
Jakubské nám. 101/2, Brno, Czech Republic
("GRANTIKA ČS")
Relationship to the Company: directly controlled party

– **Informatika České spořitelny, a.s.,**
Antala Staška 32/1292, Prague 4, Czech Republic
("Informatika ČS")
Relationship to the Company: directly controlled party

– **Investiční společnost České spořitelny, a.s.,**
PF1 – otevřený podílový fond, Evropská 2690/17,
Prague 6, Czech Republic ("ISČS PF1")
Relationship to the Company: indirectly controlled party

– **NHS Czech, s.r.o.,**
Rozkošného 1058/3, Prague 5, Czech Republic
("NHS Czech")
Relationship to the Company: indirectly controlled party

– **Nové Butovice Development s.r.o.,**
Rozkošného 1058/3, Prague 5, Czech Republic
("Nové Butovice")
Relationship to the Company: indirectly controlled party

– **PARTNER České spořitelny, a.s.,**
Poláčkova 1976/2, Prague 4, Czech Republic
("PARTNER ČS")
Relationship to the Company: directly controlled party

– **Penzijní fond České spořitelny, a.s.,**
Poláčkova 1976/2, Prague 4, Czech Republic
("Penzijní fond ČS")
Relationship to the Company: directly controlled party

– **Realitní společnost České spořitelny, a.s.,**
Vinohradská 180/1632 , Prague 3, Czech Republic
("Realitní společnost ČS")
Relationship to the Company: directly controlled party

– **REICO investiční společnost České spořitelny, a.s.,**
Antala Staška 2027/79, Prague 4, Czech Republic
("REICO ČS")
Relationship to the Company: directly controlled party

– **s Autoleasing, a.s.,**
Střelničná 8, Prague 8, Czech Republic ("s Autoleasing")
Relationship to the Company: directly controlled party

– **s Autoúvěr, a.s.,**
Střelničná 8, Prague 8, Czech Republic ("s Autoúvěr")
Relationship to the Company: indirectly controlled party

– **Satpo Jeseniova, s.r.o.,**
Plzeňská 3217/16, Prague 5, Czech Republic
("Satpo Jeseniova")
Relationship to the Company: indirectly controlled party

– **Smíchov Real Estate, a.s.,**
Rozkošného 1058/3, Prague 5, Czech Republic
("Smíchov Real Estate")
Relationship to the Company: indirectly controlled party

– **Solitaire Real Estate, a.s.,**
Rozkošného 1058/3, Prague 5, Czech Republic
("Solitaire Real Estate")
Relationship to the Company: indirectly controlled party

– **Stavební spořitelna České spořitelny, a.s.,**
Vinohradská 180/1632, Prague 3, Czech Republic
("Stavební spořitelna ČS")
Relationship to the Company: directly controlled party

– **Tavaresa a.s.,**
Vodičkova 710/31, Prague 1, Czech Republic
("Tavaresa")
Relationship to the Company: indirectly controlled party

D. Transactions with Related Parties

Česká spořitelna identified relationships with the related parties listed in sections B and C and compiled them into the following categories.

Related Party Transactions Recorded on the Assets Side of Česká spořitelna's Balance Sheet

Loans and Advances to Financial Institutions

Within approved general limits (see page 239), Česká spořitelna provided related parties – financial institutions with funds on the basis of contracts for, inter alia, the provision of loans, term deposits, current account administration and overdraft facilities under standard business conditions in an aggregate amount of CZK 22,937 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Loans and Advances to Customers

Within approved general limits (see page 239), Česká spořitelna provided related parties – non-financial institutions with funds on the basis of contracts for, inter alia, the provision of loans and overdraft facilities under standard business conditions in an aggregate amount of CZK 12,457 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Securities Held to Maturity

Česká spořitelna holds held-to-maturity bonds and similar securities issued by related parties, which were purchased under standard market conditions in an aggregate amount of CZK 699 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Positive Fair Value of Financial Derivative Transactions

Česká spořitelna entered into contracts for hedging or trading financial derivatives with related parties under standard market conditions, the positive fair value of which was CZK 8,106 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Other Assets

Other assets includes other trade receivables of Česká spořitelna from related parties in an aggregate amount of CZK 378 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Related Party Transactions Recorded on the Liabilities Side of Česká spořitelna's Balance Sheet

Amounts Owed to Financial Institutions

In the accounting period, Česká spořitelna provided related parties – financial institutions with monetary services associated, inter alia, with the administration of current and term accounts, received loans and loro accounts based on contracts for the opening and administration of accounts under standard business conditions in an aggregate amount of CZK 20,643 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of the performance of these contracts in the current accounting period.

Amounts Owed to Clients

In the accounting period, Česká spořitelna provided related parties – non-financial institutions with monetary services associated, inter alia, with the administration of current and term accounts, received loans and credit balances on overdraft facilities based on contracts for the opening and administration of accounts under standard business conditions in an aggregate amount of CZK 4,493 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of the performance of these contracts in the current accounting period.

