Komerční banka, a.s.

SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT

AS AT 31 DECEMBER 2011

Table of Contents

Independent Auditor's Report

Separate Financial Statements under IFRS

- Separate Income Statement
- Separate Statement of Comprehensive Income
- Separate Statement of Financial Position
- Separate Statement of Changes in Shareholders' Equity
- Separate Cash Flow Statement
- Notes to the Separate Financial Statements

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Komerční banka, a.s.:

We have audited the accompanying financial statements of Komerční banka, a.s., which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Komerční banka, a.s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Komerční banka, a.s. as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

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

Jan Fanta

Jan Fanta
Partner

Michaela Kubýová

Michaela Kubýová
Auditor, License No. 1810

28 February 2012
Prague, Czech Republic

Separate Income Statement and Statement of Comprehensive Income

Year ended 31 December 2011

Separate Income Statement
for the year ended 31 December 2011

(CZKm)	Note	2011	(After reclassification) 2010
Interest income and similar income	5	29,799	28,929
Interest expenses and similar expenses	5	(12,585)	(12,036)
Dividend income	5	762	717
Net interest income and similar income		**17,976**	17,610
Net fee and commission income	6	7,104	7,429
Net profit on financial operations	7	2,913	3,127
Other income	8	120	89
Net operating income		**28,113**	28,255
Personnel expenses	9	(5,853)	(5,521)
General administrative expenses	10	(4,527)	(4,419)
Depreciation, impairment and disposal of assets	11	(1,631)	(1,487)
Total operating expenses		**(12,011)**	(11,427)
Profit before allowances/provision for a loan and investment losses, other risk and income taxes		**16,102**	16,828
Allowances for loan losses	12	(1,377)	(2,394)
Allowances for impairment of securities	12	(5,355)	9
Provisions for other risk expenses	12	10	8
Cost of risk		**(6,722)**	(2,377)
Loss on subsidiaries and associates	13	0	(34)
Profit before income taxes		**9,380**	14,417
Income taxes	14	(1,429)	(2,382)
Net profit for the period	15	**7,951**	12,035

Separate Statement of Comprehensive Income
for the year ended 31 December 2011

(CZKm)	Note	2011	2010
Net profit for the period	15	**7,951**	12,035
Cash flow hedging			
- net fair value gain/(loss), net of tax		7,345	2,854
- transfer to net profit, net of tax		(1,598)	(1,313)
Foreign exchange gain/(loss) on hedge of a foreign net investment		0	180
Foreign exchange gain/(loss) on translation of a foreign net investment		1	37
Net value gain on financial assets available for sale, net of tax		535	(1,024)
Other comprehensive income for the period, net of tax	39, 40	**6,283**	734
Separate comprehensive income for the period, net of tax		**14,234**	12,769

The accompanying notes are an integral part of this Separate income statement and statement of comprehensive income.

Separate Statement of Financial Position

As at 31 December 2011

(CZKm)	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Cash and current balances with central banks	16	16,248	12,994
Financial assets at fair value through profit or loss	17	35,287	34,296
Positive fair value of hedging financial derivatives	41	18,801	11,845
Financial assets available for sale	18	86,456	68,720
Assets held for sale	19	13	25
Amounts due from banks	20	94,127	108,329
Loans and advances to customers	21	372,688	334,834
Financial assets held to maturity	22	184	954
Current tax assets	14	236	38
Deferred tax assets	33	6	0
Prepayments, accrued income and other assets	23	1,662	1,903
Investments in subsidiaries and associates	24	24,586	23,249
Intangible assets	25	3,449	3,363
Tangible assets	26	6,536	6,556
Total assets		**660,279**	607,106
LIABILITIES			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	27	24,422	13,966
Negative fair value of hedging financial derivatives	41	9,177	6,935
Amounts due to banks	28	29,628	29,079
Amounts due to customers	29	469,799	441,285
Securities issued	30	34,525	31,853
Deferred tax liabilities	33	2,441	991
Accruals and other liabilities	31	10,761	6,951
Provisions	32	1,055	1,030
Subordinated debt	34	6,002	6,001
Total liabilities		**587,811**	538,092
SHAREHOLDER'S EQUITY			
Share capital	35	19,005	19,005
Share premium and reserves		53,463	50,009
Total shareholders' equity		**72,468**	69,014
Total liabilities and shareholders' equity		**660,279**	607,106

The accompanying notes are an integral part of this Separate statement of financial position.

These financial statements were approved by the Board of Directors on 28 February 2012.

Signed on behalf of the Board of Directors:

Henri Bonnet — Chairman of the Board of Directors and CEO

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

Palečka

Separate Statement of Changes in Shareholders' Equity

Year ended 31 December 2011

(CZKm)	Share capital	Capital and reserve funds and retained earnings*	Cash flow hedging	Translation of a foreign net investment	Financial assets available for sale	Total
Balance at 31 December 2009	**19,005**	**39,004**	**2,558**	**0**	**2,123**	**62,690**
Adjustment due to merger	0	(50)	84	(35)	0	(1)
Balance at 1 January 2010	**19,005**	**38,954**	**2,642**	**(35)**	**2,123**	**62,689**
Treasury shares, other	0	8	0	0	0	8
Payment of dividends	0	(6,452)	0	0	0	(6,452)
Transactions with owners	**0**	**(6,444)**	**0**	**0**	**0**	**(6,444)**
Profit for the period	0	12,035	0	0	0	12,035
Other comprehensive income for the period, net of tax	0	0	1,721	37	(1,024)	734
Comprehensive income for the period	**0**	**12,035**	**1,721**	**37**	**(1,024)**	**12,769**
Balance at 31 December 2010	**19,005**	**44,545**	**4,363**	**2**	**1,099**	**69,014**
Treasury shares, other	0	(517)	0	0	0	(517)
Payment of dividends	0	(10,263)	0	0	0	(10,263)
Transactions with owners	**0**	**(10,780)**	**0**	**0**	**0**	**(10,780)**
Profit for the period	0	7,951	0	0	0	7,951
Other comprehensive income for the period, net of tax	0	0	5,747	1	535	6,283
Comprehensive income for the period	**0**	**7,951**	**5,747**	**1**	**535**	**14,234**
Balance at 31 December 2011	**19,005**	**41,716**	**10,110**	**3**	**1,634**	**72,468**

Note: / Capital and reserve funds and retained earnings 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 30,122 million (2010: CZK 28,332 million) and statutory reserve fund CZK 3,801 million (2010: CZK 3,801 million).*

The accompanying notes are an integral part of this Separate statement of changes in shareholders' equity.

Separate Cash Flow Statement

Year ended 31 December 2011

(CZKm)	2011		(After reclassification) 2010	
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest receipts	26,648		26,075	
Interest payments	(10,217)		(11,063)	
Commission and fee receipts	8,474		8,881	
Commission and fee payments	(1,456)		(1,325)	
Net income from financial transactions	1,792		4,555	
Other income receipts	102		(7)	
Cash payments to employees and suppliers, and other payments	(9,912)		(10,303)	
Operating cash flow before changes in operating assets and operating liabilities	**15,431**		16,813	
Due from banks	14,954		20,201	
Financial assets at fair value through profit or loss	(1,087)		(9,823)	
Loans and advances to customers	(39,048)		(11,710)	
Other assets	259		196	
(Increase)/decrease in operating assets	**(24,922)**		(1,136)	
Amounts due to banks	734		9,466	
Financial liabilities at fair value through profit or loss	10,450		1,675	
Amounts due to customers	29,282		(18,467)	
Other liabilities	3,675		(1,122)	
Increase/(decrease) in operating liabilities	**44,141**		(8,448)	
Net cash flow from operating activities before taxes	34,650		7,229	
Income taxes paid	(1,659)		(2,194)	
Net cash flows from operating activities		**32,991**		5,035
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Dividends received	762		717	
Maturity of investments held to maturity*	40		328	
Purchase of financial assets available for sale	(25,965)		(8,684)	
Sale and maturity of financial assets available for sale*	9,027		5,993	
Purchase of tangible and intangible assets	(1,740)		(1,253)	
Sale of tangible and intangible assets	57		633	
Purchase of investments in subsidiaries and associates	(1,400)		(550)	
Sale/decrease of investments in subsidiaries and associates	63		359	
Net cash flow from investment activities		**(19,156)**		(2,457)
CASH FLOWS FROM FINANCING ACTIVITIES				
Paid dividends	(10,206)		(6,435)	
Purchase of treasury shares	(575)		0	
Securities issued	4,423		2,023	
Securities redeemed*	(2,961)		(2,018)	
Net cash flow from financing activities		**(9,319)**		(6,430)
Net increase/(decrease) in cash and cash equivalents	**4,516**		(3,852)	
Cash and cash equivalents at the beginning of the year	9,303		12,220	
FX differences on Cash and cash equivalents at beginning of year	(29)		34	
Adjustment due to merger	0		901	
Cash and cash equivalents at the end of the year (see Note 36)		**13,790**		9,303

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

The accompanying notes are an integral part of this Separate cash flow statement.

TABLE OF CONTENTS

1 Principal activities ... 6
2 Events for the year ended 31 December 2011 ... 6
3 Principal accounting policies ... 7
4 Segment reporting ... 33
5 Net interest income and similar income ... 34
6 Net fee and commission income ... 34
7 Net profit on financial operations ... 35
8 Other income ... 35
9 Personnel expenses ... 35
10 General administrative expenses ... 36
11 Depreciation, impairment and disposal of assets ... 37
12 Cost of risk ... 37
13 Loss on subsidiaries and associates ... 38
14 Income taxes ... 39
15 Distribution of net profit ... 40
16 Cash and current balances with central banks ... 40
17 Financial assets at fair value through profit or loss ... 40
18 Financial assets available for sale ... 43
19 Assets held for sale ... 46
20 Amounts due from banks ... 46
21 Loans and advances to customers ... 47
22 Financial assets held to maturity ... 50
23 Prepayments, accrued income and other assets ... 51
24 Investments in subsidiaries and associates ... 51
25 Intangible assets ... 54
26 Tangible assets ... 55
27 Financial liabilities at fair value through profit or loss ... 55
28 Amounts due to banks ... 56
29 Amounts due to customers ... 56
30 Securities issued ... 57
31 Accruals and other liabilities ... 59
32 Provisions ... 59
33 Deferred tax ... 60
34 Subordinated debt ... 61
35 Share capital ... 61
36 Composition of cash and cash equivalents as reported in the cash flow statement ... 64
37 Commitments and contingent liabilities ... 64
38 Related parties ... 67
39 Movements in the revaluation of hedging instruments in the statement of changes in shareholders' equity 71
40 Movements in the revaluation of available for sale financial assets ... 72
41 Risk management and financial instruments ... 73
42 Assets under management ... 100
43 Post balance sheet events ... 100

1 Principal activities

Komerční banka, a.s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:

I. providing loans, advances and guarantees in Czech Crowns and foreign currencies;
II. acceptance and placement of deposits in Czech Crowns and foreign currencies;
III. providing current and term deposit accounts in Czech Crowns and foreign currencies;
IV. providing banking services through an extensive branch network in the Czech Republic;
V. treasury operations in the interbank market;
VI. servicing foreign trade transactions;
VII. investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its foreign branch Komerční banka, a.s., pobočka zahraničnej banky.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35 % (2010: 60.35 %) of the Bank's issued share capital.

2 Events for the year ended 31 December 2011

Dividends declared in respect of the year ended 31 December 2010

At the General Meeting held on 21 April 2011, the shareholders approved a dividend for the year ended 31 December 2010 of CZK 270 per share before tax. The dividend was declared in the aggregate amount of CZK 10,263 million. An amount of CZK 1,772 million was allocated to retained earnings.

