

# 2010 Half-yearly Report

*Long-term relationships with clients and other stakeholders stand among the main pillars of Komerční banka's strategy*



2,700,000

*The number of customers of the entire KB Group reached 2.7 million.*



8,600

*Some 8,600 employees of KB Group attended to the clients.*

20

*Komerční banka has been operating on the Czech market for 20 years.*

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Komerční banka, a.s. (hereinafter also “KB” or the “Bank”) is the parent company of KB Group (hereinafter also the “Group”), which consists of nine companies. KB is also a member of the Société Générale Group and ranks among the leading banking institutions in the Czech Republic and Central and Eastern Europe. KB is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services – such as pension fund and building society schemes, factoring, consumer lending and insurance – accessible through KB’s branch network, its direct banking channels, and the subsidiaries’ own sales networks.

# Highlights from 2010's First Half

Komerční banka Group reported a net profit of CZK 6,482 million for the first six months of 2010, which is 12.5% more than in the same period of 2009. KB Group maintained strong liquidity and solvency, as the loans-to-deposits ratio as at the end of June reached 69.2% and capital adequacy rose to 14.7%.

# 1

## January

Komerční banka introduced Forte 2 Guaranteed Fund as part of the Vital Invest range of products from Komerční pojišťovna. It is suitable for all clients wanting to participate in the growth of equity markets, but who at the same time wish to have a guarantee that the value of their investments will be increased at the maturity of their life insurance policies.

Investiční kapitálová společnost KB, a.s. ("IKS KB") announced that, effective from 1 January 2010, it had become part of a newly formed investment group, Amundi, the third largest asset manager in Europe. Komerční banka continues to be the main distributor of IKS KB and Amundi mutual funds in the Czech Republic.

# 2

## February

Komerční banka was awarded the Gartner Business Intelligence Excellence Award for the best business intelligence solution in the EMEA region. Komerční banka was the first company from Central Europe to win the contest organised by independent research and advisory company Gartner.

# 3

## March

Based on a new co-operation agreement between Komerční banka and Czech Republic's Support and Guarantee Fund for Agriculture and Forestry (PGRLF), KB launched an offering of advantageous loans under the Fund's scheme for buying farmland supported by a subsidy to the loan's interest rate. Komerční banka is one of PGRLF's most important partners in terms of the number and volume of loans provided with its support.

In the first quarter, Modrá pyramida became the second largest building society in the Czech Republic by loans volume, which grew by 14.5% year on year to CZK 46.4 billion.

Komerční pojišťovna also became the second most important insurance company on the Czech life insurance market according to premiums written, with a market share of 16.5% in the first quarter.

# 4

April

At Komerční banka's Annual General Meeting, held on 29 April 2010, the shareholders approved a dividend payment of CZK 6,462 million or CZK 170 per share. That represented a payout ratio of 58.7%.

The General Meeting approved the Board of Directors' Report for 2009, the annual financial statements, as well as the proposals for distributing the profit for the year 2009 and the discretionary part of remuneration for members of the Board of Directors.

In addition, the General Meeting made amendments to the Articles of Association. The most important change concerns provisions on the exercise of certain shareholder rights that mainly ensure sufficient information for shareholders' decision making and the implementation of standards for the holding of general meetings identical with those in the European Union. The method for determining the record date for dividend payout has also been changed, such that dividend rights belong to shareholders owning shares on the seventh calendar day prior to the date of the General Meeting.

The AGM extended KB's authorisation to acquire treasury shares representing up to 10% of its registered capital within the price range of CZK 500 to CZK 5,000.

Komerční banka was the first bank on the Czech market to launch an Investment Calculator on its website. This application suggests a portfolio of investment and savings products that respects the client's risk appetite, financial possibilities, and investment horizon.

The innovated website of Komerční pojišťovna makes it possible to arrange travel insurance, pay premiums in a simple way, or to monitor developments in the value of policies' underlying funds.

# 5

May

Komerční banka introduced the new KB Bonus Savings Account, which is an instant-access account with a double-component rate. It offers customers an attractive yield and a premium for the duration of their savings.

# 6

June

Miloslav Kukla was elected to the post of Chairman of the Board of Directors at Factoring KB.

# 2010

# Corporate Social Responsibility

Komerční banka has pledged to follow the key principles of corporate social responsibility in carrying out its activities. These principles include ethical conduct by all employees, prevention of money laundering, support for sustainable development, and charitable activities.

Charitable activities are co-ordinated by the Nadace KB Jistota foundation, which supported several projects in the first half of the year. Nadace KB Jistota is fully managed by Komerční banka employees. It receives most of its funding from Komerční banka itself, but employees of the entire Group also contribute. In early 2010, the foundation and the Group's employees responded to the disastrous earthquake in Haiti. Although all donations had been granted to Czech entities up to that time, an exception was made in this particular case and Sdružení SOS dětských vesniček (Association of SOS Children's Villages) received a gift of CZK 250,000 for repair and expansion of children's villages in Haiti. In order to support further expanding hospices and long-term care hospitals, Nadace KB Jistota entered into an agreement with Linet, a manufacturer of hospital beds. Linet will provide discounts of up to 25% on purchases of beds that the foundation will donate.

The Group's employees in the Czech Republic also participated in charitable activities by giving blood during the springtime project launched by Komerční banka. In total, 209 employees donated 94 litres of blood. The event was organised in all regions. In late June, the employees joined in a collection of foodstuffs for the Czech Federation of Food Banks. Almost three tonnes of foodstuffs were collected. The Czech Federation of Food Banks will distribute this food to the needy, and in particular to organisers of summer camps for children from socially disadvantaged groups.

In support of sustainable development, Komerční banka has long focused on reducing its consumption of energy and office paper. KB also takes "Green Energy" electricity under a ČEZ Group project that supports the use of renewable energy sources as well as education and research in this area.

# Macroeconomic Trends in the First Half of 2010

In the first half of 2010, the Czech economy continued the stabilisation trend that had begun at the end of the previous year and experienced modest economic recovery. Gross domestic product grew in the first quarter of 2010 by 1.1% year on year and improved by 0.5% quarter on quarter. It rose even more in the second quarter, increasing by 2.2% year on year, in real terms, and by 0.8% quarter on quarter. Economic development in the first half of the year was driven especially by development abroad, as the most significant contribution to economic growth was the development in foreign trade. Germany, the Czech Republic's most important trading partner, fared particularly well. Its stable growth in industrial output and orders drove up Czech exports and industrial activity.

In the first half of 2010, exports on average rose by 14.9% year on year. Imports grew even more (+15.8%), due especially to the import-intensive nature of Czech exports and rising commodity prices. The foreign trade surplus reached CZK 83.2 billion, which is CZK 3.4 billion higher than last year. The most marked improvement was seen in trade with machinery and transport equipment (surplus of CZK 148 billion), manufactured consumer goods and raw materials. The trade deficit in fossil fuels, on the other hand, worsened rather considerably (to CZK 53 billion).

Total industrial output increased on average by 9.9% as compared with the first half of 2009, especially due to the recovery of export-oriented manufacturing by 10.8%. The manufacture of basic metals; of computers, electrical and optical equipment; and of motor vehicles recorded the highest growth.