Bonds Issued by Česká spořitelna

Related parties hold bonds and similar securities issued by Česká spořitelna, which were purchased under standard market conditions in an aggregate amount of CZK 19,198 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Negative Fair Value of Financial Derivative Transactions

Česká spořitelna entered into contracts for hedging or trading financial derivatives under standard market conditions with related parties, the negative fair value of which was CZK 8,064 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Subordinate Debt

Related parties hold subordinate bonds issued by Česká spořitelna, which were purchased under standard market conditions in an aggregate amount of CZK 6,879 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Other Liabilities

Other liabilities includes other trade payables of Česká spořitelna to related parties in an aggregate amount of CZK 1,277 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Related Party Transactions Impacting Česká spořitelna's Income Statement

Interest Income

In the accounting period, Česká spořitelna generated total interest income of CZK 1,727 million, including dividends, from transactions with related parties enacted under standard market or business conditions. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Interest Expense

In the accounting period, Česká spořitelna incurred total interest expense of CZK 1,218 million from transactions with related parties enacted under standard market or business conditions. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Fee and Commission Income

In the accounting period, Česká spořitelna received fee and commission income primarily comprising fees and commissions for asset management, depository services and the sale of subsidiaries' products in an aggregate amount of CZK 1,021 million as a part of transactions with related parties enacted under standard market or business conditions. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Fee and Commission Expense

In the accounting period, Česká spořitelna incurred fee and commission expense primarily comprising transaction fees in an aggregate amount of CZK 119 million as a part of transactions with related parties enacted under standard market or business conditions. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Net Trading Result

In the accounting period, Česká spořitelna incurred a net profit of CZK 1,259 million from securities transactions, foreign currency transactions and similar transactions with related parties, including income and expense from changes in the fair value of non-hedging derivatives, enacted under standard market or business conditions. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period. The foregoing amount does not include a sum of CZK 2,470 million arising from the revaluation of currency derivative transactions, which reflects unrealised foreign exchange gains and losses from transactions that Česká spořitelna has entered into with clients and, in the mirror opposite position, with related parties. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

General Administrative Expenses

In the accounting period, Česká spořitelna incurred CZK 1,873 million in general administrative expenses in respect of related parties, in particular for the purchase of goods, material, insurance, advisory, professional, consulting or maintenance services under standard mar-

ket or business conditions. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Other Operating Income / Expense

In the accounting period, Česká spořitelna reported a negative balance of other operating income and expense in an aggregate amount of CZK −1,007 million as part of other transactions with related parties, in particular the provision of outsourcing services and client centre services, and as part of profit and loss from the sale and revaluation of securities valued at fair market value and available-for-sale securities, all executed under standard market or business conditions. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Other Banking and Trade Relationships with Related Parties

General Limits

Česká spořitelna has instituted approved general limits for related-party transactions; these apply to current and term deposits, loans, repurchase transactions, own securities, letters of credit and provided and received guarantees in an aggregate amount of CZK 113,428 million. Under these limits, the total exposure to related parties was CZK 46,925 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Provided and Received Guarantees

Česká spořitelna provided related parties with guarantees based on contracts for the provision of guarantees under standard business conditions. Provided guarantees totalled CZK 13,994 million. Česká spořitelna received related-party guarantees based on contracts for the acceptance of bank guarantees under standard business conditions in an aggregate amount of CZK 3 million. Česká spořitelna incurred no detriment as a result of the performance of these contracts in the current accounting period.

Fixed-term Contracts

In the accounting period, Česká spořitelna entered into fixed-term contracts with related parties under standard market conditions. The nominal value of receivables and payables arising from fixed-term contracts was CZK 353,204 million and CZK 353,275 million, respectively, at the 2009 year-end. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Equity Transactions with Related Parties

In the accounting period, Česká spořitelna, as a market maker, purchased and sold shares of related parties under standard market conditions with an aggregate turnover of CZK 13,659 million. Česká spořitelna incurred no detriment as a result of these transactions in the current accounting period.

Paid Dividends

Based on a General Meeting decision of 29 April 2009, Česká spořitelna paid dividends totalling CZK 15,190 million to related parties in the accounting period. Česká spořitelna incurred no detriment as a result of the execution of this decision.

E. Non-banking Related-party Transactions

In previous accounting periods, Česká spořitelna entered into contracts with related parties listed in Sections B and C pertaining to non-banking relations, the financial details of which for the accounting period are presented in Section D. In the accounting period, Česká spořitelna entered into new contracts with related parties listed in Sections B and C pertaining to non-banking relationships, the financial details of which for the accounting period are included in Section D. The list below includes significant non-banking contracts concluded with related parties in the accounting period. Non-material contractual relations under which Česká spořitelna received or provided non-banking performance with related parties, whose financial details are also included in Section D and which resulted in no detriment to Česká spořitelna, are not included in this report.