Changes in the Bank's Financial Group

In January 2011 KB Real Estate, s.r.o. was recorded in the Commercial Register and was established by the Bank in connection with the acquisition of a new own office building in Prague and its management. The shareholder's equity of this company amounts to CZK 101 million (after its increase by CZK 100 million in April 2011). Increased fund will be used for financing of the expenditures related to the construction.

In April 2011 the General Meeting of Komerční pojišťovna, a.s. decided to increase the share capital by CZK 271 million from retained earnings in the form of increasing the nominal value of shares. The increase was recorded in the Commercial Register in May 2011.

In May 2011 the Bank decreased the shareholder's equity in Bastion European Investments S.A. by EUR 2.2 million (CZK 63 million). The decrease was initiated only by the Bank, as the majority shareholder of Bastion European Investments S.A. The shareholder's equity decrease was planned.

The Bank has acquired 50.1% ownership interest in SG Equipment Finance Czech Republic s.r.o. (hereafter only "SGEF") for CZK 1,800 million as at May 4th, 2011. The primary reason for acquisition of SGEF was to further reinforce the Bank's group leading position in financing corporations and entrepreneurs in the Czech Republic. As the Bank has power over more than half of the SGEF's voting rights, power to govern the SGEF's financial and operating policies and power to appoint SGEF's executive director, the Bank has obtained control of SGEF.

As at December 23, 2011 SGEF paid dividend from the earnings retained from previous years amounting in total to CZK 1,000 million of which the Bank has received 50.1 %, i.e. CZK 501 million. Even it is dividend from SGEF's perspective, from Bank's point of view this payment substantially presents return of its investment, i.e. the return of capital. Return of capital is not addressed by IFRS and it is not considered to be dividend by the Bank. Based on the substance of the received payment the Bank has reduced the carrying value of the initial investment.

Uncertainty in capital markets

In 2011, the effects of the global financial and economic crisis persisted, in particular the increased uncertainty in capital markets caused by problems of some states of the European Union. The Bank could therefore be in the subsequent period at increased risk particularly in relation to the uncertainty associated with valuation, potential impairment of assets, contingent liabilities and future developments in the markets. The potential risks may have an impact on the financial statements of the Bank in the future. For information about the Bank's exposure to these risks refer to Note 17, 18 and 22.

The presented Separate financial statements for the year ended 31 December 2011 are based on the current best estimates and management of the Bank believes that they present the true and fair view of the Bank's financial results and financial position using all relevant and available information at the financial statements date.

3 Principal accounting policies

These financial statements are separate. The consolidated financial statements are issued as at the same date. The total consolidated equity is CZK 81,850 million and total consolidated profit is CZK 9,718 million.

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

3.1 Statement of compliance with IFRS

The separate financial statements are prepared pursuant to and comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2011.

The separate financial statements include a statement of financial position, a statement of comprehensive income presented in two constituent statements (a separate income statement and a statement of comprehensive income), a statement of changes in shareholders equity, a cash flow statement, and notes to the financial statements containing accounting policies and explanatory disclosures.

3.2 Underlying assumptions of separate financial statements

3.2.1 Accrual basis

The separate financial statements are prepared on an accrual accounting basis, i.e. effects of transactions and other events are recognised when they occur and are reported in the financial statements for the period to which they relate.

The exception is the cash flow statement, which is prepared on a cash basis, i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates.

3.2.2 Going concern

The separate financial statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The Group has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

3.2.3 Offsetting

Assets and liabilities or income and expenses are not offset, unless required or permitted under IFRS.

3.2.4 Reporting period

The Group reports for a 12-month period that is identical to the calendar year.

3.3 Basis of preparation

3.3.1 Presentation currency

The separate financial statements are presented in Czech crowns (hereafter only "CZK"), which represent the Bank's presentation currency. The figures shown are stated in CZK millions unless indicated otherwise.

3.3.2 Historical cost

The separate financial statements are prepared under the historical cost convention, except for available for sale financial assets, financial assets and liabilities at fair value though profit or loss and hedging derivatives and hedge items in fair value hedge accounting, whose items are measured at fair value.

Assets held for sale are measured at the lower of their fair value less cost to sell and their carrying amount just before reclassification into *"Assets held for sale".*

3.3.3 Use of estimates

The presentation of separate financial statements in line with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the financial statements date and they specifically relate to the determination of:

- fair values in the Statement of financial position of financial instruments non-quoted in an active market which are classified as Financial assets or liabilities at fair value through profit or loss, Hedging derivatives or Available for sale financial assets (refer to Note 3.5.4);
- the value of intangible assets (refer to Note 3.5.8);
- the amount of impairment of assets (refer to Notes 3.5.4 and 3.5.8);
- provisions recognised under liabilities (refer to Note 3.5.9);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.6).

Information about the key assumptions concerning the future and other key sources of estimation uncertainty at the financial statements' date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

3.3.4 Investments in subsidiaries and associates

A subsidiary is an entity in which the Bank has the control, i.e. directly or indirectly owns more than half voting power or it has a power to govern the entity by another way. An associate is an entity in which the Bank has the significant influence, i.e. directly or indirectly owns more than 20 % and less than half voting power.

Investments, in which the Bank, directly or indirectly, owns the voting power less than 20 % are classified as *„Available for sale financial assets"*.

Investments in subsidiaries and associates are measured at historical cost (i.e. foreign currency investments are translated using exchange rate at the date of transaction) decreased by potential accumulated impairment losses. The Bank asses regularly at the end of each reporting period whether there is any impairment loss by comparing carrying values of each investment with is recoverable amount. If the recoverable amount is lower, the Bank recognised the impairment loss through the use of an allowances account. Investments in subsidiaries and associates are presented in the line *"Investments in subsidiaries and associates"*.

3.4 Adoption of new and revised IFRS

3.4.1 Standards and interpretations not yet adopted by the European Union

The European Commission decides on the applicability of IFRS issued by IASB within the European Union by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

As at the issuance date of these separate financial statements, IFRS as adopted by the European Union does not differ from IFRS, except for fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the European Union.

In addition, the European Commission has not approved the following effective standards and interpretations, and/or their amendments:

- IFRS 1 First-time Adoption of IFRS –amendment: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Transfer of Financial Assets
- IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments
- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – amendment: Mandatory Effective Date and Transition Disclosures
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

- IAS 1 Presentation of Financial Statements - amendment: Presentation of Items of Other Comprehensive Income
- IAS 19 Employee Benefits (revised 2011)
- IAS 27 Individual Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Financial Instruments: Presentation - amendment: Offsetting Financial Assets and Financial Liabilities
- IAS 12 Income Taxes – amendment: Deferred Tax: Recovery of Underlying Assets
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

3.4.2 Standards and interpretations adopted in the current period (and/or prior period)

Following standards and interpretations have no impact on the separate financial statements of the Bank in the current period (and/or prior period).

Standard	Impact/Comments
IFRS 1 First-time Adoption of IFRS – amendment: "Limited exception from Comparative IFRS 7 Disclosure"	The amendment permits first-time adopters to not disclose comparative information in respect of the previous period for the classification of financial instruments' fair values in a hierarchy of fair value (same exception is included in IFRS 7.44 G).
IAS 24 Related Party Disclosures – revised standard	The scope of the standard was extended. The revised standard newly requires disclosures on relations and commitments and specifies that the required information should be disclosed both in consolidated and separate financial statements. In addition, the definition of a related party was changed/extended. A definition of a state and its related parties was added and exceptions from disclosures were introduced for these related parties.
IAS 32 Financial instruments: Presentation – amendment: "Classification of rights issues"	The amendment adds that rights issues, options and warrants for the acquisition of a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments provided they are offered proportionally to all its existing owners of the same class of own non-derivative equity instruments of the entity.
Annual Improvements to IFRS 2010 – new standard	Annual improvements amend 5 standards to the total of 10 points and one interpretation, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – amendment: "Prepayments of a Minimum funding requirement"	The amendment specifies the recognition of benefits available through a decrease of future contributions with a non-existence of minimum funding requirements and recognition of prepaid contributions with the existence of minimum funding requirements. The amendment specifies that if an entity arrives at an amount lower than zero through adjusting the recognised asset and including the amount of potential paid contributions in the determined minimum funding requirements then it will not disclose the liability.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – new interpretation	The interpretation covers accounting for and valuation of extinguishing financial instruments through the issue of equity instruments on the part of the issuer.

3.4.3 Standards and interpretations adopted effective from 1 January 2012 or thereafter

The below-listed standards and interpretations or their amendments are in effect. However, they do not apply to reporting periods beginning on 1 January 2011 and the Bank has decided not to use the possibility to apply them earlier.

Concurrently, the Bank does not anticipate that their application will significantly impact the Bank's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments which supersedes part of the existing standard IAS 39 relating to the classification and derecognition of financial assets and financial liabilities.

The application of requirements of IFRS 9 will primarily mean that non-equity instruments classified in the "financial assets available for sale" portfolio will be remeasured to profit or loss rather than to other comprehensive income. With respect to equity instruments classified in this portfolio, the Bank will have to decide upon the first-time application of the standard whether it will remeasure these to profit or loss or whether it will use the possibility to recognise changes in their fair value in other comprehensive income.

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 1 First-time Adoption of IFRS – amendment: "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	The amendment removes the fixed dates to provide relief for firs-time adopters of IFRS from having to reconstruct transactions that occurred before their date of transition to IFRS and provides guidance for entities emerging from severe hyperinflation either to resume presenting IFRS statements or to present IFRS financial statements for the first time.	1 July 2011
IFRS 7 Financial Instruments: Disclosures – amendment: "Disclosures – Transfer of Financial Assets"	The amendment enhances disclosure related to the evaluation of the risk exposures relating to transfers of financial assets and the effects of those risks on an entity's financial position and promotes transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets.	1 July 2011
IAS 12 Income Taxes – amendment: "Deferred Tax: Recovery of Underlying Assets"	The amendment specifies measuring of deferred tax assets/ liabilities when investment property is measured using the fair value model in IAS 40 and incorporates SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets after excluding investment property measured at fait value from the scope of the guidance previously contained in SIC-21.	1 January 2012

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for equity instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application. Derivatives embedded in financial assets are no longer separated according to the standard. In October 2010 the requirements in IAS 39 for classification and measurement of financial liabilities and for derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk. In December 2011 the Board issued the amendment that postpones the mandatory effective date of IFRS 9. Newly the Standard should be applied for annual periods beginning on or after 1 January 2015.	1 January 2015
IAS 1 Presentation of Financial Statements – amendment "Presentation of Items of Other Comprehensive Income"	Amendment requires that items in other comprehensive income are grouped on the basis of whether they are reclassified from other comprehensive income to profit or loss. Moreover, new title of 'statement of profit or loss and other comprehensive income' is used for the statement containing all items of income and expense.	1 July 2012
IAS 19 Employee Benefits – revised Defined Benefit Plans	Revised standard requires immediate recognition of defined benefit cost and improves presentation and disclosure.	1 January 2013
IAS 27 Separate Financial Statements – revised standard	Revised standard doesn't change current requirements related to separate financial statements.	1 January 2013
IAS 28 Investments in Associates and Joint Ventures – revised standard	Revised standard results from the new standard on joint ventures and incorporates the accounting for them. In consolidated financial statements joint ventures will be newly consolidated using only the equity method.	1 January 2013
IFRS 7 Financial Instruments: Disclosures – amendment: "Disclosures – Offsetting Financial Assets and Financial Liabilities"	The amendment requires disclosure of information that will enable users of entity financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.	1 January 2013

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 10 Consolidated Financial Statements – new standard	New standard is based on current consolidation requirements stipulated in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. However, this standard presents a revised definition of control and related application guidance so that a single control model can be applied to all entities.	1 January 2013
IFRS 11 Joint Arrangements – new standard	New standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers and it improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement and by eliminating a choice of accounting treatment.	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities – new standard	New standard enhances disclosures about consolidated and unconsolidated entities to be published.	1 January 2013
IFRS 13 Fair Value Measurement – new standard	New standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – new interpretation	Interpretation addresses recognition of production stripping costs as an asset ("stripping activity asset") and its initial and subsequent measurement.	1 January 2013
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment relates to criterion that an entity "currently has a legally enforceable right to set off the recognised amounts" newly added into application guidance.	1 January 2014
IFRS 7 Financial Instruments: Disclosures – amendment: "Mandatory Effective Date and Transition"	Standard has been amended due to the change of the mandatory effective date of IFRS 9 Financial instruments.	1 January 2015

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2011

The Bank did not make use of the possibility for voluntary earlier application of standards or interpretations in the reporting period beginning 1 January 2011.