Due to unfavourable weather and a decrease in orders, Czech construction showed a significant drop in output (20.3% year on year) through the first four months of the year. This sector subsequently moderated its slump, as after stagnating in May it showed a decrease of 4.7% in June. The slump in building construction was larger, while the decline in civil engineering overall was slightly lower. The future outlook for this sector is not positive. Planned fiscal restriction will have a negative impact on engineering construction's future development, while building construction, driven primarily by private demand, should undergo relatively less unfavourable development.

The labour market improved, trailing slightly behind real output development. Unemployment peaked at 9.9% in February and then declined continuously to 8.5% in June. In addition to the influence of seasonality, a slight recovery in companies' demand for labour also was evident here. The number of supplied job vacancies has not yet shown a more stable growth trend. The average number of applicants per job vacancy in June stood at the high of 15.2.

An adverse labour market situation and the impact of fiscal savings on household incomes was reflected in weak consumer demand. In the first quarter, household consumption as a proportion of GDP strengthened slightly quarter on quarter. During the first half of 2010, however, retail sales gained a weak 0.5% year on year, and that only due to incentives in the automotive segment. Retail revenues not including the automotive segment declined by 1.5% year on year in the first half of 2010.

Weak domestic demand kept demand-side inflationary pressures low, while the development of unit labour costs also had a rather anti-inflationary effect. Some inflationary pressures resulted from import prices (especially those for commodities) and corporations' inflationary expectations. Consumer inflation bounced back from the bottom reached in October 2009, and the average year-on-year increase in consumer prices reached 0.7% in the first quarter and 1.2% in the second. Overall, consumer inflation should continue to rise to the inflation target of 2.0% during the second half of this year and could even exceed that level during the final quarter. The decline in industrial producer prices slowed in the first quarter on a year-on-year basis, and already by the second quarter their dynamics had returned to positive figures and gradually accelerated to 2.0% year on year in June.



The Czech crown strengthened against the euro in the first quarter. After reaching a low of 25.05 CZK/EUR in mid-April, and following verbal intervention by the Czech National Bank, the crown changed course. The exchange rate hovered around 25.5–26.0 CZK/EUR in May and June, but another strong appreciation trend followed in July.

During the first half of the year, the Czech National Bank proceeded in further relaxing its monetary policy. The two-week repo rate was reduced in May by 25 basis points to the historic minimum of 0.75% and thus was 25 basis points lower than the European Central Bank's basic refi rate. Similarly, the basic interbank rate, 3M PRIBOR, fell from an average 1.55% in January to 1.24% in June. Within the retail commercial banking sector, this decrease was evident in the decline of interest rates for housing loans. Consumer loan rates, on the other hand, increased. Though the drop in loan rates for companies as compared with households was somewhat more considerable, the volume of loans provided to domestic firms decreased further.

Following last year's slump of 4.0%, the Czech economy this year should grow by 1.9% year on year. This growth will be driven solely by the positive contribution of inventories and net exports, as other components are expected to have negative contributions. Several factors are influencing the economy's dynamics in 2010. Though the end of scrapping programmes abroad has limited Czech exports, the recovery of foreign demand so far is so strong that any drop in auto exports has so far not become evident. More significant growth in inventories can be expected only in case of lasting recovery abroad. Fiscal restriction aimed at stabilising public budgets also will have an effect, with the greatest negative impact this year being on household consumption. Most important for the open and relatively small Czech economy, however, will be the development in the euro zone. The Czech economy is expected to grow by 1.3% in 2011.

# Business Activities

Moderate improvement in macroeconomic indicators in the first half of 2010 reflected positively in Komerční banka Group's results. A slight rise in demand for loans in business segments was observed and similar development was recorded also in the area of financing housing needs, where KB improved its market share on new sales of mortgages to a level close to 25%. The economic recovery was still regarded as very fragile, and the Bank thus continued its rigorous management of risks.

Komerční banka's strategy remains founded on an assumption of long-term convergence of the Czech Republic's society, economy and banking towards levels similar to those of Western European countries. KB is developing its universal banking model so that it can fully participate in the growth of the economy and take advantage of the significant medium-term potential for products and services on both retail and corporate banking markets.

## Clients and Network

The total number of KB Group's clients reached 2.7 million. Standalone KB registered 1,598,000 clients, of which 1,326,000 were individuals. The remaining 272,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was serving 712,000 customers as at the end of the first half, and the number of pension insurance participants at Penzijní fond KB reached almost 500,000. ESSOX increased its number of customers to 324,000.

As at the end of June 2010, the clients had at their disposal 395 Komerční banka branches, 676 ATMs, and full-featured direct banking channels supported by two call centres. The Bank also began in May to operate a specialised branch for expatriate clients. At least one direct banking channel, such as internet or telephone banking, was being used by 989,000 KB clients, which is almost 62% of the total. At the same time, customers held 1,663,000 active payment cards. Of these, 231,000 were credit cards. The number of active credit cards issued by ESSOX rose to nearly 160,000, and consumer financing at ESSOX was available through its network of 3,600 merchants. Modrá pyramida's customers had at their

disposal 255 points of sale and 1,509 advisors.

## Lending

The total volume of loans provided by KB Group as at the end of June 2010 increased by 1.1% to CZK 385.6 billion compared to the same date in 2009. The underlying growth was higher (approximately 1.9%), as the Bank wrote off from its balance sheet long overdue and fully provisioned loans in amounts of CZK 1.8 billion in November 2009 and CZK 1.2 billion in May 2010.

Of the total number, loans to individual clients comprised 47%. The portfolio of mortgages to individuals expanded by 8.3% to reach CZK 104.2 billion. Mortgage sales in the first half stood 14.1% lower than in the first six months of 2009, although the second quarter saw some improvement. The loan portfolio at Modrá pyramida, which mainly finances housing needs of its customers, grew by 13.4% year on year to CZK 47.6 billion. The volume of consumer loans provided by KB and by the consumer finance company ESSOX decreased by 4.2% to CZK 28.4 billion.

Decreased demand, mainly due to lower investments by large corporate clients, as well as the aforementioned accounting adjustment, led to a reduction in overall business loans by 3.1% year on year to CZK 202.8 billion. The volume of loans to small businesses declined by 1.3% to CZK 24.6 billion, but the volume of loans rated Standard was flat in this segment. Loans to corporations (provided by Komerční banka and Komerční banka Bratislava) declined by 3.0% to CZK 176.4 billion. Underlying volume of loans to medium-sized corporations increased slightly, but it was down for large corporations.

## Deposits

The consolidated volume of deposits grew by 0.8% to CZK 536.5 billion in a year-on-year comparison. Deposits at Modrá pyramida grew by 7.1% to CZK 68.5 billion. Clients' pension assets at Penzijní fond KB increased by 5.4% to CZK 27.8 billion. In contrast, deposits of business clients at KB and KB Bratislava fell by 1.3% to CZK 281.1 billion. Deposits from individuals at KB decreased by 1.2% to CZK 152.2 billion.