Contract name	Contract party	Performance description	Detriment
Lease agreement	brokerjet České spořitelny, a. s.	Leasing of non-residential premises	None incurred
Contract for the transfer of shares for a consideration	Erste Asset Management GmbH	Sale of a 100% equity share in Investiční společnosti České spořitelny, a. s.	None incurred
Contract for the transfer of shares for a consideration	Erste Corporate Finance GmbH	Purchase of a 24.83% equity share in Erste Corporate Finance, a. s.	None incurred
Contract for the transfer of an equity share	Erste Group Bank AG	Purchase of a 40% equity share in ÖCI Unternehmens-beteiligungsgesellschaft m. b. H.	None incurred
Erste Group Bank Employee Stock Ownership Program “ESOP”	Erste Group Bank AG	Settlement of a 20% discount on share subscriptions by employees utilising the option to subscribe Erste Group Bank AG shares	None incurred
Operating risk insurance program	Erste Reinsurance S. A.	Insurance for operating risks	None incurred
Sub-lease agreement	Factoring České spořitelny, a. s.	Leasing of non-residential premises	None incurred
Implementing agreements for the provision of servicing and maintenance	Informatika České spořitelny, a. s.	Provision of IT servicing and maintenance	None incurred
Contract for the transfer of an equity share	Informations-Technologie Austria GmbH	Purchase of a 40% equity share in Informations-Technologie Austria CZ, s. r. o.	None incurred
Lease and sub-lease agreements	Informations-Technologie Austria CZ, s. r. o.	Leasing of non-residential premises	None incurred
Contract on sale	Informations-Technologie Austria SK	Purchase of POS terminals and accessories	None incurred
Framework co-operation agreement	PARTNER České spořitelny, a. s.	General conditions for the sale of products and services of the Bank and the ČS Financial Group	None incurred
Contract for the provision of outsourcing services in financial accounting, controlling, asset management, procurement support, human resources, marketing, internal audit and corporate communications	PARTNER České spořitelny, a. s.	Provision of outsourcing services	None incurred
Contract for the transfer of rights and obligations	PARTNER České spořitelny, a. s.	Transfer of rights and obligations	None incurred
Lease agreements	PARTNER České spořitelny, a. s.	Leasing of non-residential premises	None incurred
Contract for the transfer of an equity share	Procurement Services GmbH	Purchase of a 40% equity share in Procurement Services CZ, s. r. o.	None incurred
Agreement on the provision of a premium in excess of company’s share capital	s Autoleasing, a. s.	Provision of a premium in excess of company’s share capital	None incurred
Service provision contracts, contracts for the performance of work	s IT Solutions AT Spardat GmbH	Services provided within various projects	None incurred
Lease agreement	s IT Solutions CZ, s. r. o.	Leasing of non-residential premises	None incurred

F. Other Legal Acts

In the accounting period, Česká spořitelna (the drafter of this report) neither adopted nor enacted any other legal acts to the benefit or upon the initiative of related parties.

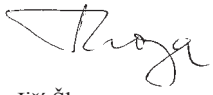
G. Other de Facto Measures

Within Erste Group Bank, Česká spořitelna takes part in group projects whose common aim is to fully exploit the business potential of central European markets in all segments as well as economies of scale and cost synergies, concentration of support activities within the group and performance measurement transparency and comparability. Projects cover business (Card Strategy), information technology (Data Centre Transition, Target Cooperation Model, Enterprise Service Bus), risk management (Group Risk Management) and service activity (Group Operation/Processing, Core SAP, PARiS, Learning Management System). IT projects should yield savings through the sharing of operating and development activities, the merging of IT procurement and hardware standardisation. Česká spořitelna incurred no detriment as a result of its involvement in the foregoing projects.

H. Conclusion

It is clear from our review of the legal relationships between Česká spořitelna and related parties that Česká spořitelna incurred no detriment as a result of contracts, other legal acts or other measures executed, effected or adopted by Česká spořitelna in the accounting period from 1 January 2009 to 31 December 2009 to the benefit or upon the initiative of individual related parties.

Dušan Baran
Vice Chairman of the Board of Directors
and First Deputy CEO



Jiří Škorvaga
Member of the Board of Directors
and Deputy CEO

Česká spořitelna Financial Group

Figures (non-audited) Are Stated under International Financial Reporting Standards (IFRS), Unless Otherwise Indicated

Stavební spořitelna České spořitelny, a. s.

Stavební spořitelna České spořitelny, a. s., with its registered office at Vinohradská 180, Prague 3, was incorporated on 22 June 1994. Its principle business is the provision of financial services pursuant to Act No. 96/1993 Coll. Česká spořitelna, a. s., owns a 95% shareholding; Bausparkasse der österreichischen Sparkassen AG owns the remaining 5%. Stavební spořitelna ČS offers its clients construction savings with state support and a statutory entitlement to construction savings loans.

In accordance with its mission "Financing Better Housing for Everyone", Stavební spořitelna ČS rigorously applies the "customer first" principle in everything it does to fulfil its vision – to improve product and service quality on an ongoing basis with an emphasis on their simplicity, speed and reasonable pricing.

At the 2009 year end, Stavební spořitelna ČS maintained more than 200 thousand loan accounts and had lent clients CZK 45.5 billion, representing 6% growth year-on-year. **Spořitelna applied the principle of equitable lending** throughout the year in compliance with the aims of the European Commission's recommendations for prudent bank lending practices.

At the 2009 year end, Stavební spořitelna ČS administered 1,143 thousand construction savings accounts. The number of newly concluded deposit transactions was 174 thousand contracts with a target amount of roughly CZK 30.0 billion. Spořitelna continued to build the longstanding trust of its clients, which was reflected by 2% growth in client deposits to CZK 95.0 billion.