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

The Bank functional currency (i.e. the currency of the primary economic environment in which the Bank operates) is the Czech crown.

The Bank has a branch in the Slovak Republic and the subsidiary, Bastion European Investments S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are at the date of the initial recognition translated into the functional currency using the spot exchange rate announced by the bank authority (hereafter only "BA") for the respective foreign currency. Depending on functional currency the bank authority means Czech National Bank (hereafter only "CNB") for Czech crown and European Central Bank for euro.

At the end of a reporting period all items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

I. foreign currency monetary items are translated using the closing rate (exchange rate announced by BA at the end of the reporting period);

II. non-monetary items that are measured in term at historical cost are translated using BA's exchange rate at the date of the translation;

III. non-monetary items that are measured at fair value in a foreign currency are translated using BA's exchange rate at the date when the fair value was determined.

Gains and losses related to the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses of the period in which they occur and are presented in the line *"Net profit on financial operations"*.

However, where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in other comprehensive income, related exchange differences are recognised in the same way. These non-monetary items include equity instruments. In other comprehensive income are recognised also exchange differences related to fair value revaluation of debt instruments classified as available for sale (excluding the effective portion of their fair value hedges) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation.

3.5.2 Recognition of income and expenses

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Income statement in the lines *"Interest income and similar income"* and *"Interest expenses and similar expenses"* using the effective interest rate (refer to 3.5.4.7 Effective interest rate method). Interest income and expense related to interest hedging derivatives are recognized in the mentioned lines on an accrual basis using the contractual interest rate of corresponding derivative. Late fee income is recognised at the date of its payment and presented in the line *"Interest income and similar income"*. Interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss are recognised in the Income statement in the line *"Net profit on financial operations"*.

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following three categories of fees:

- fees and commissions that comprise an integral part of the effective interest rate of a financial instrument, are recognised in the line *"Interest income and similar income"*;
- fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line *"Net fee and commission income"*;
- fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line *"Net fee and commission income"*.

Dividend income is recognised when the Bank's right to receive a dividend payment is established and is presented in the line *"Income from dividends"*.

Realised and unrealised gains/losses on securities held for trading, security derivatives, currency, interest rate and trading commodity derivatives, foreign exchange transactions, foreign assets and liabilities re-translation to functional currency and realised gains/losses on available for sale financial assets are presented in the line *"Net profit on financial operations"*.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in the process of collection.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

In preparing its cash flow statement for the period, the Bank includes, in cash and cash equivalents, the cash and balances with central banks at the beginning and end of the period and current amounts due from and to banks.

3.5.4 Financial instruments

3.5.4.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in statement of financial position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its provision (collection of cash).

In case of financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the sale trade date according to its categorisation into an individual portfolio, i.e. either in profit or loss or in other comprehensive income.

All purchases and sales of financial instruments that do not meet the "regular way" settlement criterion in the marketplace concerned are treated as financial derivatives. The Bank recognises financial derivatives in the Statement of Financial Position at trade date. Financial derivatives are derecognised at their maturity.

The Bank recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished, i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires (trade date accounting).

3.5.4.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *"Accruals and other liabilities"*. The guarantees are subsequently measured as at the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line *"Accruals and other liabilities"*), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *"Provisions"*). The premium received is recognised in the Income statement in the line *"Net fee and commission income"* on a straight line basis over the life of the guarantee. The creation of provisions is recognised in the Income statement in the line *"Provisions for loans and other credit commitments"*.

3.5.4.3 'Day 1' profit or loss

The Bank trades no financial instruments on an inactive market. For this reason there is no difference between the transaction price and the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets (a 'Day 1' profit or loss).

3.5.4.4 Financial assets and liabilities classification and subsequent measurement

Financial assets and liabilities held by the Bank are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Bank's intention as at the acquisition date, and pursuant to the Bank's financial instrument investment strategy is as follows:

I. Financial assets and liabilities at fair value through profit or loss;

II. Held to maturity investments;

III. Loans and receivables;

IV. Available for sale financial assets;

V. Financial liabilities at amortised cost.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called "Fair Value Option").

(i) Financial assets and liabilities at fair value through profit or loss

The Bank designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets, i.e. financial instruments acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. These financial assets are recognised in the Statement of Financial Position in the line *"Financial assets at fair value through profit or loss"*.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates. The trading derivative financial instruments used by the Bank include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and derivatives that are liabilities and are recognised in the Statement of Financial Position in the line *"Financial liabilities at fair value through profit or loss"*.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Income statement in the line *"Net profit on financial operations"*. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

(ii) Held to maturity investments

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity.

Held to maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in *"Interest income and similar income"* in the Income statement. When an impairment of assets is identified, the Bank recognises allowances in the Income statement in the line *"Allowance for impairment of securities"*.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in due to a significant decrease of client's creditworthiness, changes in tax laws, business combination or sale of a part of business (segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for financial assets held to maturity to calculate the capital adequacy), the entire portfolio would have to be reclassified as *available for sale*. Furthermore, the Bank would be prohibited from classifying any financial asset as *held to maturity* during the following two years.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- assets that the Bank intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Bank upon initial recognition designates as at fair value through profit or loss;
- assets that the Bank upon initial recognition designates as available for sale;
- or assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset backed securities or a fixed rate interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available for sale financial assets or as financial assets at fair value through profit or loss.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in *"Interest income and similar income"* in the Income statement. When an impairment of assets is identified, the Bank recognises allowances in the Income statement in the line *"Allowance for loan losses"*.

Financial assets designated as loans and receivables are reported in the Statement of Financial Position in the line *"Amounts due from banks"* or in the line *"Loans and advances to customers"*, as appropriate.

(iv) Available for sale financial assets

Financial assets available for sale are those financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held to maturity investments. This portfolio comprises equity securities and debt securities, asset backed securities and participation certificates.

Financial assets available for sale are subsequently measured at fair value and at the end of each reporting period tested whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within other comprehensive income under the item *"Net value gain on financial assets available for sale, net of tax"*) until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rate on debt instruments are recognized in the Income statement in the line *"Net profit on financial operations"* except for exchange gains or losses related to fair value revaluation that are recognised within other comprehensive income. When the available for sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income statement in the line *"Net profit on financial operations"*.

Accrued interest income for debt securities is recognised in the Income Statement line *"Interest income and similar income"*. Dividend income arising from equity securities is recognised when the right for dividends is established and reported in the Income statement in the line *"Income from dividends"*.

(v) Financial liabilities at amortised cost

Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines *"Amounts due to central banks"*, *"Amounts due to banks"*, *"Amounts due to customers"*, *"Subordinated debt"* and *"Securities issued"*.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expenses are recognised in the Income statement in the line *"Interest expenses and similar expenses"*.

In an event of the repurchase of its own debt securities, the Bank derecognises these securities, i.e. the item *"Securities issued"* is decreased. Gains and losses arising as a result of repurchasing the Bank's own debt securities are recognised as at the date of their repurchase in the Income statement in the line *"Net interest income"* as an adjustment to the interest paid from own bonds.

3.5.4.5 Reclassification of financial assets

The Bank does not reclassify any financial assets into the *Financial assets at fair value through profit or loss portfolio after initial recognition.* In rare circumstances, if non-derivative financial asset at fair value through profit or loss are not longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and are classified into the *Available for sale*, or *Held to maturity investments* portfolio.

The Bank may also reclassify a non-derivative trading asset out of the *Financial assets at fair value through profit or loss* portfolio and into *the Loans and receivables* portfolio if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Bank may also reclassify, in certain circumstances, financial assets out of the *Available for sale* portfolio and into the *Loans and receivables* portfolio. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Bank may reclassify financial assets or significant amount out of the *Financial assets held to maturity* portfolio into *Financial assets available for sale* portfolio or *Loans and receivables* portfolio, without triggering the "tainting rules", in cases of the asset is near to maturity, the Bank received almost whole principal of the financial asset or there was a unique and exeptional event, that is out of the Bank's control and the Bank could not expect it. Such unique cases are significiant decrease of client's creditworthiness, changes in tax laws changes or in legislative requirements, business combination or sale of a part of business (segment), a significant increase in regulatory capital requirements or significant increase in risk weights for financial assets held to maturity to calculate the capital adequacy).

For a financial asset reclassified out of the *Available for sale* category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

3.5.4.6 *Fair value and hierarchy of fair value*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of financial instruments. The hierarchy of fair values has the following three levels:

- Level 1: prices quoted for specific financial instruments on active markets (without modification);
- Level 2: prices quoted on active markets for similar financial instruments or other valuation techniques for which all significant input information is based on data identifiable on the market;
- Level 3: valuation techniques for which not all significant input information is based on data identifiable on the market.

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. The significant input information is that information which has a significant impact on the total fair value of the specific instrument.

The Bank treats a security as quoted on an active market if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there is no active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.

I. quoted prices for similar assets or liabilities in active markets;

II. quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);

III. inputs other than quoted prices, e.g. inputs based on interest rates, yield curves, etc.;

IV. inputs derived principally from or corroborated by observable market data.

Where the inputs for determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset/liability, the Bank uses for fair value measurement inputs that are available but not directly observable within a market and which in the Bank's view reflect presumptions about assumptions that market participants take into account when pricing the financial instrument. Fair value of debt securities is estimated using the present value of future cash flow, and fair value of unquoted equity instruments is estimated using the present value of future cash flow or using price/book value ratios refined to reflect the specific circumstances of the issuer. Fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models, as appropriate.

3.5.4.7 *Effective interest rate method*

The effective interest rate is that rate which exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Bank estimates cash flow considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate but not future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expenses over the relevant period.

3.5.4.8 Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to realise the collateral. The renegotiation generally involves extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to an impairment assessment, calculated based on the future cash flow discounted by the loan's original effective interest rate.

3.5.4.9 Impairment and uncollectibility of financial assets

At the end of each reporting period, the Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Bank and proving deterioration of a debtor's (issuer's) financial health, payment default, breach of contract (default in interest or principal payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.

In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of fact that requires the application of Bank management judgment. As indicators of possible significant or prolonged decline, the Bank regards unrealised loss in regard of instrument acquisition cost or the fact that the instrument quoted price has been below its carrying amount in every trading date for several months. Furthermore, the Bank considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Bank calculates an impairment loss and recognises it in the respective item in the Income statement.