## Product and Service Innovations

KB Group improved the availability of its services through the internet. Clients using Komerční banka's internet banking now have the possibility to easily arrange meetings with their relationship managers online via a direct banking channel. Also added to the internet site was a video guide to help clients establish certain services as well as to set up secure access by computer. A new design for Penzijní fond KB's internet site offers its customers online access to their accounts as well as a calculator for savings planning. The innovated website of Komerční pojišťovna facilitates arranging travel insurance, paying premiums in a simple way, and monitoring developments in the value of underlying funds.

In the products area, Komerční banka introduced a new savings account – KB Spořicí konto Bonus – which offers customers a premium for savings of longer duration. For small businesses and entrepreneurs, meanwhile, KB now offers the Profi Spořicí konto Bonus. KB also was promoting its mortgages and the Optimální půjčka loan that is used to consolidate a client's multiple loans and leasing contracts.

## Cross-selling and Subsidiaries

Activities in relation to cross-selling of products comprise a key part of the Bank's business strategy. The cross-selling indicator in the Individuals segment, which states the multiple of the number of products sold to the number of current accounts, grew to 5.92 products at the end of June 2010.

Modrá pyramida successfully continued to increase the number of newly concluded building savings contracts. These totalled 82,100 in the first half of 2010, which is 5.0% more than in the same period last year. ESSOX continued its expansion on the consumer finance market, increasing both its number of clients and volume of gross loans. The value of assets under management as well as the number of clients increased also at Penzijní fond KB.

Komerční pojišťovna achieved a very dynamic sales performance in the first half of 2010. The total premiums written rose year-on-year by 159.8% to CZK 5.4 billion. Komerční pojišťovna focuses mainly on life insurance products, and life insurance premiums amounted to CZK 5.2 billion. KP thus became the second most important insurance company on the Czech life insurance market as measured by premiums written, with a market share of 15.1% in the first half (according to data from the Czech Insurance Association). The growth was mainly driven by policies with guaranteed yields for clients.

The Czech factoring market went through an adverse development in the second half of 2009 and first half of 2010. Factoring KB's turnover decreased by 18.6% to CZK 5.3 billion. The changing preferences of clients and the volatile conditions on the financial markets led to a decrease in mutual funds sales (of IKS KB and Amundi) to CZK 1.8 billion while redemptions increased to CZK 4.9 billion.

The Boards of Directors of KB and Komerční banka Bratislava approved in April a project for merger by absorption between KB and KBB. KB will be the successor company and, at the same time, a KB branch will be established in the Slovak Republic.

To complement the range of products available to clients, Komerční banka also has been distributing financial and operational leasing products of such other SG Group companies as ALD, SGEF and ECS, as well as non-life insurance policies from Česká pojišťovna.

# Comments on Consolidated Financial Results

The published data are from unaudited consolidated results under IFRS (International Financial Reporting Standards).

Komerční banka Group reported a net profit of CZK 6,482 million for the first six months of 2010, which is 12.5% more than in the same period of 2009. KB Group continued to maintain strong liquidity and solvency. The loans-to-deposits ratio as of the end of June reached 69.2%, and capital adequacy rose to 14.7%.

## Profit and Loss Statement

Total net banking income for the first half of the year decreased by 2.4% year on year to CZK 16,139 million. That was due to lower profit from financial operations in comparison with 2009's extraordinary first half.

Net interest income, which has the largest share in total revenues, increased by a slight 1.2% to CZK 10,709 million. Contributing to this growth was a moderate gain in loan volumes and deposits, while the continued low level of market interest rates adversely affected the net interest margin.

Net income from fees and commissions grew by 1.7% to CZK 3,927 million. Income from loan fees increased in corporate banking, at ESSOX and at Modrá pyramida. Transaction fees decreased year on year, but the number of client transactions began rising at the end of the period. Fees from cross-selling benefited from Komerční pojišťovna's successful offer of life insurance, while mutual fund sales were still burdened by the uncertain situation on financial markets. Continuing reduction in average prices and a slight decrease in the number of customers led to a small decline in income from account maintenance.

Due to developments on financial markets, net profit from financial operations slipped by 29.0% in comparison with the exceptionally successful first half of 2009 to CZK 1,449 million.

Rigorous optimisation of operating costs has continued this year. KB reduced total operating costs by 6.3% year on year to CZK 6,247 million thanks to optimisation measures in general administrative expenses, which declined by 7.7% to CZK 2,533 million. There were savings also in personnel costs, which were reduced by 6.9% to CZK 2,971 million. Meanwhile, the average number of Group employees decreased by 3.0% to 8,624. Depreciation and amortisation of fixed assets increased year on year by 1.9% to CZK 743 million.

Gross operating income increased in the first half of 2010 by a slight 0.3% compared to the same period of last year to CZK 9,892 million.

The development in the cost of risk was positively affected by gradual improvement in the macroeconomic situation and by continuous improvements in risk management practices. Viewed in a year-to-year comparison, a marked improvement could be observed in the corporate segment, and particularly at medium-sized and large enterprises. It should also be remembered, however, that the first quarter of 2009 had been affected by a significant one-off creation of provisions due to the exceptional failure of a large credit exposure. In the small businesses segment, the cost of risk was stabilising. The trend of gradual deterioration in the risk profile for individual customers also came to a halt. Overall, the cost of risk in the first half of 2010 decreased by 33.6% to CZK 1,766 million, which in terms



relative to the average volume of loans and off balance sheet irrevocable commitments stood at 62 basis points versus 93 basis points in the first half of 2009 (including the aforementioned one-off case).

Income tax increased by 8.5% to CZK 1,341 million.

KB Group's net profit for the first half of 2010 reached CZK 6,521 million, which is 12.3% higher than in the previous year. From this amount, CZK 39 million is attributed to the minority interest holders and the profit attributable to the Bank's shareholders was CZK 6,482 million (up 12.5% year on year).

### Balance Sheet

The comparison period in the balance sheet under IFRS is the end of the previous year. Therefore, the following text provides a comparison with the end of 2009, unless otherwise indicated.

The volume of KB Group's total assets as of 30 June 2010 decreased by 0.3% relative to the end of 2009, to CZK 693.3 billion.

Amounts due from banks declined by 6.1% to CZK 123.2 billion. The largest component of this item is represented by loans provided to central banks as part of reverse repo operations, which diminished by 13.1% to CZK 82.8 billion.

Financial assets at fair value through profit or loss increased by 24.0% to CZK 30.3 billion. The portfolio comprises proprietary trading positions of the Group.

Total net loans and advances declined by 0.2% to CZK 371.4 billion. The gross amount of client loans and advances decreased by a negligible 0.1% to CZK 385.6 billion. The share of standard loans within that total represented 89.7% (CZK 345.8 billion), while the proportion of watch loans was 3.7% (CZK 14.3 billion) and loans under special review (substandard, doubtful, loss) comprised 6.6% of the portfolio with a volume of CZK 25.5 billion. The volume of provisions created reached CZK 14.4 billion, which is 4.0% greater than at year's end.