The year 2009 was of historical importance for **Stavební spořitelna ČS. Its record results** exceeded CZK 1.5 billion in net profit **and its total assets passed the CZK 100 billion mark for the first time**. Spořitelna thus celebrated the 15th year of its existence with its best results ever and a record amount of total assets.

Operating income growth accounted for the greatest part of the 3% increase in net profit generated to CZK 1,509 million. The cost/income ratio continued to fall from 16.3% in 2008 to 15.8% in 2009. In the same period the loan/deposit ratio increased from 47.4% to 49.2%.

Stavební spořitelna České spořitelny, a. s.	2009	2008	2007	2006	2005
Share capital (CZK mil.)	750	750	750	750	750
Total assets (CZK bil.)	100.8	98.2	96.2	90.8	84.3
Loans and advances to clients (CZK bil.)	45.5	42.8	33.4	24.2	19.5
Client deposits (CZK bil.)	95.0	93.2	89.8	83.8	77.6
Net profit (CZK mil.)	1,509	1,465	1,105	938	649
Number of clients (mil.)	1.1	1.2	1.1	1.2	1.2
Average headcount	215	209	206	215	234

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Penzijní fond České spořitelny, a. s.

Penzijní fond České spořitelny, a. s., was founded on 24 August 1994. Its registered office is located at Poláčkova 1976/2, Prague 4. Česká spořitelna is its sole shareholder. Its principle business is the provision of supplementary pension insurance schemes pursuant to Act No. 42/1994 Coll.

Penzijní fond České spořitelny increased the number of its clients in 2009 by 83 thousand for a year end total of more than 833 thousand. Based on number of clients, Penzijní fond České spořitelny is the second largest pension fund on the Czech supplementary pension insurance market. Penzijní fond České spořitelny reported an increase in monies in clients' personal accounts to more than CZK 32.5 billion, a 10% increase year-on-year.

Penzijní fond České spořitelny reported **net profit** of CZK 459 million for 2009, **a 261% increase year-on-year**. An environment characterised by low interest rates and recovering financial markets provided the backdrop for this favourable result. The return for distribution to the fund's clients outpaced 2009 inflation. Another important factor behind these good results was the volume of financial assets under management, which increased by CZK 2.8 billion in 2009.

The business performance of Penzijní fond České spořitelny was notably driven by the further development of co-operation with employers. As part of its corporate programme, Penzijní fond České spořitelny entered into business arrangements with 9,453 employers. This business dynamic was supported by continued expansion of the sales network, which covers all branches of Česká spořitelna and its external sales network including the insurance company Kooperativa.

In financial assets management, Penzijní fond České spořitelny followed its strategic objective of achieving the best possible return on clients' assets while keeping financial risk low. Funds were principally invested in Czech (largely government) bonds that carry a low risk of default, government treasury bills, term deposits and, to a lesser degree, equities and participation certificates.

Penzijní fond České spořitelny, a. s.	**2009**	**2008**	**2007**	**2006**	**2005**
Share capital (CZK mil.)	350	350	100	100	100
Total assets (CZK bil.)	35.5	30.6	25.2	20.3	16.5
Capital funds (CZK bil.)*	32.4	29.6	24.4	19.2	15.1
Net profit (CZK mil.)	459	127	776	531	630
Number of participants (ths.)	833	750	634	550	480
Average headcount	56	54	53	52	54

* This figure expresses the balance of funds in clients' personal accounts.

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s Autoleasing, a. s.

The leasing company s Autoleasing, a. s., founded on 6 October 2003, is wholly owned by Česká spořitelna. Its registered office is located at Střelničná 8 in Prague 8. Česká spořitelna increased the company's share capital to CZK 372 million in 2008. The principle business is primarily focused on finance leases for transport equipment covering a wide range of commodities, mainly composed of passenger cars and utility vehicles.

In 2009, s Autoleasing incurred a loss of CZK 135 million. **In the course of the year, the company completed transactions at an aggregate value of CZK 1.1 billion, with vehicles accounting for a 70% share.** The company s Autoleasing creates provisions to cover all known risks arising from the portfolio of lease contracts. Material facts that may favourably impact s Autoleasing meeting its future business targets include more intensive co-operation with the parent bank.

The company s Autoleasing is the sole shareholder of s Autoúvěr, whose principal activities include the provision of consumer loans for vehicles to individuals and legal entities. In 2009, **s Autoúvěr financed new transactions totalling CZK 2.0 billion**, though the company reported a loss of CZK 97 million at the 2009 year end.

s Autoleasing, a. s.	2009	2008	2007	2006	2005
Share capital (CZK mil.)	372	372	100	100	2
Total assets (CZK bil.)	6.1	8.7	8.6	6.4	2.9
Volume of new transactions (CZK bil.)	1.1	4.3	5.5	5.2	3.1
Net loss (CZK mil.)	−135	−23	−90	−13	−22
Number of new contracts	1,316	4,383	6,488	6,017	4,380
Number of own points of sale	1	1	1	1	1
Average headcount	58	98	–	–	–

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Factoring České spořitelny, a. s.

Factoring České spořitelny, a. s., founded in November 1995, is wholly owned by Česká spořitelna. The company' registered office has been at Budějovická 1518/13B, Prague 4 since mid-2009. The company's focus is on domestic, export and import factoring, financing purchases of selected types of current assets, and the provision and tracking of information on corporate solvency and debt management for corporate clientele operating in a wide range of industries.