For a financial asset classified in portfolios carried at amortised cost (i.e. *held to maturity* and *loans and receivables* portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimated future cash flows for loans are derived or depend upon the classification of the client, taking into account collateral, if any, received by the Bank.

The Bank assesses all significant impaired credit exposures on individual basis. The remaining insignificiant impaired exposures are assessed using statistical models based on collective approach (refer to Note 41(A)). Assets, that are not indentified for impairment on individual basis, are included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as client type, asset type, classification degree, Obligor rating, collateral, past-due status and other relevant factors.

Future cash flow on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group, i.e. by using of the Expected Loss (EL) or Expected Loss Best Estimate (ELBE) statistical models. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in the future cash flow reflect, and are directly consistent with, changes in related observable data from year to year (such as changes property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude), i.e. using of stress factors to ensure through-the-cycle approach. The methodology and assumptions used for estimating the future cash flow are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through use of an allowance account, the creation of which is recognised in the Income statement in the line *"Allowance for loan losses"* or *"Allowance for impairment of securities"* for debt instruments and in the line "Net profit on financial operations" for equity instruments. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of such loans, loss loans are written-off and recognised in the line *"Allowance for loan losses"*. Subsequent recoveries are credited to the Income Statement in *"Allowance for loan losses"* if previously written-off. If the Bank collects a higher amount than that written-off subsequent to the write-off of the loan, the difference is reported through *"Interest income and similar income"*.

For a financial asset available for sale and in the case of objective evidence of its impairment, the cumulative loss that had been recognised in other comprehensive income is reclassified to the Income statement and recognised in the line *"Allowance for impairment of securities"* for debt instruments and in the line *"Net profit on financial operations"* for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income statement, the impairment loss is reversed, with the amount of the reversal recognised in the Income statement. The Bank cannot reverse any impairment loss recognised in the Income statement for an equity instrument.

3.5.4.10 Repurchase agreements

The Bank accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") based on their substance as the receiving or granting of a loan with a corresponding transfer of financial instruments as collateral.

Under repurchase transactions ("repos"), the Bank only provides securities held in the portfolio of *financial assets or financial liabilities at fair value through profit or loss* or in the *available for sale* portfolio that are recorded in the Statement of Financial Position in the same lines. The corresponding liability arising from a loan received is recognised in the lines *"Amounts due to banks"* or *"Amounts due to customers"*, as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line *"Due from banks"* or *"Loans and advances to customers"*.

The Bank is allowed to provide securities received in reverse repo transactions as collateral or sell them in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in *"Amounts due to banks"* or *"Amounts due to customers"*, as appropriate. The Bank has the obligation to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Bank as interest which is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Bank derecognises from the off-balance sheet evidence the security acquired under the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *"Financial liabilities at fair value through profit or loss"*.

3.5.4.11 Derivatives and hedge accounting

A derivative is a financial instrument or other contract having all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

At the inception of a financial derivative contract, the Bank designates the derivative instrument as either for trading or hedging.

Derivatives designated as held for trading are classified into a portfolio of *financial assets or financial liabilities at fair value through profit or loss* based on whether the fair value is positive or negative (refer to 3.5.4.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Bank uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as for hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- there is compliance with the Bank's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge can be reliably measured;
- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 % to 125 %.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

I. a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or

II. a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or

III. hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised to the Income Statement line *"Net profit on financial operations"*. Changes in the fair value of hedged item are recognised in the Statement of Financial position as part of carrying amount of hedged item and in the Income Statement line *"Net profit on financial operations"*.

On this basis, the Bank hedges the interest rate risk and foreign currency risk of financial assets or selected portfolios of debt instrument. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated, exercised or the entity revokes the designation, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in the line *"Cash flow hedging"* in other comprehensive income and they are transferred to the Income Statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the Income Statement. The ineffective portion of the hedge is charged directly to the Income Statement line *"Net profit on financial operations"*.

On this basis, the Bank hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated, exercised or the entity revokes the designation the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Bank additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S. A. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in other comprehensive income.

Financial derivatives representing economic hedges under the Bank's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 41(C).

3.5.4.12 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if and only if:

- the embedded derivative as a separate instrument meets the definition of a derivative;
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- the host contract is not measured at fair value with fair value changes recognised in the Income Statement.

3.5.5 Assets held for sale

The line *"Assets held for sale"* represents assets for which the Bank supposes that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Bank assumes that the sale of assets will be completed, the market situation permitting, within one year from the date of the assets' classification as "held for sale".

Assets held for sale are measured at the lower of:

- the carrying amount of a respective asset at the date of its classification as "held for sale";
- fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, whose estimates are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as "Assets held for sale" are no longer depreciated.

The Bank recognises an impairment loss on assets held for sale in the line *"Depreciation, impairment and disposal of assets"* if their selling price less estimated costs to sell is lower than their carrying value. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the asset classification as held for sale or before the reclassification into category *"Assets held for sale"* (i.e. during the period when the asset had been held for supplying the Bank's services or for administrative purposes).

3.5.6 Income tax

3.5.6.1 Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the statement of financial position date.

The current income tax is recognised in the profit or loss, or, as the case may be, in other comprehensive income if it relates to an item directly taken into other comprehensive income.

The Bank does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis, or, as the case may be, to realise the asset and settle the liability simultaneously.

3.5.6.2 Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values presented in the Statement of Financial Position. Deferred income tax is determined using tax rates enacted or substantially enacted for the periods in which the Bank expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

The deferred income tax is recognised in the Income Statement, or, as the case may be, in other comprehensive income if it relates to an item directly taken into other comprehensive income (as deferred income tax related to changes in the fair value of available for sale financial assets or in relation to a cash flow hedge).

The Bank offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The most important temporary differences relate to tangible and intangible assets, loans and receivables, hedging derivatives and available for sale financial assets.

3.5.7 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Bank as lessor</u>

Operating leases

The Bank presents assets that are the subjects of an operating lease in the appropriate items in the Statement of Financial Position in accordance with the nature of these assets and uses for them accounting policies applied to the relevant asset class.

Rental income from operating leases is recognised as Bank income on a straight-line basis over the term of the relevant lease and is presented in the line *"Other income"*.

Finance leases

When assets held are subject to a finance lease, the net investment in the lease payments is recognised as *"Loans and advances to customers"* while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and is presented in the line *"Interest income and similar income"*.

<u>The Bank as lessee</u>

Operating lease

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line *"General administrative expenses"*. Possible penalty payments due to early termination of a lease are recognised in the reporting period in which the lease was terminated.

Finance leases

At the commencement of a lease term, an asset held under finance lease is recognised in the appropriate item in the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Bank uses the same accounting policies for these assets as for its own property presented in the same category as the leased asset. However, if the legal ownership of the asset held under finance lease is not transferred to the lessee by the end of the lease term, the asset is depreciated on a systematic basis over the lease term.

The Bank divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Income statement as *"Interest expenses and similar expenses"*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

3.5.8 Tangible and intangible assets

The intangible assets include principally software and internally generated intangible assets. The tangible assets include plant, property and equipment that are held by the Bank for supplying the Bank's services and for administrative purposes and that are used longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and in the case of depreciated assets less accumulated depreciation and increased by technical improvements. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Bank capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following expiration of the lease set out in the lease contract. The Bank estimates no residual value for other assets. Depreciation is reported in the Income Statement line *"Depreciation, impairment and disposal of assets"*.

The Bank does not depreciate land, works of art, or tangible and intangible assets in the course of construction and technical improvements unless these are brought into a condition fit for use.

During the reporting period, the Bank used the following useful lives in years:

	2011	2010
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
- Heating, air-conditioning, windows, doors	20	20
- Lift, electrical installation	25	25
- Roof, facade	30	30
- Net book value – building or technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as part of internal projects)	According to the useful life, typically 4	According to the useful life, typically 4
Licenses – software	4	4
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Bank assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economical or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Bank estimates the recoverable amount of the asset concerned, i.e. the higher amount of its fair value less costs to sell in comparison with the asset's carrying value. If the asset's carrying amount is greater than its recoverable amount, the Bank reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line *"Depreciation, impairment and disposal of assets"*.

Repairs and maintenance are charged directly to the Income Statement when they occurred.

3.5.9 Provisions

Provisions are recognised when and only when:

- the Bank has a present obligation (legal or constructive) as a result of a past event;
- it is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits;
- a reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provisions increases related to the passage of time are recognised as borrowing cost.

Among others, the Bank recognises provisions for credit related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit related commitments into which the Bank enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit related commitments are created on the same basis as are allowances for loans portfolios (refer to Note 32).

3.5.10 Employee benefits

3.5.10.1 General

The Bank provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Bank for a minimum defined period. These provisions are presented in the line *"Provisions"*, it's creation, release and use are presented in the line *"Personal expenses"*.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions as incurred in the line *"Personnel expenses"* (refer to Note 9).

The Bank has following share plans and deferred compensation schemes:

3.5.10.2 Deferred bonus payments

The Bank implemented new compensation scheme for employees with significant impact on the risk profile according to European regulation (Capital Requirements Directive III). For employees identified as targeted by CRD III regulation the performance-linked remuneration is split into two parts, (i) non-deferred part which is paid following year and (ii) deferred part which is spread out over three years. The amounts of both parts are further split equally to bonuses paid in cash and bonuses paid in cash equivalent of Société Générale S.A. share price (indexed bonuses). Both bonuses are subjected to presence and performance condition which is to reach Société Générale group net income equal or higher than zero.

Indexed bonuses qualify for cash-settled share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares Société Générale S.A. multiplied by numbers of granted shares and it is spread during vesting period.

The amount of bonuses finally vested is calculated as numbers of Société Générale S.A. shares multiplied by their price fixed as average of the last twenty closing trading prices prior to validation Board meeting.

Deferred cash bonuses, i.e. bonuses paid to employees more than twelve months after the end of the reporting period in which the employees render the related services, are considered as long-term employee benefits and the related expense is recognise over the vesting period in the line *"Personnel expenses"*.

3.5.10.3 Free share plan

In November 2010 the Bank has awarded all its employees rights to forty free shares of Société Générale S.A. upon the achievement of two performance conditions and completing specific period of service that is recognised as equity-settled share based payment. The rights are measured at their fair value calculated using the arbitrage's model at the grant day. Their fair value is spread over the vesting period and recognised in the lines *"Personnel expenses"* and *"Share premium and reserves"* under shareholders' equity. At each accounting date , the number of these instruments is revised taking into account performance and service conditions and the overall cost of the plan as originally determined is adjusted. Expenses recognised from the start of the grant are then adjusted accordingly. Social security, health insurance contributions and contributions to retirement pension insurance costs related to granted rights to free shares are recognised in the lines *"Personnel expenses"* and *"Provisions"*.

The shares will be acquired in two tranches:

- the first tranche will account for 40 % of the allocation, i.e. 16 shares and it is contingent on Société Générale S.A. achieving a 10 % Return of Equity, net of tax, in 2012, Bank employees will acquire shares on 31 March 2015;
- the second tranche will account for 60 % of the allocation, i.e. 24 shares and is contingent on customer satisfaction increasing between 2010 and 2013 in Société Générale S.A. three core businesses (French Networks, International Retail Banking, Corporate and Investment Banking), Bank employees will acquire shares on 31 March 2016.

3.5.11 Share capital

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity in the period in which they are approved by the Bank's shareholders.

Treasury shares
Where the Bank purchases the Bank's equity instruments, the consideration paid, and including any attributable transaction costs, is recognised as a deduction from the *"Share premium and reserves"* line in the total shareholders equity. Gains and losses on sales of treasury shares are recognised in equity and presented as well in the line *"Share premium and reserves"*.