The portfolio of securities available for sale increased by 2.0% to CZK 116.4 billion, the major part of which portfolio consists of debt securities. The book value of shares and participation securities in the portfolio totalled just CZK 0.7 billion.

The volume of securities in the held to maturity portfolio decreased by a slight 0.4% to CZK 6.8 billion. That entire portfolio consists of bonds.

The net book value of tangible fixed assets diminished by 4.5% to CZK 7.4 billion, and intangible fixed assets grew by 1.7% to CZK 3.8 billion. Total goodwill, which primarily derives from the acquisition of Modrá pyramida, remained at the same level of CZK 3.6 billion.

Total liabilities declined by 0.8% to CZK 621.5 billion. Reflecting seasonality, amounts due to customers decreased by 2.8% to CZK 536.5 billion. The volume of securities issued rose by a slight 0.8% to CZK 18.3 billion. The Group's liquidity as measured by the ratio of net loans to deposits reached a strong 69.2%. The balance of the accepted subordinated debt (excluding the accrued interest) remained unchanged at CZK 6.0 billion.

Shareholders' equity, which grew by 4.3% to CZK 71.8 billion for 2010's first half, was primarily affected by the net profit creation, dividend payment of CZK 6.5 billion, and change in the book value of hedging derivatives and securities available for sale. The revaluation reserve for hedging instruments grew by 163.6% to CZK 6.3 billion, particularly due to the fall in market interest rates. The revaluation of the portfolio of securities available for sale declined by 28.9% to CZK 2.4 billion, reflecting effects of repayment, market rate movement and bond prices.

Regulatory capital for the capital adequacy calculation was CZK 52.3 billion as of the end of June 2010. KB Group's capital adequacy under Basel II standards reached a high level of 14.7% while the core Tier 1 capital ratio stood at 13.5%.

# Expected Development and Main Risks for the Development in the Second Half of 2010

Komerční banka is convinced there is significant medium-term potential for further growth of lending activities in both retail and corporate client segments in the Czech Republic. In the retail market, there is at the same time room to develop alternative saving and investment products. The corporate market offers opportunity for more sophisticated financial solutions in areas such as hedging and trade finance. The Group's strong capital and liquidity position will enable it to continue supporting its clients and to expand its lending portfolio.

In the second half of the year, slightly improved economic conditions and lower unemployment should support a moderate recovery in demand for loans from individuals and corporations. Nevertheless, the still uncertain outlook for global economic recovery is likely to limit businesses' appetite for taking loans for investments in production capacity.

The growth of revenues will remain subdued. Net interest income will be affected by the low interest rate environment. Fee income should benefit from slowly increasing activity in the economy, but the trend of gradual price erosion in account maintenance fees will continue.

Operational expenses will be still under tight control, but the cost-to-income ratio is expected to slightly increase from the level of the first half. Risk management continues to be a priority in the Bank's operations. If the economy remains on a recovery path, this should lead to a slightly lower or stable cost of risk in comparison with the first six months.

The potential for macroeconomic development in the Czech Republic to be worse than expected is a key risk to KB's 2010 result. This could negatively affect asset quality and growth of revenues of the Group. Management expects that KB Group's operations will generate sufficient profit to cover the Group's capital needs and to pay dividends, even if the macroeconomic situation becomes worse than anticipated.



# Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 30 June 2010, the Group was controlled by Société Générale, which owns 60.35% of the Bank's issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, derivative transactions and other types of transactions. These transactions were carried out on commercial terms and at market rates.

## Amounts Due to and from the Group Companies

As of 30 June 2010, the Group had deposits of CZK 1,635 million and a receivable from fair value of FX derivatives of CZK 166 million in relation to the associate Komerční pojišťovna, a.s. The Group had realised losses from FX transactions of CZK 19 million and fee income of CZK 104 million. Other amounts due, amounts owed, income and expenses with the Group were immaterial as of 30 June 2010.

## Amounts Due to and from the Société Générale Group Entities

Principal balances due from the Société Générale Group entities include:

CZK million	30 June 2010	31 December 2009
<b>Company</b>		
ALD Automotive s.r.o.	2,293	2,281
ESSOX SK s.r.o.	3	3,620
SG Consumer Finance d.o.o.	1,158	1,153
SG Equipment Finance Czech Republic s.r.o.	5,642	7,408
SG Express Bank	1	1
SG London	361	29
SG Private Banking /Suisse/ S.A.	5	6
SG Vostok	0	7
SG Zurich	73	29
SGA Société Générale Acceptance N. V.	3,293	0
SG Paris	11,796	10,934
SG Warsaw	0	20
SAS ORBEO	65	0
SG Brussels	25	0
BRD – Groupe Societe Generale S.A.	3	0
Investiční kapitálová společnost KB, a.s.	0	14
<b>Total</b>	<b>24,718</b>	<b>25,502</b>

Principal balances owed to the Société Générale Group entities include:

CZK million	30 June 2010	31 December 2009
<b>Company</b>		
ALD Automotive s.r.o.	1	0
SG Consumer Finance d.o.o.	6	12
SG Cyprus LTD	35	30
SG Equipment Finance Czech Republic s.r.o.	2,339	1,451
SG London	0	1
SG New York	4	4
SG Private Banking /Suisse/ S.A.	67	35
SG Vostok	20	1
SG Zurich	0	5
SGBT Luxemburg	119	538
SG Paris	18,116	20,868
SG Warsaw	221	19
Splitska Banka	0	14
SAS ORBEO	48	0
Investiční kapitálová společnost KB, a.s.	0	170
<b>Total</b>	<b>20,976</b>	<b>23,148</b>

## *Related Parties*

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading, issued bonds and subordinated debt.

As of 30 June 2010, the Group also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 163,035 million and CZK 182,276 million, respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 30 June 2010, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the period ended 30 June 2010, the Group realized total income of CZK 14,058 million and total expenses of CZK 13,492 million with the Société Générale Group. Income includes interest income from debt securities issued by Société Générale Paris, income from interbank deposits, fees from transactions with securities, interest income on hedging derivatives, and a gain on trading derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, loss from financial operations, interest expense on hedging derivatives, and expenses related to the provision of management, consultancy and software services.

As of 30 June 2010, the Group recorded no material expenses or income with other companies in the Société Générale Group.

### **Amounts Due from Members of the Management and Supervisory Boards and Directors' Committee**

In respect of loans and guarantees as of 30 June 2010, the Bank recorded loan receivables totalling CZK 3 million granted to members of the Management Board, Directors' Committee and Supervisory Board. No draw-downs were made during the first half of 2010, and loan repayments amounted to CZK 1 million.