In 2009, factoring companies operating in the Czech Republic reported a decline in earnings for the first time ever as a result of the economic and financial crisis on the world's markets, which strongly impacted the Czech economy. Notwithstanding, **Factoring ČS strengthened its leading position on the Czech factoring market** with a market share of 26%.

The economic crisis impacted a number of the company's clients and in some cases led to defaults and company closures due to insolvency or bankruptcy. Consequently, Factoring ČS was forced to create provisions, as a result of which the company posted a net loss for the year.

Factoring ČS continued to work on deepening and improving its co-operation with the parent bank in the areas of business and risk management and the introduction of new processes to bolster service quality. The company further focused on systematising and improving the process of collecting delinquent receivables and enhancing collection procedures, particularly given the economic crisis and consequent deterioration in payment discipline.

Factoring České spořitelny, a. s.	2009	2008	2007	2006	2005
Share capital (CZK mil.)	84	84	84	84	84
Equity (CZK mil.)	47	137	138	136	112
Total assets (CZK bil.)	2.9	6.7	7.0	7.1	5.3
Net profit or loss (CZK mil.)	−90	19	30	21	9
Contracted amounts (CZK bil.)	26.3	33.1	29.3	27.3	21.6
Average headcount	40	31	36	33	31

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brokerjet České spořitelny, a. s.

The company brokerjet České spořitelny, a. s., was established by Česká spořitelna on 17 September 2003 as a subsidiary (51% shareholding) and by the firm ecetra Central European e-Finance AG (49% shareholding). A subsidiary of Erste Group Bank, ecetra Central European e-Finance AG is one of Austria's most important internet securities traders. The shareholder structure provides brokerjet ČS with the unique combination of a strong foundation and background, extensive sales network (as a member of the Česká spořitelna Financial Group) and top-quality technologies plus the years of experience brought by ecetra Central European e-Finance AG. The company's registered office is at Evropská 2690/17, Prague 6.

In 2009, brokerjet ČS once again dealt with increasingly risk averse clients, which manifested in a lower volume of margin loans drawn and a 42% drop in net interest income. While the number of transactions decreased year-on-year, net fee income held steady due to an increase in the average volume of financial assets per transaction. Despite the unfavourable trend in interest income, the company ended 2009 with a net profit of CZK 5 million. Brokerjet ČS did not report a single case of loss attributable to market or operational risk. Given the market turbulence of early 2009, this served as testament to the company's discipline and sound internal processes. **In 2009, brokerjet ČS**

recorded further growth in the client base of 2,600 and introduced the new trading application Market Access.

In 2010, the company will concentrate on launching additional innovations to improve the quality of its business platform for active traders, deepen its collaboration with Slovenská sporiteľňa and broaden the spectrum of available markets in the central European region. Brokerjet ČS will take part in the implementation of a new office system at the Austrian company ecetra Central European e-Finance. In addition to affording higher transaction processing capacities, the new system will offer clients greater comfort when transferring funds and simpler accounting for margin trading fees.

brokerjet České spořitelny, a. s.	**2009**	**2008**	**2007**	**2006**	**2005**
Share capital (CZK mil.)	160	160	160	160	160
Subordinated debt (CZK mil.)	60	60	60	60	0
Total assets (CZK mil.)	2,370	2,039	3,023	2,420	1,434
Volume of managed assets (CZK mil.)	7,970	5,776	8,828	6,998	4,106
Net profit (CZK mil.)	5	37	52	41	4
Average headcount	20	23	23	19	12

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REICO investiční společnost České spořitelny, a. s.

REICO investiční společnost České spořitelny, a. s., established on 13 June 2006, has always been a wholly-owned subsidiary of Česká spořitelna. The company's registered office is located at Antala Staška 2027/79, Prague 4, 140 00.

REICO has completed its third year of managing a special real estate fund of ČS nemovitostní fond. **At 31 December 2009, the equity of ČS nemovitostní fond totalled CZK 1.2 billion**, though in direct response to the global recession and consequent drop in commercial real estate prices this represented a decrease in equity of CZK 370 million. In the 2009 first quarter, the REICO Global I special fund for qualified investors had its permission to establish a fund withdrawn at the company's own request and the fund ceased operation.

Commercial real estate prices dropped by roughly 15–20% in the first half of 2009 due to a marked weakening in demand. Banks tightened financing conditions for the development and purchase of commercial real estate, making financing less accessible and more costly than in the past. Real estate prices were subject to tremendous downward pressure, giving rise to an interesting situation in which commercial property owners showed a preference for rental income, refusing to sell their real estate at the depressed market prices.

The situation began to reverse in the second half of 2009, with several significant investment transactions conducted on the Czech market late in the year. Both the transactions and their financial volumes are seen as an expression of stabilising commercial real estate prices and the end of the recently witnessed downward trend.

The 2009 economic indicators reflect the adverse development of the real estate market, as a result of which the investment company managed a lower than expected volume of funds and generated a loss of CZK 12 million for 2009.