3.5.12 Contingent assets, contingent liabilities and off-balance sheet items

In addition to transactions giving rise to the recognition of assets and liabilities in the Statement of Financial Position, the Bank enters into transactions under which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities as off-balance sheet items. The Bank monitors these transactions inasmuch as they represent a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset/liability is defined as a possible asset/obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. A contingent liability is also a present obligation where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants. Items off-balance sheet include also such interest and foreign currency instruments as forwards, swaps, options and futures. For more information about operations with derivatives (refer to 3.5.4.11 Derivatives and hedge accounting).

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody and fiduciary activities and related obligations to return these to customers.

3.5.13 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker", i.e. a person or a group of persons that allocates resources and assesses the performance of individual operating segments of the Bank.

The Bank has the following operating segments:

- Retail Banking: includes the provision of products and services to individuals, i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans and mortgages;
- Corporate Banking: includes the provision of products and services to corporate entities, i.e. current accounts, term deposits, revolving loans, business loans, mortgages, foreign currency and derivative products, syndicated and export financing, and guarantee transactions;
- Investment Banking: trading with financial instruments;
- Other: head office of the Bank.

The Investment Banking segment does not achieve quantitative limits for obligatory reporting. However, the management of the Bank believes that the information concerning this segment is useful for users of the financial statements and thus reports this segment separately.

As the principal activity of the Bank is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expenses of individual operating segments are not reported separately, but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Bank does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank in values identical to those stated in the Bank's financial accounting records.

The Bank has no client or group of related parties for which the income from transactions would account for more than 10 % of the Bank's total income.

3.5.14 Regulatory requirements

The Bank is subject to the regulatory requirements of the Czech National Bank and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and allowances to cover credit risk associated with the Bank's clients, as well as its liquidity, interest rate and foreign currency positions.

3.6 Reclassification

Since 1 January 2011 the Bank refined the presentation of certain items of its Income Statement and to reflect presentation mentioned reporting lines. The amounts and balances for 2010 were reclassified to reflect the presentation for the current period. The table below include a reconciliation of individual categories.

Reconciliation of categories in the Income Statement for the year ended 31 December:

(CZKm)	As reported 2010	**After reclassification 2010**	As reported 2009	**After reclassification 2009**	Reference
Net fee and commission income	7,742	**7,429**	7,548	**7,211**	1, 2
Net profit on financial operations	3,090	**3,127**	3,539	**3,599**	1
General administrative expenses	(4,695)	**(4,419)**	(4,920)	**(4,643)**	2

1. FX differences from FX cash conversions in the amount of CZK 37 million (2009: CZK 60 million) were reclassified from *Net fee and commission income* to *Net profit on financial operations*;
2. Expenses related to payment cards in the amount of CZK 276 million (2009: CZK 277 million) were reclassified form *General administrative expenses* to *Net fee and commission income*.

4 Segment reporting

	Retail banking		**Corporate banking**		**Investment banking**		**Other**		**Total**	
(CZKm)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Net interest income and similar income	9,249	9,446	5,826	5,554	7	142	2,894	2,468	17,976	17,610
Net fee and commission income	4,616	4,782	2,309	2,337	7	77	172	233	7,104	7,429
Net profit on financial operations	854	858	1,068	1,174	976	978	15	117	2,913	3,127
Other income	125	122	(37)	(4)	111	119	(79)	(148)	120	89
Net banking income	**14,844**	15,208	**9,166**	9,061	**1,101**	1,316	**3,002**	2,670	**28,113**	28,255

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with the information on income, recognition of allowances, 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 of segments arises from interest and, in assessing the performance of segments and deciding on allocation of resources for 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.

Transfer prices between operating segments are based on the risk free rates representing actual market conditions.

The Bank's income is primarily (over 99 %) generated on the territory of the Czech Republic.

5 Net interest income and similar income

Net interest income and similar income comprise:

(CZKm)	**2011**	2010
Interest income and similar income	29,799	28,929
Interest expenses and similar expenses	(12,585)	(12,036)
Dividend income	762	717
Net interest income and similar income	**17,976**	17,610
Of which net interest income arising from		
- loans and advances	17,123	17,007
- investments held to maturity	36	39
- financial assets available for sale	3,052	2,730
- financial liabilities at amortised cost	(4,667)	(4,211)

'Interest income and similar income' includes interest on substandard, doubtful and loss loans of CZK 444 million (2010: CZK 560 million) due from customers and interest of CZK 386 million (2010: CZK 0 million) on securities that have suffered impairment.

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 9,588 million (2010: CZK 9,081 million) and *'Interest expenses and similar expense'* includes interest expenses from hedging financial derivatives of CZK 7,918 million (2010: CZK 7,753 million). Net interest income from these derivatives amounts to CZK 1,670 million (2010: CZK 1,328 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

'Income from dividends' includes received dividends from subsidiaries and associates of CZK 673 million (2010: CZK 632 million) and received dividends from financial assets available for sale of CZK 89 million (2010: CZK 85 million).

6 Net fee and commission income

Net fee and commission income comprises:

(CZKm)	**2011**	2010
Fees and commission income from	4,303	4,343
Transactions	2,890	2,991
Loans and deposits	1,366	1,421
Others	**8,559**	8,755
Total fees and commission income	(940)	(867)
Fees and commission expenses on	(437)	(354)
Transactions	(78)	(105)
Loans and deposits	**(1,455)**	(1,326)
Others	**7,104**	7,429

The line *Others* includes particularly fees and commisions from trade finance, investment banking and distribution of the Group companies' products. The line comprises fee income arising from custody services and from depository services in the amount of CZK 69 million (2010: CZK 57 million) and fee expense in the amount of CZK 8 million (2010: CZK 5 million).

7 *Net profit on financial operations*

Net profit on financial operations comprises:

(CZKm)	**2011**	2010
Net realised gains/(losses) on securities held for trading	(42)	205
Net unrealised gains/(losses) on securities held for trading	493	240
Net realised gains/(losses) on securities available for sale	(5)	30
Net realised and unrealised gains/(losses) on security derivatives	89	(66)
Net realised and unrealised gains/(losses) on interest rate derivatives	188	350
Net realised and unrealised gains/(losses) on trading commodity derivatives	17	16
Net realised and unrealised gains/(losses) on foreign exchange from trading	767	945
Net realised gains/(losses) on foreign exchange from payments	1,406	1,407
Total net profit/(loss) on financial operations	**2,913**	3,127

In the year ended 31 December 2011, the line *'Net realised gains/(losses) on securities available for sale'* shows the net loss from the sale of asset backed securities in the amount of CZK 5 million and in the year ended 31 December 2010 the net gain from the sale of the equity investment in Visa Inc. in the amount of CZK 30 million (refer to Note 18).

A loss of CZK 1,321 million (2010: CZK 300 million) on the fair value of interest rate swaps for foreign currency risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the gain arising from the retranslation of hedged loan receivables and financial assets available for sale reported in the same line.

8 *Other income*

'Other income' is predominantly composed of income from provided services to the financial group and property rental income.

9 *Personnel expenses*

Personnel expenses comprise:

(CZKm)	**2011**	2010
Wages, salaries and bonuses	4,159	3,861
Social costs	1,694	1,660
Total personnel expenses	**5,853**	5,521
Physical number of employees at the period-end	7,979	7,883
Average recalculated number of employees during the period	7,855	7,819
Average cost per employee (CZK)	**745,168**	706,031

'Social costs' include costs of CZK 76 million (2010: CZK 73 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 44 million (2010: CZK 43 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include the release and use of the restructuring provision of CZK 0 million (2010: CZK 63 million) relating to provisions for restructuring in relation to the project of the reorganisation and centralisation of back-office divisions and also the release and use of the restructuring provision of CZK 10 million (2010: CZK 6 million) relating to the change in the legal status of Komerční banka Bratislava a.s. to a foreign branch of the Bank (refer to Note 32).

Indexed bonuses

In 2011 the total amount relating to bonuses indexed on SG share price recognized in *'Personnel expenses'* is CZK 2 million (2010: CZK: 4 million) and the total amount of CZK 6 million (2010: CZK 4 million) recognized as liability. The total number of shares according to which are bonuses indexed on SG share price calculated is 24,852 pieces (2010: 8,027 pieces). The fair value of SG shares at the end of reporting period was EUR 17.21 (2010: EUR 40.22).

The movement in the number of shares was as follows:

(pieces)	**2011**	2010
Balance at 1 January	**8,027**	0
Paid out during the period	(1,407)	0
New guaranteed number of shares	18,232	8,027
Balance at 31 December	**24,852**	8,027

Free shares

The shares price at granted date is equal to 34.55 EUR for the first tranche and 33.15 EUR for the second tranche. The total number of granted free shares for both period is 294,520 pieces (2010: 305,240 pieces). In 2011 the total amount relating to free shares program recognized in *'Personnel expenses'* is CZK 41 million (2010: CZK 5 million) and from the start of the grant the cumulative amount of CZK 46 million (2010: CZK 5 million) as *'Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise:

(CZKm)	**2011**	2010
Marketing and entertainment expenses	502	502
Costs of sale and banking products	778	764
Staff expenses	225	201
Property maintenance charges	1,298	1,292
IT support	765	752
Office equipment and other consumption	60	56
Telecommunications, post and other services	136	141
External advisory services	710	659
Other expenses	53	52
Total general administrative expenses	**4,527**	4,419

'General administrative expenses' include the release and use of the provision in the amount of CZK 0 million (2010: CZK 38 million) relating to the restructuring provision in respect of the project of the reorganisation and centralisation of back-office functions and the release and use of the provision in the amount of CZK 11 million (2010: CZK 12 million) relating to the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank (refer to Note 32).

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

(CZKm)	2011	2010
Tangible and intangible assets depreciation and amortization	1,631	1,558
Impairment and disposal of fixed assets	0	(71)
Total depreciation, impairment and disposal of assets	**1,631**	1,487

12 Cost of risk

Allowance for loan impairment and provisions for other credit commitments

Allowances for loan losses in total amount of CZK 1,377 million (2010: CZK 2,394 million) include net loss from allowances and provisions for loans losses in amount of CZK 1,864 million (2010: 2,566 million) and net gain from written-off and transferred loans in amount of CZK 487 million (2010: 172 million).

The movement in the Allowances and Provisions was as follows:

(CZKm)	2011	2010
Balance at 1 January	**(13,063)**	(12,292)
Adjustment due to merger	0	(453)
Allowances and Provisions for loans losses		
- individuals	(863)	(746)
- corporates*	(1,001)	(1,820)
Impact of loans written-off and transferred	1,705	2,214
Exchange rate differences attributable to provisions	(155)	34
Balance at 31 December	**(13,377)**	(13,063)

Note: / This item includes allowances and provisions for loans granted to individual entrepreneurs.*

The balance of Allowances and Provisions as at 31 December 2011 and 2010 comprises:

(CZKm)	2011	2010
Allowances for loans to banks (refer to Note 20)	0	0
Allowances for loans to customers (refer to Note 21)	(12,759)	(12,492)
Allowances for other loans to customers (refer to Note 21)	(1)	(1)
Provisions for guarantees and other credit related commitments (refer to Note 32)	(617)	(570)
Total	**(13,377)**	(13,063)

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 5,556 million as at 31 December 2011 (2010: CZK 0 million). During the year ended 31 December 2011, the Bank charged the provision of CZK 5,355 million as a reflection of the deteriorated prospects for the full recovery of outstanding amounts due from Greek government bonds held by the Bank and the foreign exchange differences from provisions against securities denominated in foreign currencies amounted to CZK 211 million (refer to Note 18).