# Management Affidavit

To the best of our knowledge, we believe that this half-yearly report gives a fair and true view of the Bank's and Group's financial position, business activities and results from the first half of 2010, and outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 27 August 2010

Signed on behalf of the Board of Directors:



**Patrice Taillandier-Thomas**  
Member of the Board of Directors  
and Senior Executive Director



**Peter Palečka**  
Member of the Board of Directors  
and Senior Executive Director

# Report on Financial Results (in accordance with IFRS)

## Consolidated Income Statement and Statement of Comprehensive Income Period ended 30 June 2010

CZK million	30 June 2010	30 June 2009
<b>CONSOLIDATED INCOME STATEMENT</b>		
Interest income and similar income	17,213	19,205
Interest expense and similar expense	(6,591)	(8,710)
Income from dividends	87	84
<b>Net interest income and similar income</b>	<b>10,709</b>	<b>10,579</b>
Net fee and commission income	3,927	3,862
Net profit on financial operations	1,449	2,039
Other income	54	51
<b>Net operating income</b>	<b>16,139</b>	<b>16,531</b>
Personnel expenses	(2,971)	(3,192)
General administrative expenses	(2,533)	(2,743)
Depreciation, impairment and disposal of fixed assets	(743)	(729)
<b>Total operating expenses</b>	<b>(6,247)</b>	<b>(6,664)</b>
<b>Profit before provision for loan and investment losses, other risk and income taxes</b>	<b>9,892</b>	<b>9,867</b>
Provisions for loan losses	(1,734)	(2,661)
Provisions for impairment of securities	0	(1)
Provisions for other risk expenses	(32)	2
<b>Cost of risk</b>	<b>(1,766)</b>	<b>(2,660)</b>
Income from share of associated companies	34	34
Profit attributable to exclusion of companies from consolidation	0	2
Share of profit of pension scheme beneficiaries	(298)	(201)
<b>Profit before income taxes</b>	<b>7,862</b>	<b>7,042</b>
Income taxes	(1,341)	(1,236)
<b>Net profit</b>	<b>6,521</b>	<b>5,806</b>
Profit attributable to the Bank's equity holders	6,482	5,762
Minority profit	39	44
<b>Earnings per share (in CZK)</b>	<b>170.79</b>	<b>151.80</b>

CZK million	30 June 2010	30 June 2009
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>		
<b>Net profit</b>	<b>6,521</b>	<b>5,806</b>
Other comprehensive income:		
Hedging of cash flows		
- Net fair value gain (loss), net of tax	4,504	(2,311)
- Transfer to net profit, net of tax	(607)	(412)
Foreign exchange rate differences from the remeasurement of net assets from foreign investments	1	(14)
Net value gain on financial assets available for sale, net of tax	(985)	(1,248)
Net value gain on financial assets available for sale, net of tax (associated companies)	(4)	(3)
<b>Other comprehensive income for the period, net of tax</b>	<b>2,909</b>	<b>(3,988)</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>9,430</b>	<b>1,818</b>
Comprehensive income attributable to:		
Bank's equity holders	9,391	1,774
Minority owners	39	44

**Consolidated Statement of Financial Position**  
**As of 30 June 2010**

CZK million	Note	30 June 2010	31 December 2009
<b>Assets</b>			
Cash and current balances with central banks		9,332	16,271
Financial assets at fair value through profit or loss		30,303	24,442
Positive fair value of hedging financial derivative transactions		16,431	9,590
Financial assets available for sale	4	116,369	114,067
Assets held for sale		149	245
Amounts due from banks		123,230	131,271
Loans and advances to customers	5	371,404	372,303
Investments held to maturity	6	6,756	6,785
Income taxes receivable		8	32
Deferred tax assets		0	0
Prepayments, accrued income and other assets		3,939	4,461
Investments in associates and unconsolidated subsidiaries		633	605
Intangible fixed assets		3,787	3,723
Tangible fixed assets		7,378	7,729
Goodwill		3,551	3,551
<b>Total assets</b>		<b>693,270</b>	<b>695,075</b>

CZK million	Note	30 June 2010	31 December 2009
<b>Liabilities</b>			
Amounts due to central banks		2	2
Financial liabilities at fair value through profit or loss		15,069	12,273
Negative fair value of hedging financial derivative transactions		8,481	6,539
Amounts due to banks		19,915	18,739
Amounts due to customers		536,528	551,809
Securities issued	7	18,320	18,172
Income taxes payable		0	104
Deferred tax liability		1,425	756
Accruals and other liabilities		13,686	9,890
Provisions	8	2,073	1,998
Subordinated debt		6,001	6,001
<b>Total liabilities</b>		<b>621,500</b>	<b>626,283</b>
<b>Shareholders' equity</b>			
Share capital		19,005	19,005
Share premium and reserves		51,507	48,568
Minority equity		1,258	1,219
<b>Total shareholders' equity</b>		<b>71,770</b>	<b>68,792</b>
<b>Total liabilities and shareholders' equity</b>		<b>693,270</b>	<b>695,075</b>

**Consolidated Statement of Changes in Shareholders' Equity**  
**Period ended 30 June 2010**

CZK million	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation gains or losses	Revaluation of available-for-sale financial assets	Total	Minority interest	Total, including minority interest
<b>Balance at 1 January 2010</b>	<b>19,005</b>	<b>42,776</b>	<b>2,382</b>	<b>(2)</b>	<b>3,412</b>	<b>67,573</b>	<b>1,219</b>	<b>68,792</b>
Treasury shares, other	0	0	0	0	0	0	0	0
Payment of dividends	0	(6,452)	0	0	0	(6,452)	0	(6,452)
<b>Transactions with owners</b>	<b>0</b>	<b>(6,452)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(6,452)</b>	<b>0</b>	<b>(6,452)</b>
Profit for the period	0	6,482	0	0	0	6,482	39	6,521
Other comprehensive income for the period, net of tax	0	(4)**	3,897	1	(985)	2,909	0	2,909
<b>Comprehensive income for the period</b>	<b>0</b>	<b>6,478</b>	<b>3,897</b>	<b>1</b>	<b>(985)</b>	<b>9,391</b>	<b>39</b>	<b>9,430</b>
<b>Balance at 30 June 2010</b>	<b>19,005</b>	<b>42,802</b>	<b>6,279</b>	<b>(1)</b>	<b>2,427</b>	<b>70,512</b>	<b>1,258</b>	<b>71,770</b>

CZK million	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation gains or losses	Revaluation of available-for-sale financial assets	Total	Minority interest	Total, including minority interest
<b>Balance at 31 December 2008</b>	<b>19,005</b>	<b>38,514</b>	<b>3,552</b>	<b>4</b>	<b>767</b>	<b>61,842</b>	<b>1,132</b>	<b>62,974</b>
Changes in accounting policies	0	39	0	0	0	39	0	39
<b>Balance at 1 January 2009</b>	<b>19,005</b>	<b>38,553</b>	<b>3,552</b>	<b>4</b>	<b>767</b>	<b>61,881</b>	<b>1,132</b>	<b>63,013</b>
Treasury shares, other	0	12	0	0	0	12	0	12
Payment of dividends	0	(6,832)	0	0	0	(6,832)	0	(6,832)
<b>Transactions with owners</b>	<b>0</b>	<b>(6,820)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(6,820)</b>	<b>0</b>	<b>(6,820)</b>
Profit for the period	0	5,762	0	0	0	5,762	44	5,806
Other comprehensive income for the period, net of tax	0	(3)**	(2,723)	(14)	(1,248)	(3,988)	0	(3,988)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>5,759</b>	<b>(2,723)</b>	<b>(14)</b>	<b>(1,248)</b>	<b>1,774</b>	<b>44</b>	<b>1,818</b>
<b>Balance at 30 June 2009</b>	<b>19,005</b>	<b>37,492</b>	<b>829</b>	<b>(10)</b>	<b>(481)</b>	<b>56,835</b>	<b>1,176</b>	<b>58,011</b>

Note: \* Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period, and retained earnings. Retained earnings amount to CZK 31,504 million.