REICO investiční společnost České spořitelny, a. s.	**2009**	**2008**	**2007**	**2006**
Share capital (CZK mil.)	90	90	80	30
Equity (CZK mil.)	59	71	51	29
Total assets (CZK mil.)	71	89	62	29
Net loss (CZK mil.)	−12	−29	−28	−2
Volume of managed assets (CZK bil.)	1.2	1.6	1.2	0.0
Average headcount	10	10	7	3

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GRANTIKA České spořitelny, a. s.

GRANTIKA České spořitelny, a. s., was formerly RAVEN EU Advisory, of which Česká spořitelna became the majority owner in 2007 and sole owner in 2008. The company's restructuring culminated with a name change to GRANTIKA České spořitelny in April 2009.

GRANTIKA ČS is a leading advisory firm – operating across the Czech Republic – **whose focus is on comprehensive advisory services relating to European Union structured funds**. The company has a network of offices in Prague, Zlín, Plzeň, Hradec Králové and Ostrava and offers its services in Slovakia through the subsidiary EuroDotácie, s. r. o. GRANTIKA ČS has implemented and certified a quality management system pursuant to ISO 9001:2001 and ISO 10006:2004 norms.

The company offers comprehensive services in the area of EU and Czech subsidy policies for clients of all legal forms. The service portfolio includes the preparation of applications for operational and other subsidy programmes, project implementation and management advisory services (including tender procedures) and ensuring subsequent monitoring and technical support for public administration institutions in implementing operational programmes.

Since its inception, the company has completed more than 3 thousand projects for roughly 2,300 clients. GRANTIKA ČS generated a net loss of CZK 2 million in 2009 on earnings from principal activities totalling CZK 42 million.

In 2010, the company will focus on gaining additional market share (principally in the area of EU funding), further deepening its co-operation within the ČS Financial Group, directing more of its attention toward strategic management and technical assistance for state administration authorities and launching new products related to EU funding for the bridging period between the second and third programme periods.

GRANTIKA České spořitelny, a. s.	2009	2008	2007	2006	2005
Share capital (CZK mil.)	7	7	7	7	7
Net profit or loss (CZK mil.)	−2	3	−15	8	5
Income from principal activities (CZK mil.)	42	62	25	37	28
Added value (CZK mil.)	30	46	9	25	18
Average headcount	40	50	46	34	25

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Realitní společnost České spořitelny, a. s.

Realitní společnost České spořitelny, a. s., with its registered office at Vinohradská 180/1632, Prague 3, was incorporated on 4 December 2002. Its sole shareholder, Česká spořitelna, increased the company's share capital to CZK 30 million in 2008.

The company is primarily engaged in real estate activities, i.e. brokering the sale and lease of residential and commercial properties and providing associated advisory services in order to complement and expand the comprehensive real estate service offering of the Česká spořitelna Financial Group and advice on the sale and lease of real estate owned by Česká spořitelna. The company has a 5% equity participation in the Croatian real estate company Erste Nekretnine d.o.o.

At the 2009 year end, Realitní společnost ČS had a presence in 48 towns across the Czech Republic through its branch network. **In the course of 2009, the company executed 1,524 real estate transactions (including franchises) with a total value of CZK 2.7 billion**, which served to strengthen its dominant position among real estate agencies, even development companies that sell their own real estate. For 2009, Realitní společnost ČS generated revenues from real estate activity of CZK 23 million in total and incurred a net loss of CZK 42 million.

Realitní společnost České spořitelny, a. s.	2009	2008	2007	2006	2005
Share capital (CZK mil.)	30	30	20	4	4
Total assets (CZK mil.)	18	54	140	95	68
Income from real estate activities (CZK mil.)	23	30	75	48	56
Net profit or loss (CZK mil.)	−42	−110	0	5	5
Average headcount	24	24	23	22	25

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Erste Corporate Finance, a. s.

Erste Corporate Finance, a. s., with its registered office at Evropská 2690/17, Prague 6, was established on 19 July 1995. Erste Corporate Finance is a joint venture of two members of the Erste Group Bank, Česká spořitelna and Slovenská sporiteľna. Česká spořitelna holds 75% of the company's share capital. **Erste Corporate Finance provides its clients in the Czech Republic with expert investment banking and financial advisory services**, primarily in mergers and acquisitions, privatisation, MBO, valuations of companies or their parts, economic advice, due diligence, restructuring and investment opportunity analysis.

In the Czech Republic, Erste Corporate Finance **ranks among the elite advisory companies** and holds a leading market position. In 2009, the management of Erste Group Bank continued the process begun in 2008 of integrating the individual investment banking and financial advisory practices in the central and eastern European region, among them Erste Corporate Finance. The aim of this step is to improve the quality of services provided in the Czech Republic and across the region.

The worldwide financial crisis continued in 2009, resulting in an appreciable drop in market liquidity, which adversely impacted the number of executed merger and acquisition transactions and advisory mandates. Nonetheless, Erste Corporate Finance managed to win a number of important projects for the years 2009 and 2010. The most important of these include advisory services for the companies ČEZ and CVC Capital Partners, the Czech Finance Ministry and Erste Group Bank companies.

Erste Corporate Finance generated a net profit of CZK 3 million in 2009 under Czech Accounting Standards. Income from advisory services amounted to CZK 68 million.