Provisions for other risk expenses

The net release and use of *'Provisions for other risk expenses'* of CZK 10 million (2010: CZK 8 million) principally consists of the charge for provisions of CZK 26 million (2010: CZK 51 million) and the release and use of provisions of CZK 36 million (2010: CZK 279 million) for legal disputes, together with the costs incurred by the Bank as a result of the outcome of legal disputes of CZK 0 million (2010: CZK 220 million).

Additional information on the provisions for other risk expenses is provided in Note 32.

13 Loss on subsidiaries and associates

The profit on subsidiaries and associates includes the following:

(CZKm)	**2011**	2010
Gain on the sale of investments in subsidiaries and associates	0	0
Loss from the disposal of investments in subsidiaries and associates	0	(71)
Charge for allowances	0	0
Use of allowances	0	37
Total profit or loss on subsidiaries and associates	**0**	(34)

The company ALL IN REAL ESTATE LEASING, a.s., v likvidaci was expunged from the register of companies in October 2010. The loss in the amount of CZK 37 million is included in *Loss from the disposal of investments in subsidiaries and associates*. This loss was fully covered by use of allowance in the amount of CZK 37 million and is included in *Use of allowances* (refer to Note 24).

At 1 January 2010 as effective date the Bank merged with is 100% controlled subsidiary Komerční banka Bratislava, a.s. (hereafter 'KBB'). The merger was entered in the Commercial Register at 31 December 2010 and KBB was dissolved without liquidation. The loss in the amount of CZK 34 million included in *Loss from the disposal of investments in subsidiaries and associates* is caused due to the fact that hedge accounting (hedge of investment in foreign currency) in KBB was designed since December 2004 and not since the founding of KBB.

The balance of allowances for subsidiaries and associates is as follows:

(CZKm)	**2011**	2010
Balance at 1 January	**(355)**	(392)
Charge for allowances	0	0
Use of allowances	0	37
Balance at 31 December	**(355)**	(355)

Allowances for investments in subsidiaries and associates principally comprise allowances charged in respect of Komerční pojišťovna, a.s. on the basis of losses incurred in prior periods (refer to Note 24).

14 *Income taxes*

The major components of corporate income tax expense are as follows:

(CZKm)	**2011**	2010
Tax payable – current year, reported in profit or loss	(1,444)	(2,278)
Tax paid – prior year	(31)	68
Deferred tax	65	(166)
Hedge of a deferred tax asset against foreign currency risk	(19)	(6)
Total income taxes	**(1,429)**	(2,382)
Tax payable – current year, reported in equity	14	25
Total tax expense	**(1,415)**	(2,357)

(CZKm)	**2011**	2010
Profit before tax	**9,380**	14,417
Theoretical tax calculated at a tax rate of 19 % (2010: 19 %)	1,782	2,739
Tax on pre-tax profit adjustments	(9)	(27)
Non-taxable income	(1,003)	(1,627)
Expenses not deductible for tax purposes	770	1,261
Tax allowance	(2)	(3)
Tax credit	(83)	(93)
Hedge of a deferred tax asset against foreign currency risk	19	6
Movement in deferred tax	(65)	166
Tax losses	(8)	28
Other	(3)	0
Income tax expense	**1,398**	2,450
Prior period tax expense	31	(68)
Total income taxes	**1,429**	2,382
Tax payable on financial assets available for sale reported in equity*	(14)	(25)
Total tax expense	**1,415**	2,357
Effective tax rate	15.23 %	16.52 %

Note: / This amount represents the tax payable on unrealised gains from the revaluation of financial assets available for sale which are revalued through equity under IFRS.*

Non-taxable income primarily includes dividends, tax-exempt interest income and the release of non-tax deductible allowances and provisions. Expenses not deductible for tax purposes primarily include the recognition of non-tax deductible allowances and provisions and non-tax deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to CAS. Tax credit arises from interest income on bonds issued by EU states.

The corporate tax rate for the year ended 31 December 2011 is 19 % (2010: 19 %). The Bank's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

As at 31 December 2011, the Bank records not used tax losses in the amount of CZK 166 million.

These tax losses can be used in the following time frame:

(CZKm)	1 year	2 years	3 years	4 years	5 years	6 years
In the amount of	0	0	22	0	0	144

Further information about deferred tax is presented in Note 33.

15 Distribution of net profit

For the year ended 31 December 2011, the Bank generated a net profit of CZK 7,951 million. Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 160 per share that represents in total amount CZK 6,082 million. The proposal is subject of the Supervisory Board's review and subsequently of the approval of General Shareholders' meeting.

In accordance with the resolution of General Shareholders' meeting held on 21 April 2011, the aggregate balance of the net profit of CZK 12,035 million for the year ended 31 December 2010 was allocated as follows: CZK 10,263 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. Since 2008 the reserve fund achieved the level required by the Commercial Code and the Articles of Association of the Bank, i.e. 20 % of the share capital of the Bank.

16 Cash and current balances with central banks

Cash and current balances with central banks comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Cash and cash equivalents	7,541	7,051
Current balances with central banks	8,707	5,943
Total cash and current balances with central banks	**16,248**	12,994

Obligatory minimum reserves in the amount of CZK 7,877 million (2010: CZK 3,652 million) are included in *'Current balances with central banks'* and they bore the interest. As at 31 December 2011 the interest rate was 0.75 % (2010: 0.75 %) in the Czech Republic and 1.00 % (2010: 1.00 %) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As at 31 December 2011 and 2010, financial assets at fair value through profit or loss included securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any financial assets as at fair value through profit or loss.

(CZKm)	**31 Dec 2011**	31 Dec 2010
Securities	15,564	23,778
Derivative financial instruments	19,723	10,518
Financial assets at fair value through profit or loss	**35,287**	34,296

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 41(C).

Trading securities comprise:

(CZKm)	31 Dec 2011 Fair value	31 Dec 2011 Cost*	31 Dec 2010 Fair value	31 Dec 2010 Cost*
Shares and participation certificates	**7**	**7**	1	1
Fixed income debt securities	9,697	8,904	10,277	10,129
Variable yield debt securities	1,622	1,577	3,507	3,498
Bills of exchange	689	686	990	990
Treasury bills	3,549	3,546	9,003	9,004
Total debt securities	**15,557**	**14,713**	23,777	23,621
Total trading securities	**15,564**	**14,720**	23,778	23,622

Note: / Acquisition cost for shares, participation certificates and emission allowances, amortised acquisition cost for debt securities.*

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 3,549 million (2010: CZK 9,003 million).

As at 31 December 2011, the portfolio of trading securities includes securities at a fair value of CZK 10,487 million (2010: CZK 13,785 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 5,077 million (2010: CZK 9,993 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Trading shares and participation certificates at fair value comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Shares and participation certificates		
- Czech crowns	7	1
Total trading shares and participation certificates	7	1

Trading shares and participation certificates at fair value, allocated by issuer, comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Trading shares and participation certificates issued by:		
- Other entities in the Czech Republic	7	1
Total trading shares and participation certificates	7	1

Debt trading securities at fair value comprise:

(CZKm)	31 Dec 2011	31 Dec 2010
Variable yield debt securities		
- Czech crowns	1,569	3,321
- Other currencies	53	186
Total variable yield debt securities	**1,622**	3,507
Fixed income debt securities (including bills of exchange and treasury bills)		
- Czech crowns	11,863	16,153
- Other currencies	2,072	4,117
Total fixed income debt securities	**13,935**	20,270
Total trading debt securities	**15,557**	23,777

Debt trading securities at fair value, allocated by issuer, comprise:

(CZKm)	31 Dec 2011	31 Dec 2010
Debt trading securities issued by:		
- State institutions in the Czech Republic	12,492	19,585
- Foreign state institutions	2,000	2,877
- Financial institutions in the Czech Republic	70	208
- Foreign financial institutions	45	96
- Other entities in the Czech Republic	921	990
- Other foreign entities	29	21
Total trading debt securities	**15,557**	23,777

Bonds issued by foreign state institutions designated as Financial assets at fair value through profit or loss:

(CZKm)	31 Dec 2011	31 Dec 2010
Country of Issuer	**Fair value**	Fair value
Italy	9	9
Poland	1,326	883
Slovakia	665	1,985
Other countries	0	0
Total	**2,000**	2,877

Of the debt securities issued by state institutions in the Czech Republic, CZK 8,925 million (2010: CZK 10,199 million) represents securities eligible for refinancing with the Czech National Bank.

18 *Financial assets available for sale*

Financial assets available for sale comprise:

	31 Dec 2011		31 Dec 2010	
(CZKm)	**Fair value**	**Cost***	Fair value	Cost*
Shares and participation certificates	**702**	**62**	702	63
Fixed income debt securities	74,390	75,875	59,051	56,610
Variable yield debt securities	11,364	11,188	8,967	8,992
Total debt securities	**85,754**	**87,063**	68,018	65,602
Total financial assets available for sale	**86,456**	**87,125**	68,720	65,665

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

As at 31 December 2011, the available for sale portfolio includes securities at a fair value of CZK 85,754 million (2010: CZK 68,018 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 702 million (2010: CZK 702 million) that are not publicly traded.

In 2010, the Bank sold the equity investment in Visa Inc., the net gain from the sale for the Bank amounted to CZK 30 million (refer to Note 7).

Shares and participation certificates available for sale at fair value comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Shares and participation certificates		
- Czech Crowns	700	700
- Other currencies	2	2
Total shares and participation certificates available for sale	**702**	702

Shares and participation certificates available for sale at fair value, allocated by issuer, comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Shares and participation certificates available for sale issued by:		
- Banks in the Czech Republic	700	700
- Non-banking foreign entities	2	2
Total shares and participation certificates available for sale	**702**	702

'Shares and participation certificates available for sale issued by banks in the Czech Republic' include the Bank's 13% shareholding in Českomoravská záruční a rozvojová banka, a.s. Based on an analysis of regularly paid dividends and an estimate of probable future cash flows, the value of the investment was determined at CZK 640 million (2010: CZK 640 million) over the acquisition cost in the amount of CZK 60 million.

Debt securities available for sale at fair value comprise:

(CZKm)	31 Dec 2011	31 Dec 2010
Fixed income debt securities		
- Czech Crowns	53,023	37,692
- Other currencies	21,367	21,359
Total fixed income debt securities	**74,390**	59,051
Variable yield debt securities		
- Czech Crowns	9,671	8,185
- Other currencies	1,693	782
Total variable yield debt securities	**11,364**	8,967
Total debt securities available for sale	**85,754**	68,018

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

(CZKm)	31 Dec 2011	31 Dec 2010
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	46,602	36,376
- Foreign state institutions	22,029	15,371
- Financial institutions in the Czech Republic	15,269	14,383
- Foreign financial institutions	1,854	1,855
- Other entities in the Czech Republic	0	33
- Other foreign entities	0	0
Total debt securities available for sale	**85,754**	68,018

Debt securities available for sale issued by foreign state institutions:

(CZKm)	31 Dec 2011		31 Dec 2010	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
Italy	7,302	7,381	237	236
Poland	7,817	7,350	7,708	7,075
Portugal	218	261	0	0
Greece	2,071	7,327	6,249	7,438
Slovakia	4,621	4,724	1,177	1,149
Other countries	0	0	0	0
Total	**22,029**	**27,043**	15,371	15,898

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

Debt securities available for sale issued by Greece comprise:

(CZKm) **ISIN**	**Fair value**	**Maturity**
GR0128001584	1,423	20.5.2013
GR0128002590	337	11.1.2014
GR0124026601	172	20.7.2015
GR0124029639	139	20.7.2017
Total	**2,071**	

Of the debt securities issued by state institutions in the Czech Republic, CZK 39,035 million (2010: CZK 30,196 million) represents securities eligible for refinancing with the Czech National Bank.