\*\* This amount represents the gain from revaluation of available-for-sale financial assets (the impact from consolidation of an associated company using the equity method).

**Consolidated Cash Flow Statement**  
**Period ended 30 June 2010**

CZK million	30 June 2010	30 June 2010	30 June 2009	30 June 2009
<b>Cash flows from operating activities</b>				
Interest receipts	15,090		17,406	
Interest payments	(5,676)		(7,622)	
Commission and fee receipts	4,856		4,733	
Commission and fee payments	(834)		(866)	
Net income from financial transactions	613		738	
Other income receipts	888		1,043	
Cash payments to employees and suppliers, and other payments	(5,557)		(6,476)	
<b>Operating cash flow before changes in operating assets and operating liabilities</b>	<b>9,380</b>		<b>8,956</b>	
Due from banks	7,851		20,680	
Financial assets at fair value through profit or loss	(6,010)		12,580	
Loans and advances to customers	(1,318)		(7,083)	
Other assets	(319)		1,416	
<b>Total (increase)/decrease in operating assets</b>	<b>204</b>		<b>27,593</b>	
Amounts due to banks	733		6,527	
Financial liabilities at fair value through profit or loss	2,898		(5,247)	
Amounts due to customers	(15,835)		(23,271)	
Other liabilities	3,838		5,585	
<b>Total increase/(decrease) in operating liabilities</b>	<b>(8,366)</b>		<b>(16,406)</b>	
Net cash flow from operating activities before taxes	1,218		20,143	
Income taxes paid	(1,378)		(1,453)	
<b>Net cash flows from operating activities</b>		<b>(160)</b>		<b>18,690</b>

<b>CZK million</b>	<b>30 June 2010</b>	<b>30 June 2010</b>	<b>30 June 2009</b>	<b>30 June 2009</b>
<b>Cash flows from investing activities</b>				
Dividends received	87		84	
Purchase of investments held to maturity	(287)		0	
Maturity of investments held to maturity*	450		83	
Purchase of financial assets available for sale	(6,498)		(18,262)	
Sale and maturity of financial assets available for sale*	5,802		7,194	
Purchase of tangible and intangible fixed assets	(586)		(614)	
Sale of tangible and intangible fixed assets	218		127	
<b>Net cash flow from investing activities</b>		<b>(814)</b>		<b>(11,388)</b>
<b>Cash flows from financing activities</b>				
Paid dividends	(6,387)		(6,696)	
Securities issued	368		1,002	
Securities redeemed*	(209)		(1,991)	
<b>Net cash flow from financing activities</b>		<b>(6,228)</b>		<b>(7,685)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(7,202)</b>		<b>(383)</b>	
<b>Cash and cash equivalents at beginning of the period</b>	<b>16,315</b>		<b>10,415</b>	
<b>Cash and cash equivalents at end of the period</b>		<b>9,113</b>		<b>10,032</b>

Note: \* The amount also includes received and paid coupons.

## Notes to the Consolidated Financial Results

### 1) Events for the period ended 30 June 2010

#### Dividends declared in respect of the year ended 31 December 2009

At the General Meeting held on 29 April 2010, the shareholders approved a dividend for the year ended 31 December 2009 of CZK 170 per share before tax. The dividend was declared in the aggregate amount of CZK 6,452 million. An amount of CZK 3,917 million was allocated to retained earnings.

#### Changes in the Bank's Financial Group

In May 2010, the Bank decreased the equity in Bastion European Investments S.A. by EUR 2 million (CZK 57 million). The decrease was initiated only by the Bank, as the majority shareholder of Bastion European Investments S.A. The equity decrease was planned.

In June 2010, the Board of Directors of the Bank approved the report of the liquidator of the company All in Real Estate Leasing, a.s., v likvidaci with the proposal for distribution of the expected liquidation balance of the company totalling to CZK 2 million and instructed the company's liquidator to file an application for expunging the company from the register of companies.

#### Uncertainty about the impact of the global financial crisis

In the first half of 2010, the global financial and economic crisis predominantly impacted the cost of risk. The presented consolidated financial statements for the period ended 30 June 2010 are based on the current best estimates, and management of the Group believes that these present the truest and fairest view of the Group's financial results and financial position using all relevant and available information at the financial statements date.

The Group might be influenced by the global financial and economic crisis going forward. The Group might be exposed to increased risk, mainly due to high volatility and uncertainty regarding valuations, possible impairment of assets, contingent liabilities and future development of the markets. Those potential risks may have an impact on the Group's financial statements in future.

#### Seasonality and unusual items

The Group's principal activities are not significantly influenced by seasonality and in the first half of 2010 no unusual transaction occurred.

### 2) Principal accounting policies

Since 1 January 2010, the Group refined the presentation of certain items of its profit and loss statement and balance sheet and harmonized the presentation of certain items in the structure of the financial statements with those used by the parent company. The amounts and balances for 2009 were restated to reflect the presentation for the current period. The tables below include a reconciliation of individual categories.

Reconciliation of categories in the Income Statement for period ended 30 June 2009:

CZK million	Before reclassification 30 June 2009	After reclassification 30 June 2009	Reference
Interest income and similar income	19,437	19,205	1, 2
Interest expense and similar expense	(8,501)	(8,710)	3
Net fees and commissions	3,821	3,862	4
Other income	92	51	4
General administrative expenses	(3,011)	(2,743)	2, 3
Cost of risk	(2,833)	(2,660)	1

1. The categories "Interest income and similar income" and "Provision for loan losses" were decreased by accrued interest from impaired loans in the amount of CZK 173 million.
2. The cost of loans insurance in the amount of CZK 59 million was reclassified from "General administrative expenses" to "Interest income and similar income".
3. Expenses related to contribution to the Deposit Insurance Fund in the amount of CZK 209 million were reclassified from "General administrative expenses" to "Interest expense and similar expense".
4. Income related to intermediating insurance sales in the amount of CZK 41 million was reclassified from "Other income" to "Net fee and commission income".

Reconciliation of categories in the Statement of Financial Position as of 31 December 2009:

CZK million	Before reclassification 31 December 2009	After reclassification 31 December 2009	Reference
Loans and advances to customers	372,303	372,303	1
Prepayments, accrued income and other assets	4,422	4,461	2
Share premium and reserves	48,529	48,568	2

1. Within the category "Loans and advances to customers", the items "Loans to customers" and "Provisions for loans to customers" were decreased by accrued interest from impaired loans in the amount of CZK 514 million.
2. The categories "Prepayments, accrued income and other assets" and "Share premium and reserves" were increased by CZK 39 million due to a change in accounting policy for booking fees for payment cards insurance in connection with implementing the new Payment Services Directive.