Erste Corporate Finance, a. s.	**2009**	**2008**	**2007**	**2006**	**2005**
Share capital (CZK mil.)	6	6	6	6	6
Equity (CZK mil., CAS)	61	58	50	50	67
Net profit (CZK mil., CAS)	3	8	0	13	30
Average headcount	15	19	21	17	13

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Informatika České spořitelny, a. s.

Informatika České spořitelny, a. s., was established on 11 December 1997 by Česká spořitelna as a wholly-owned subsidiary with the aim of providing Česká spořitelna and/or other ČS Financial Group subsidiaries with auxiliary banking services. The company provides technical servicing and procurement of goods for sale in the IT area for Česká spořitelna and other ČS Financial Group members.

In 2009, Informatika České spořitelny provided warranty and post-warranty servicing of IT equipment owned by members of the Financial Group, the installation and servicing of ATMs for Česká spořitelna, the technical servicing of IT for the ČS Financial Group, and support for traders who use POS and FlexiPad terminals. The company also engaged in commercial activity involving hardware for the ČS Financial Group and provided the necessary technical support through its HW specialists in the implementation of Česká spořitelna's development projects. The company offers any additional capacity to customers outside of the ČS Financial Group. **Informatika ČS is an authorised HP business and service partner and has ISO 9001–2000 certification.**

Informatika České spořitelny, a. s.	**2009**	**2008**	**2007**	**2006**	**2005**
Share capital (CZK mil.)	10	10	10	10	10
Total assets (CZK mil.)	121	82	86	95	123
Net profit (CZK mil.)	12	7	9	16	8
Sales (CZK mil.)	247	239	253	279	281
Average headcount	90	90	92	93	98

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PARTNER České spořitelny, a. s.

PARTNER České spořitelny, a.s., with its registered office at Poláčkova 1976/21, Prague 4, was entered in the Commercial Register on 2 June 2009 and commenced operations on 1 July 2009. The company is a wholly-owned subsidiary of Česká spořitelna. **PARTNER ČS primarily engages in the management of eternal sales of products and services** of the Česká spořitelna Financial Group **via a network of exclusive external financial intermediaries**.

Since commencing operations, the company has focused on setting up administrative and procedural matters, sales network analyses, applying a new commission and career development plan, setting up an education system and initiating the process of sales network revitalisation. In all its activities, the company stressed the utilization of business opportunities provided by the bank, the education network and recruitment. The regional composition of the sales network was altered to increase work efficiency. A change in the company's career development plan benefitted the network's performance.

At the 2009 year end, the company had a team of 1,111 financial intermediaries. Despite the drop in business (in comparison to the original plan) caused by the financial crisis, the company nevertheless managed to meet budgeted profit/loss values, particularly due to radical administrative cost saving measures and increased margins on commission streams.

PARTNER České spořitelny, a.s.	**2009**
Share capital (CZK mil.)	2
Total assets (CZK mil.)	64
Net profit or loss (CZK mil.)	−3
Sales (CZK mil.)	88
Average headcount	16

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Investiční společnost České spořitelny, a. s.

Investiční společnost České spořitelny, a.s., was incorporated on 27 December 1991 and was a wholly-owned subsidiary of Česká spořitelna until 16 December 2009. The company's registered office is located at Evropská 2690/17, Prague 6.

Investiční společnost České spořitelny manages a wide range of mutual funds; at the end of 2009, the company offered 27 funds (including special qualified investor funds). **The volume of assets managed by Investiční společnost České spořitelny held steady year-on-year at an amount of CZK 51.7 billion.**

Early 2009 saw the global financial crisis continue, though the situation started to stabilise in the 2nd quarter when mutual funds began to profit from the restoration of liquidity to the financial markets, reduced risk premiums on bonds and marked growth in equity prices. Only money market funds ended 2009 with lower volumes for the year, attributable mainly to high 1st quarter sell-offs. Mixed and bond funds tended to stagnate, while equity funds reported significant asset growth. CZK exchange rate fluctuations did not have a substantive impact on fund performance, as most Investiční společnost ČS funds are currency hedged.

The year 2009 saw a return to core values in the mutual fund sector as well as a return of investor confidence. These core values include adherence to the investment horizon, sound diversification and regular investment and conform to the concept of the absolute yield fund, which Investiční společnost ČS has so far offered to the private banking segment and is preparing to introduce to the retail banking segment. The construction of these funds mitigates the risk of loss with high participation in growth. In contrast to fixed-time-to-maturity instruments, these funds remain liquid at all times.

Regular investment – even in small amounts – is another advantage. The cost-average effect means shareholders can buy a larger number of share certificates for the same invested amount benefiting from the expected change in prices. The life cycle funds offered by Investiční společnost ČS have gained a stable position among regular investors. **The asset structure gradually changes over the lifetime of the funds with shares becoming weighted to conservative, fixed-interest assets. The life cycle funds of Investiční společnost ČS won second place in the mutual funds category of the Zlatá koruna competition.**

The Investiční společnost ČS economic indicators exceeded expected values in 2009. Although trading results failed to meet expectations, the company managed to achieve cost savings. Moreover, net profit was favourably affected by revaluation of the portfolio of the company's own investments. The key trend underlying unfavourable trading results was the continuing sell-offs of mutual funds impacted by poor financial markets perform-

ance in the first quarter of 2009. During the rest of the year, trading results stabilised and signalled an improvement.