During the year ended 31 December 2011, the Bank acquired bonds with a nominal value of CZK 20,424 million and EUR 204 million (a total CZK equivalent CZK 25,397 million), of which CZK 13,101 million were issued by State institutions in the Czech Republic, CZK 11,344 million by Foreign state institutions and CZK 952 million by Financial institutions in the Czech Republic. During 2011, the Bank had a proper repayment of debt securities at the maturity in the aggregate nominal amount of CZK 4,330 million and EUR 51 million (a total CZK equivalent of CZK 5,575 million), of which CZK 4,837 million were issued by State institutions in the Czech Republic, CZK 708 million by Foreign state institutions and CZK 30 million by Other entities in the Czech Republic.

In the year ended 31 December 2011 the Bank sold asset backed securities issued by foreign financial institutions in the nominal amount USD 2.4 million, i.e. in CZK equivalent of CZK 44 million. The net loss from the sale was CZK 5 million (refer to Note 7).

As at 31 December 2011 the Bank transferred debt securities in the total amortised cost EUR 23 million and USD 10 million (a total CZK equivalent of CZK 783 million) from portfolio financial assets held to maturity into portfolio financial assets available for sale due to the change of their holding intention. Intention to change the tenure occurred in connection with a significant deterioration of issuer's creditworthiness (refer to Note 22).

Greece

At the European Summit held on July 21, 2011, the Heads of State and Government of the euro zone adopted a rescue plan for Greece. Under this plan, the Greek government will carry out a bond exchange offer, in which private investors will be able to participate on a voluntary basis (PSI – Private Sector Involvement). The aim of this measure is to reduce and extend the maturity of Greece's debt, thus making it easier for the Greek economy to carry the debt. The various stakeholders subsequently began talks aimed at establishing the terms and conditions of the exchange offer.

In light of Greece's economic and financial developments and the failure to reach a conclusion after the first round of talks, a second Summit of the Heads of State and Government of the euro zone was held on October 26, 2011. At this summit, the decision to organize an exchange offer was confirmed and the goal of reducing Greek debt was enhanced, with the stated target of a 50% haircut on the nominal amount of Greek government bonds.

The second round of talks, initiated on this new basis, was still in progress at the closing date and had yet to alleviate the uncertainties surrounding the precise terms and conditions of the exchange, including the final percentage of the write-down that bondholders will be expected to incur.

Against this backdrop – overshadowed, as at the closing date – by the suspense of waiting for the provisions of the exchange plan to be finalized and the absence of an active market for most Greek government bond maturities, the Bank decided to book these securities as at December 31, 2011 according to a model based on a conservative analysis of the Greek government's credit risk.

This model, updated with the most recent economic data, incorporates assumptions on the terms and conditions currently under negotiation, such as interest rate, maturity and nominal haircut, placing the net discounted value of the existing securities at 65 % to 75 %. Lastly, although the comparison is limited and not highly representative due to the illiquidity of the market, the market prices observed fall within a similar range to that derived from the model.

Consequently, the Greek government bonds held by the Bank under Financial assests available for sale were subject to an allocation for write-down based on a discounted price of 75 % of their nominal value, i.e. in total amount of EUR 216 million, i.e. in CZK equivalent of CZK 5,566 million as at 31 December 2011 (2010: EUR 0 million, i.e. in CZK equivalent of CZK 0 million) before tax (refer to Note 12).

19 Assets held for sale

As at 31 December 2011, the Bank reported assets held for sale at a carrying amount of CZK 13 million (2010: CZK 25 million) comprising buildings and land owned by the Bank which management of the Bank decided to sell as part of the plan to optimise the distribution network. These buildings are not depreciated.

20 Amounts due from banks

Balances due from banks comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Current account with other banks	60	28
Debt securities	6,797	8,800
Loans and advances to banks	12,256	10,158
Advances due from the Czech National Bank (reverse repo transactions)	59,011	71,008
Term placements with other banks	16,003	18,335
Gross advances to banks	**94,127**	108,329
Allowances for amount due from banks (refer to Note 12)	0	0
Total amounts due from banks	**94,127**	108,329

Advances due from the Czech National Bank and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the Czech National Bank and other debt securities with fair value:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Treasury bills	57,881	69,613
Debt securities issued by state institutions	6,674	6,099
Debt securities issued by other institutions	644	621
Shares	284	949
Total	**65,483**	77,282

Securities acquired as loans and receivables

As at 31 December 2011, the Bank maintains in its portfolio bonds at an amortised cost of CZK 6,797 million (2010: CZK 8,800 million) and a nominal value of CZK 6,705 million (2010: CZK 8,705 million), of which CZK 4,590 million represents two bonds issued by the parent company Société Générale S. A. (2010: CZK 6,590 million) which the Bank acquired under an initial offering and normal market conditions in 2002 and in 2010. During 2011, there was a partial repayment of the nominal value of the bond in the amount of CZK 2,000 million. The Bank additionally carries three issues of securities placed by financial institutions with an aggregate nominal value of CZK 2,115 million in this portfolio (2010: CZK 2,115 million).

21 Loans and advances to customers

Loans and advances to customers comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Debt securities	461	0
Loans to customers	382,492	344,657
Bills of exchange	439	398
Forfaits	1,651	2,168
Other amounts due from customers	405	104
Total gross loans and advances to customers	**385,448**	347,327
Allowances for loans to customers		
- individuals	(3,140)	(2,906)
- corporates*	(9,619)	(9,586)
Allowances for other amounts due from customers	(1)	(1)
Total Allowances for loans (refer to Note 12)	**(12,760)**	(12,493)
Total loans and advances to customers, net	**372,688**	334,834

Note: / This item includes loans granted to individual entrepreneurs.*

Loans and advances to customers include as at 31 December 2011 interest due of CZK 1,140 million (2010: CZK 1,104 million), of which CZK 689 million (2010: CZK 667 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as at 31 December 2011 in the amount of CZK 298 million (2010: CZK 187 million) are collateralised by securities with fair values of CZK 193 million (2010: CZK 212 million).

The loan portfolio of the Bank as at 31 December 2011 (excluding other amounts due from customers) comprises the following breakdown by classification:

(CZKm)	**Gross receivable**	**Collateral applied**	**Net exposure**	**Allowances**	**Carrying value**	**Allowances**
Standard	352,732	153,342	199,390	0	352,732	0 %
Watch	11,421	4,298	7,123	(862)	10,559	12 %
Substandard	3,488	2,117	1,371	(686)	2,802	50 %
Doubtful	3,835	1,538	2,297	(1,387)	2,448	60 %
Loss	13,106	837	12,269	(9,824)	3,282	80 %
Total	**384,582**	**162,132**	**222,450**	**(12,759)**	**371,823**	

The loan portfolio of the Bank as at 31 December 2010 (excluding other amounts due from customers) comprises the following breakdown by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	313,328	144,374	168,954	0	313,328	0 %
Watch	11,869	4,849	7,020	(918)	10,951	13 %
Substandard	7,174	3,705	3,469	(1,541)	5,633	44 %
Doubtful	2,863	813	2,050	(1,233)	1,630	60 %
Loss	11,989	563	11,426	(8,800)	3,189	77 %
Total	347,223	154,304	192,919	(12,492)	334,731	

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Food industry and agriculture	14,706	12,571
Mining and extraction	1,902	731
Chemical and pharmaceutical industry	5,483	5,013
Metallurgy	8,743	6,583
Automotive industry	2,287	2,473
Manufacturing of other machinery	7,038	5,268
Manufacturing of electrical and electronic equipment	2,542	3,158
Other processing industry	8,094	7,145
Power plants, gas plants and waterworks	22,469	17,832
Construction industry	10,439	11,286
Retail	11,083	10,937
Wholesale	24,882	28,866
Accommodation and catering	1,138	1,017
Transportation, telecommunication and warehouses	7,243	9,090
Banking and insurance industry	43,770	35,756
Real estate	26,829	22,414
Public administration	29,048	23,370
Other industries	14,733	16,319
Individuals	142,153	127,394
Loans to customers	**384,582**	347,223

The majority of loans (91 %) were provided to entities on the territory of the Czech Republic.

Set out below is an analysis of the types of collateral held in support of loans and advances to customers as stated in the statement of financial position:

	31 Dec 2011			31 Dec 2010		
(CZKm)	**Total client loan collateral***	**Discounted client loan collateral value****	**Applied client loan collateral value*****	Total client loan collatera*l	Discounted client loan collateral value**	Applied client loan collateral value***
Guarantees of state and governmental institutions	10,368	3,433	3,415	10,703	8,699	6,777
Bank guarantee	16,060	13,404	12,791	22,803	21,637	18,834
Guaranteed deposits	1,145	1,143	942	1,240	1,238	1,008
Issued debentures in pledge	4	3	3	219	219	0
Pledge of real estate	252,142	161,617	116,193	232,954	148,077	103,874
Pledge of movable assets	18,970	1,691	1,605	12,135	1,116	998
Guarantee by legal entity	20,908	13,802	13,145	23,172	14,886	12,228
Guarantee by individual (natural person)	1,200	171	139	1,295	195	159
Pledge of receivables	36,098	3,692	3,395	34,131	7,084	6,204
Insurance of credit risk	10,928	10,381	10,381	9,581	9,101	4,058
Other	2,095	129	123	3,710	373	164
Nominal value of collateral	**369,918**	**209,466**	**162,132**	351,943	212,625	154,304

Note:

/ The nominal value of the collateral is determined based on internal rules of the Bank (e.g.internal property valuation, the current value of collateral, the market value of securities, etc.).*

*/** The nominal value of the collateral is reduced by coefficient taking into acount the time value of money, the cost of selling of the collateral, the risk of falling prices in the market, the risk of insolvency, etc..*

*/*** The applied collateral value is the discounted collateral value reduced up to the actual amount of the hedged exposure balance.*

Pledges on industrial real-estate represent 13 % of total pledges on real estate (2010: 14 %).

Debt securities designated as loans and receivables

As at 31 December 2011, the Bank holds in its portfolio debt securities in amortised cost of CZK 461 million (2010: CZK 0 million) and in nominal amount of CZK 450 million (2010: CZK 0 million). During the year ended 31 December 2011, the Bank acquired bonds with a nominal value of CZK 450 million issued by municipality in the Czech Republic.

Loans and advances to customers – restructured

(CZKm)	**31 Dec 2011**	31 Dec 2010
Individuals	545	423
Corporates*	4,419	5,535
Total	**4,964**	5,958

Note: / This item includes loans granted to individual entrepreneurs.*

Trade finance losses

During 1999, the Bank incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Bank. As at 31 December 2011, the statement of financial position included loans to this client in the amount of CZK 1,392 million (2010: CZK 1,310 million) that was fully provided for. The increase in the balance between 2011 and 2010 arises from a foreign exchange rate difference. The Bank did not report any off-balance sheet receivables from this client in 2011 and 2010. The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

22 Financial assets held to maturity

Financial assets held to maturity comprise:

	31 Dec 2011		31 Dec 2010	
(CZKm)	**Carrying value**	**Cost***	Carrying value	Cost*
Fixed income debt securities	184	183	954	938
Total investments held to maturity	**184**	**183**	954	938

Note: / Amortised acquisition cost.*

As at 31 December 2011, investments held to maturity include bonds of CZK 184 million (2010: CZK 954 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Fixed income debt securities		
- Foreign currencies	184	954
Total fixed income debt securities	**184**	954

Fixed income debt securities held to maturity, allocated by issuer, comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Fixed income debt securities issued by:		
- Foreign state institutions	184	954
Total fixed income debt securities	**184**	954

Debt securities held to maturity issued by foreign state institutions:

(CZKm)	**31 Dec 2011**		31 Dec 2010	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
France	196	183	191	178
Italy	0	0	465	506
Portugal	0	0	255	254
Other countries	0	0	0	0
Total investments held to maturity	**196**	**183**	911	938

Note: / Amortised acquisition cost.*

No purchase or sale within this portfolio took place during the year ended 31 December 2010. During 2010, there were no redemption at maturity.