These consolidated financial statements were neither audited nor reviewed by an auditor. The information presented is consistent with requirements of IAS 34 Interim Financial Reporting.

### 3) Segment reporting

CZK million	Retail banking		Corporate banking		Investment banking		Other		Total	
	1 January to 30 June									
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net interest income and similar income	6,631	6,562	2,882	2,621	104	37	1,092	1,359	10,709	10,579
Net fee and commission income	2,642	2,615	1,203	1,157	7	23	75	67	3,927	3,862
Net profit on financial operations	392	369	551	587	439	913	67	170	1,449	2,039
Other income	67	79	4	(15)	52	59	(69)	(72)	54	51
<b>Net operating income</b>	<b>9,732</b>	<b>9,625</b>	<b>4,640</b>	<b>4,350</b>	<b>602</b>	<b>1,032</b>	<b>1,165</b>	<b>1,524</b>	<b>16,139</b>	<b>16,531</b>

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with the information on other income, recognition of provisions, write-offs and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income in segments arises from interest and, in assessing the performance of segments and deciding on allocation of resources to segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis, i.e. reduced by interest expenses.

### 4) Financial assets available for sale

Financial assets available for sale comprise:

CZK million	30 June 2010		31 December 2009	
	Fair value	Cost*	Fair value	Cost*
<b>Shares and participation certificates</b>	<b>702</b>	<b>447</b>	<b>1,237</b>	<b>1,268</b>
Fixed income debt securities	105,287	100,779	102,034	98,023
Variable yield debt securities	10,380	10,356	10,796	10,895
<b>Total debt securities</b>	<b>115,667</b>	<b>111,135</b>	<b>112,830</b>	<b>108,918</b>
<b>Total financial assets available for sale</b>	<b>116,369</b>	<b>111,582</b>	<b>114,067</b>	<b>110,186</b>

Note: \* Acquisition cost for shares and participation certificates, amortised acquisition cost for debt securities

Debt securities available for sale at fair value, allocated by issuer, comprise:

CZK million	30 June 2010	31 December 2009
<b>Debt securities available for sale issued by:</b>		
- State institutions in the Czech Republic	69,417	64,813
- Foreign state institutions	25,128	25,884
- Financial institutions in the Czech Republic	16,596	16,025
- Foreign financial institutions	2,503	3,750
- Other entities in the Czech Republic	857	240
- Other foreign entities	1,166	2,118
<b>Total debt securities available for sale</b>	<b>115,667</b>	<b>112,830</b>

In the first half of 2010, the Group sold the equity investment in Visa Inc., the net gain from the sale of which amounted to CZK 30 million for the Group. The Group additionally sold the remaining participation certificates, the net profit for the Group from which amounted to CZK 2 million.

During the first half of 2010, the Group acquired bonds with a nominal value of CZK 6,375 million and redeemed at maturity debt securities in the aggregate nominal volume of CZK 2,325 million and EUR 28 million (a total equivalent of CZK 3,045 million).

#### 5) Loans and advances to customers

Loans and advances to customers comprise:

CZK million	30 June 2010	31 December 2009
Loans to customers	383,725	381,891
Bills of exchange	424	434
Forfaits	1,478	3,788
Other amounts due from customers	173	28
<b>Total gross loans and advances to customers</b>	<b>385,800</b>	<b>386,141</b>
Provisions for loans to customers	(14,395)	(13,837)
Provisions for other amounts due from customers	(1)	(1)
<b>Total loans and advances to customers, net</b>	<b>371,404</b>	<b>372,303</b>

The loan portfolio of the Group as of 30 June 2010 (excluding other amounts due from customers) comprises the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions
Standard	345,767	166,352	179,415	0	345,767	0%
Watch	14,343	5,049	9,294	(1,242)	13,101	13%
Substandard	8,584	3,412	5,172	(1,669)	6,915	32%
Doubtful	4,048	792	3,256	(1,783)	2,265	55%
Loss	12,885	754	12,131	(9,701)	3,184	80%
<b>Total</b>	<b>385,627</b>	<b>176,359</b>	<b>209,268</b>	<b>(14,395)</b>	<b>371,232</b>	

The loan portfolio of the Group as of 31 December 2009 (excluding other amounts due from customers) comprised the following breakdown by classification:

CZK million	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions
Standard	346,176	159,865	186,311	0	346,176	0%
Watch	14,392	5,264	9,128	(1,138)	13,254	12%
Substandard	8,668	3,583	5,085	(1,567)	7,101	31%
Doubtful	5,080	825	4,255	(1,988)	3,092	47%
Loss	11,797	550	11,247	(9,144)	2,653	81%
<b>Total</b>	<b>386,113</b>	<b>170,087</b>	<b>216,026</b>	<b>(13,837)</b>	<b>372,276</b>	

Set out below is the breakdown of loans by sector (net of other amounts due from customers):

<b>CZK million</b>	<b>30 June 2010</b>	<b>31 December 2009</b>
Food industry and agriculture	13,251	15,274
Mining and extraction	1,056	2,614
Chemical and pharmaceutical industry	5,684	5,224
Metallurgy	8,062	9,133
Automotive industry	3,173	3,559
Manufacturing of other machinery	6,752	5,419
Manufacturing of electrical and electronic equipment	2,400	2,396
Other processing industry	8,347	8,066
Power plants, gas plants and waterworks	15,110	13,578
Construction industry	12,770	12,509
Retail	10,992	11,727
Wholesale	24,357	23,659
Accommodation and catering	1,036	1,044
Transportation, telecommunication and warehouses	9,237	10,545
Banking and insurance industry	24,104	28,227
Real estate	19,327	19,858
Public administration	23,358	22,170
Other industries	18,560	18,210
Individuals	178,051	172,902
<b>Loans to customers</b>	<b>385,627</b>	<b>386,113</b>

## 6) Investments held to maturity

Investments held to maturity comprise:

CZK million	30 June 2010	30 June 2010	31 December 2009	31 December 2009
	Carrying value	Amortised cost	Carrying value	Amortised cost
Fixed income debt securities	6,756	6,599	6,785	6,619
<b>Total investments held to maturity</b>	<b>6,756</b>	<b>6,599</b>	<b>6,785</b>	<b>6,619</b>

Investments held to maturity in the amount of CZK 5,735 million are issued by state institutions in the Czech Republic and CZK 1,021 million by foreign state institutions.

In the first half of 2010, the Group purchased debt securities in the total nominal amount of CZK 250 million and redeemed debt securities at maturity in the total nominal amount of EUR 10 million (a total equivalent of CZK 257 million).

## 7) Securities issued

Securities issued comprise bonds of CZK 629 million and mortgage bonds of CZK 17,691 million. Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.

Debt securities are repayable, according to remaining maturity, as follows:

CZK million	30 June 2010	31 December 2009
In less than one year	0	0
In one to two years	0	0
In two to five years	0	0
In five to ten years	14,594	14,526
Over ten years	3,726	3,646
<b>Total debt securities</b>	<b>18,320</b>	<b>18,172</b>

During the first half of 2010, the Group purchased back mortgage bonds in the aggregate nominal amount of CZK 118 million.