On 16 December 2009, Česká spořitelna completed the sale of its 100% equity interest in Investiční společnost ČS. The Erste Group Bank member Erste Asset Management GmbH became the new owner. **The ownership change will have no impact on investment processes, company operations or the distribution agreement** with Česká spořitelna.

Investiční společnost České spořitelny, a. s.	**2009**	**2008**	**2007**	**2006**	**2005**
Share capital (CZK mil.)	70	70	70	70	70
Equity (CZK mil.)	175	196	296	289	261
Total assets (CZK mil.)	243	280	381	358	325
Net profit (CZK mil.)	90	26	126	119	91
Volume of managed assets (CZK bil.)	51.7	51.4	81.8	74.1	71.6
Average headcount	23	23	21	15	23

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ERNST & YOUNG

Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

I. We have audited the consolidated financial statements of Česká spořitelna, a. s., ("the Company") as at 31 December 2009 presented in the annual report of the Company on pages 61–150, on which we have issued an audit report, dated 9 March 2010, which is presented on page 62. We have also audited the separate financial statements of Česká spořitelna, a. s. ("the Company") as at 31 December 2009 presented in the annual report of the Company on pages 151–232, on which we have issued an audit report, dated 9 March 2010, which is presented on page 152 (both referred to further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of Česká spořitelna, a. s., is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2009. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of Česká spořitelna, a. s., for the year ended 31 December 2009 presented in the annual report of the Company on pages 233–242. The management of Česká spořitelna, a. s., is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Česká spořitelna, a. s. for the year ended 31 December 2009 is materially misstated.

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

Represented by

Martin Zuba
Partner

Magdalena Soucek
Auditor, License No. 1291

21 April 2010
Prague, Czech Republic

A member firm of Ernst & Young Global Limited, Ernst & Young Audit, s. r. o. with its registred office at Karlovo náměstí 10, 120 00 Prague 2,
has been incorporated in the Commercial Register administered by the Municipal court in Prague, Section C, entry No. 88504, under identification No. 26704153.

Česká spořitelna Selected Consolidated Financial Performance Figures

in 1st Quarter 2010 According to International Financial Reporting Standards (Unaudited)

CZK mil.	31. 3. 2010	31. 3. 2009
Interest income and similar income	9,797	10,852
Interest expense and similar expense	−2,341	−3,092
Net interest income	**7,456**	**7,760**
Provisions for credit risks	−2,705	−1,710
Net interest income after provisions for credit risks	**4,751**	**6,050**
Fee and commission income	3,411	3,181
Fee and commission expense	−541	−554
Net fee and commission income	**2,870**	**2,627**
Net trading result	1,132	895
General administrative expenses	−4,823	−5,016
Other operating expenses, net	-85	−783
Profit before taxes	**3,845**	**3,773**
Income tax expense	−723	−766
Profit for the year (after taxes and before non-controlling interests)	**3,122**	**3,007**
Net profit for the year		
attributable to owners of the parent	**3,128**	**3,004**
attributable to non-controlling interest	−6	3
Total Assets	**891,461**	**874,732**
Loans and advances to customers	466,789	464,520
Amounts due to customers	685,495	661,185
Total equity attributable to owners of the parent bank	66,326	66,943

Conclusions of the Extraordinary and Ordinary General Meeting

Held on 7 October 2009 and 23 April 2010

At the **Extraordinary General Meeting** of Česká spořitelna held on 7 October 2009 in Prague, the shareholders approved a change to the Company Statutes to address new audit related obligations arising from Act No. 93/2009 Coll. on auditors. In compliance with this law, the shareholders appointed an Audit Committee as a new and independent Company body and defined its powers and authorities. The General Meeting also appointed a new external auditor to perform the statutory audit of the annual financial statements of the Česká spořitelna Financial Group for 2009. Ernst & Young Audit, s. r. o., was selected to replace Deloitte, which had been the Company's external auditor for nine years. The Audit Committee has five members who serve four year terms. The Audit Committee members appointed by the shareholders at the Česká spořitelna Extraordinary General Meeting are: Maximilian Hardegg, Andreas Klingen, Heinz Kessler, Mario Catasta and Zlata Gröningerová.

At the **Ordinary General Meeting** of Česká spořitelna held on 23 April 2010 in Prague, the shareholders approved, inter alia, the Board of Directors Report on the Bank's Performance and Financial Position in 2009. The attending shareholders were also presented with the reports of the Supervisory Board and the Audit Committee for 2009 and approved the standalone annual financial statements, consolidated financial statements and profit allocation proposal. Funds to be distributed totalled CZK 39,708 million; CZK 4,560 million was allocated for the payment of dividends amounting to CZK 30 per share. The balance of retained earnings from previous years is CZK 35,148 million. The General Meeting appointed the company Ernst & Young Audit, s. r. o., to perform the audit of the standalone and consolidated financial statements of Česká spořitelna for 2010. Andreas Klingen resigned as a member of both the Supervisory Board and the Audit Committee and the shareholders appointed Claudia Höller to take his place on both Česká spořitelna bodies.

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