The debt securities detailed above include the following bonds and notes issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	30 June 2010 (CZK million)	31 December 2009 (CZK million)
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 Aug 2005	3 Aug 2015	2,772	2,892
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,402	10,219
Mortgage bonds of Komerční banka, a.s., CZ0002000854	3.74%	EUR	1 Sep 2006	1 Sep 2016	791	800
Bonds of Komerční banka, a.s., CZ0003701427	4.216%	CZK	18 Dec 2007	1 Dec 2017	629	615
Mortgage bonds of Komerční banka, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	3,726	3,646
<b>Total debt securities</b>					<b>18,320</b>	<b>18,172</b>

Notes: Six-month PRIBOR was 149 basis points as of 30 June 2010 (31 December 2009: 182 basis points).

Three-month PRIBID was 84 basis points as of 30 June 2010 (31 December 2009: 126 basis points).

The average value of the interest rate swap CZK sale for five years as of 30 June 2010 was 223 bps (31 December 2009: 300 bps).

The average value of the interest rate swap CZK sale for ten years as of 30 June 2010 was 277 bps (31 December 2009: 354 bps).

## 8) Provisions

Provisions comprise:

CZK million	30 June 2010	31 December 2009
Provisions for contracted commitments	878	824
Provisions for other credit commitments	1,108	1,032
Provision for restructuring	87	142
<b>Total provisions</b>	<b>2,073</b>	<b>1,998</b>

In the first half of 2010, the Group adjusted the amount of the provision for restructuring in respect of the project for reorganisation and centralisation of back office functions. The change in the provisioning amount includes only use of the provision to cover the expenses in the first half of 2010.

The provisions for other credit commitments are held to cover credit risks associated with issued credit commitments. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements, a provision for jubilee bonuses, and provisions for retirement bonuses.

Set out below is an analysis of the provision for other credit commitments:

CZK million	30 June 2010	31 December 2009
Provision for off balance sheet commitments	982	869
Provision for undrawn loan facilities	126	163
<b>Total</b>	<b>1,108</b>	<b>1,032</b>

Movements in the provisions for contracted commitments are as follows:

CZK million	1 Jan 2010	Additions	Disposals	Accrual	Foreign exchange difference	30 June 2010
Provisions for retirement bonuses	98	6	(6)	3	0	101
Provisions for loyalty and jubilee bonuses	2	0	0	0	0	2
Other provisions for contracted commitments	724	35	(19)	0	35	775
Provisions for restructuring	142	0	(54)	0	(1)	87
<b>Total</b>	<b>966</b>	<b>41</b>	<b>(79)</b>	<b>3</b>	<b>34</b>	<b>965</b>

## 9) Commitments and contingent liabilities

### Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 30 June 2010. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 196 million for these legal disputes. The Group has also recorded an accrual of CZK 433 million for costs associated with a potential payment of interest on the pursued claims.

As of 30 June 2010, the Group assessed lawsuits filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Financial commitments and contingencies comprise:

CZK million	30 June 2010	31 December 2009
Non-payment guarantees including commitments to issued non-payment guarantees	36,458	34,056
Payment guarantees including commitments to issued payment guarantees	10,202	10,568
Received bills of exchange/acceptances and endorsements of bills of exchange	47	51
Committed facilities and unutilised overdrafts	31,089	31,490
Undrawn credit commitments	46,358	46,635
Unutilised overdrafts and approved overdraft loans	37,003	37,547
Unutilised discount facilities	18	26
Unutilised limits under framework agreements to provide financial services	53,569	55,101
Open customer/import letters of credit uncovered	1,014	695
Stand-by letters of credit uncovered	25	380
Confirmed supplier/export letters of credit	370	70
Open customer/import letters of credit covered	45	81
Stand-by letters of credit covered	89	25
<b>Total contingent revocable and irrevocable commitments</b>	<b>216,287</b>	<b>216,725</b>

Set out below is the breakdown of financial commitments and contingencies by sector:

CZK million	30 June 2010	31 December 2009
Food industry and agriculture	6,722	7,570
Mining and extraction	453	731
Chemical and pharmaceutical industry	4,380	6,143
Metallurgy	6,427	6,741
Automotive industry	3,007	3,059
Manufacturing of other machinery	13,685	12,575
Manufacturing of electrical and electronic equipment	2,008	2,211
Other processing industry	5,322	7,498
Power plants, gas plants and waterworks	24,348	22,585
Construction industry	45,434	43,574
Retail	6,256	5,949
Wholesale	16,783	19,001
Accommodation and catering	637	614
Transportation, telecommunication and warehouses	10,127	11,213
Banking and insurance industry	13,367	12,023
Real estate	3,098	2,111
Public administration	14,255	9,997
Other industries	20,132	23,265
Individuals	19,846	19,865
<b>Contingent liabilities</b>	<b>216,287</b>	<b>216,725</b>

The majority of commitments and contingencies originate on the territory of the Czech Republic.

### 10) Estimated fair value of assets and liabilities of the Group

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

CZK million	30 June 2010	30 June 2010	31 December 2009	31 December 2009
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and current balances with central banks	9,332	9,332	16,271	16,271
Amounts due from banks	123,230	123,465	131,271	131,739
Loans and advances to customers	371,404	382,171	372,303	379,253
Investments held to maturity	6,756	6,985	6,785	6,999
<b>Financial liabilities</b>				
Amounts due to central banks and banks	19,917	20,281	18,741	18,910
Amounts due to customers	536,528	536,634	551,809	551,783
Securities issued	18,320	20,210	18,172	19,461
Subordinated debt	6,001	6,004	6,001	6,003

### 11) Transfers between levels of the fair value hierarchy

For the period ended 30 June 2010, there were no transfers between individual levels of the fair value hierarchy.

### 12) Events after the end of the reporting period

No significant event occurred before publication of this report after the end of the reporting period on 30 June 2010.

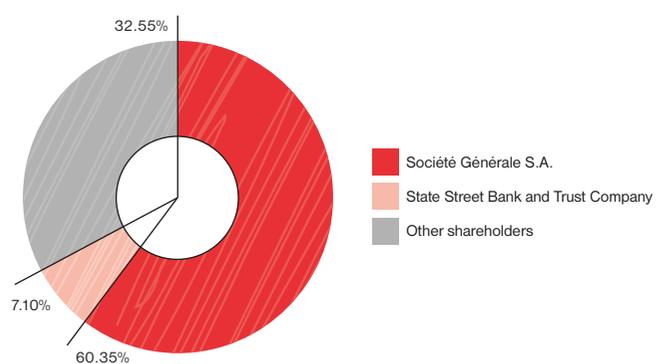
# Rating

As of 31 July 2010 (same as of 30 June 2010)

Rating agency	Long-term	Short-term
Moody's Investors Service	A1	Prime-1
Standard & Poor's	A	A-1
Fitch Ratings	A	F1

# Shareholder Structure

Major shareholders of Komerční banka, a.s. as of 30 June 2010



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