As at 31 December 2011 the Bank transferred debt securities in the total amortised cost EUR 23 million and USD 10 million (a total CZK equivalent of CZK 783 million) from portfolio financial assets held to maturity into portfolio financial assets available for sale due to the change of their holding intention. Intention to change the tenure occurred in connection with a significant deterioration of issuer's creditworthiness. Such reclassification does not trigger the "tainting rules" (refer to Note 18).

23 *Prepayments, accrued income and other assets*

Prepayments, accrued income and other assets comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Prepayments and accrued income	274	242
Settlement balances	262	264
Receivables from securities trading	37	87
Other assets	1,089	1,310
Total prepayments, accrued income and other assets	**1,662**	1,903

Other assets includes mainly provided advances and receivables for other debtors.

24 *Investments in subsidiaries and associates*

Investments in subsidiaries and associates comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Investments in subsidiary undertakings	24,104	22,767
Investments in associated undertakings	482	482
Total investments in subsidiaries and associates	**24,586**	23,249

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as at 31 December 2011:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bastion European Investments S. A.	99.98	99.98	Financial services	Brussels	3,541	0	3,541
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a. s.	100	100	Factoring	Prague	1,190	0	1,190
KB Real Estate, s.r.o.	100	100	Support services	Prague	101	0	101
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
Penzijní fond Komerční banky, a. s.	100	100	Additional pension insurance	Prague	230	0	230
Protos, uzavřený investiční fond, a. s.	89.64	100	Financial services	Prague	11,705	0	11,705
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,299	0	1,299
Total					**24,104**	**0**	**24,104**

Associated undertakings

The following companies are associated undertakings of the Bank as at 31 December 2011:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
CBCB, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	(355)	482
Total					**837**	**(355)**	**482**

Note: / The value of CBCB is CZK 240 thousand.*

Set out below is an overview of year-on-year movements in investments, by issuer:

(CZKm)	Investment at cost at 1 Jan 2011	Additions	Decreases	Investment at cost at 31 Dec 2011
Bastion European Investments S.A.	3,604	0	(63)	3,541
ESSOX, s.r.o.	1,165	0	0	1,165
Factoring KB, a.s.	1,190	0	0	1,190
KB Real Estate, s.r.o.	0	101	0	101
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	4,873
Penzijní fond Komerční banky, a.s.	230	0	0	230
Protos, uzavřený investiční fond, a.s.	11,705	0	0	11,705
SG Equipment Finance Czech Republic s.r.o.	0	1,800	(501)	1,299
Total subsidiaries	**22,767**	**1,901**	**(564)**	**24,104**
CBCB, a.s.	0*	0	0	0*
Komerční pojišťovna, a. s.	837	0	0	837
Total associates	**837**	**0**	**0**	**837**

Note: / The value of CBCB is CZK 240 thousand.*

Changes in equity investments in subsidiaries and associates in 2011

In January 2011 KB Real Estate, s.r.o. was recorded in the Commercial Register and was established by the Bank in connection with the acquisition of a new own office building in Prague and its management. The shareholder's equity of this company amounts to CZK 101 million (after its increase by CZK 100 million in April 2011). Increased fund will be used for financing of the expenditures related to the construction.

In April 2011 the General Meeting of Komerční pojišťovna, a.s. decided to increase the share capital by CZK 271 million from retained earnings in the form of increasing the nominal value of shares. The increase was recorded in the Commercial Register in May 2011.

In May 2011 the Bank decreased the shareholder's equity in Bastion European Investments S.A. by EUR 2.2 million (CZK 63 million). The decrease was initiated only by the Bank, as the majority shareholder of Bastion European Investments S.A. The shareholder's equity decrease was planned.

The Bank has acquired 50.1% ownership interest in SG Equipment Finance Czech Republic s.r.o. (hereafter only "SGEF") for CZK 1,800 million as at May 4th, 2011. The primary reason for acquisition of SGEF was to further reinforce the Bank's group leading position in financing corporations and entrepreneurs in the Czech Republic. As the Bank has power over more than half of the SGEF's voting rights, power to govern the SGEF's financial and operating policies and power to appoint SGEF's executive director, the Bank has obtained control of SGEF.

As at December 23, 2011 SGEF paid dividend from the earnings retained from previous years amounting in total to CZK 1,000 million of which the Bank has received 50.1 %, i.e. CZK 501 million. Even it is is dividend from SGEF's perspective, from Bank's point of view this payment substantially presents return of its investment, i.e. the return of capital. Return of capital is not addressed by IFRS and it is not considered to be dividend by Bank. Based on the substance of the received payment the Bank has reduced the carrying value of the initial investment.

25 *Intangible assets*

The movements in intangible assets during the year ended 31 December 2011 are as follows:

(CZKm)	Internally generated assets	Software	Other intangible assets	Acquisition of assets	Total
Cost					
31 December 2010	7,394	1,380	84	468	9,326
Additions	778	85	22	1,076	1,961
Disposals/transfers	(55)	(85)	(8)	(884)	(1,032)
Exchange rate difference	0	1	0	0	1
31 December 2011	**8,117**	**1,381**	**98**	**660**	**10,256**
Accumulated amortisation and allowances					
31 December 2010	4,909	999	55	0	5,963
Additions	842	132	17	0	991
Disposals	(55)	(85)	(8)	0	(148)
Impairment charge	0	0	0	0	0
Exchange rate difference	0	1	0	0	1
31 December 2011	**5,696**	**1,047**	**64**	**0**	**6,807**
Net book value					
31 December 2010	2,485	381	29	468	3,363
31 December 2011	**2,421**	**334**	**34**	**660**	**3,449**

During the year ended 31 December 2011, the Bank invested CZK 142 million (2010: CZK 157 million) in research and development through a charge in operating expenses.

26 *Tangible assets*

The movements in tangible assets during the year ended 31 December 2011 are as follows:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
Cost					
31 December 2010	144	10,349	4,978	186	15,657
Reallocation from/to assets held for sale	0	23	0	0	23
Additions	5	306	214	663	1,188
Disposals/transfers	0	(79)	(305)	(524)	(908)
Exchange rate difference	0	0	2	0	2
31 December 2011	**149**	**10,599**	**4,889**	**325**	**15,962**
Accumulated depreciation and Allowances					
31 December 2010	0	5,045	4,056	0	9,101
Reallocation of accumulated depreciation of assets held for sale	0	10	0	0	10
Additions	0	330	310	0	640
Disposals	0	(34)	(293)	0	(327)
Impairment charge	0	0	1	0	1
Exchange rate difference	0	0	1	0	1
31 December 2011	**0**	**5,351**	**4,075**	**0**	**9,426**
Net book value					
31 December 2010	144	5,304	922	186	6,556
31 December 2011	**149**	**5,248**	**814**	**325**	**6,536**

As at 31 December 2011, the Bank recognised allowances against tangible assets of CZK 16 million (2010: CZK 17 million). These allowances primarily included allowances charged in respect of buildings and improvements of leased assets.

27 *Financial liabilities at fair value through profit or loss*

As at 31 December 2011 and 2010, financial liabilities at fair value through profit or loss include only liabilities arising from sold securities and negative fair values of financial derivative instruments held for trading. The Bank designated no other financial liability as at fair value through profit or loss upon initial allocation.

(CZKm)	**31 Dec 2011**	31 Dec 2010
Sold securities	4,686	2,608
Derivative financial instruments	19,736	11,358
Financial liabilities at fair value through profit or loss	**24,422**	13,966

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 41(C).

28 Amounts due to banks

Amounts due to banks comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Current accounts	2,517	3,091
Amounts due to banks	27,111	25,988
Total amounts due to banks	**29,628**	29,079

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 1,818 million (2010: CZK 0 million). At the end of 2010 the Bank did not receive any repos from banks.

29 Amounts due to customers

Amounts due to customers, by type of deposit, comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Current accounts	319,827	300,500
Savings accounts	66,903	37,881
Term deposits	69,000	82,370
Depository bills of exchange	10,316	15,804
Amounts received from customers	0	2,369
Other payables to customers	3,753	2,361
Total amounts due to customers	**469,799**	441,285

The fair value of securities and treasury bills that serve as a pledge of received repurchase loans from customers amounted to CZK 0 million (2010: CZK 2,363 million). At the end of 2011 the Bank did not receive any repos from customers.

Amounts due to customers, by type of customer, comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Private companies	184,133	172,443
Other financial institutions, non-banking entities	17,620	11,242
Insurance companies	7,538	10,930
Public administration	1,395	2,002
Individuals	155,867	150,249
Individuals – entrepreneurs	24,538	24,241
Government agencies	60,355	54,585
Other	10,401	10,019
Non-residents	7,952	5,574
Total amounts due to customers	**469,799**	441,285

30 Securities issued

Securities issued comprise bonds of CZK 0 million (2010: CZK 539 million) and mortgage bonds of CZK 34,525 million (2010: CZK 31,314 million). Publicly tradable mortgage bonds are issued to fund the Bank's mortgage activities.

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
In less than one year	0	0
In one to five years	12,666	12,904
In five to ten years	3,944	5,278
In ten to twenty years	0	0
Over twenty years	17,915	13,671
Total debt securities	**34,525**	31,853

During the year ended 31 December 2011, the Bank repurchased the mortgage bonds with the aggregate nominal volume of CZK 708 million and EUR 26 million (a total CZK equivalent of CZK 1,326 million) and increased the nominal volume by CZK 3,880 million, refer to the following table.

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

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2011 CZKm	31 Dec 2010 CZKm
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10 % value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	2,306	2,478
HZL Komerční banky, a.s., CZ0002000664	4.4 %	CZK	21 Oct 2005	21 Oct 2015	10,360	10,426
HZL Komerční banky, a.s., CZ0002000854	3.74 %	EUR	1 Sept 2006	1 Sept 2016	0	649
HZL Komerční banky, a.s., CZ0002001142	5.0 %	CZK	16 Aug 2007	16 Aug 2019	3,161	3,175
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06 % for the first twelve annual yield periods, afterwards the relevant reference rate* less 0.20 %	CZK	16 Nov 2007	16 Nov 2037	2,474	2,480
HZL Komerční banky, a.s., CZ0002001340, CZ0002001357	5.02 % for the first eleven annual yield periods, afterwards the relevant reference rate* less 0.20 %	CZK	16 Nov 2007	16 Nov 2037	1,045	1,050
HZL Komerční banky, a.s., CZ0002001530, CZ0002001548	4.29 % for the first one 3M yield period, afterwards the relevant reference rate* less 0.20 %	CZK	7 Dec 2007	7 Dec 2037	2,468	2,030
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33 % for the first one 3M yield period, afterwards the relevant reference rate* less 0.20 %	CZK	12 Dec 2007	12 Dec 2037	4,349	2,806
HZL Komerční banky, a. s., CZ0002001746	Rate of the interest rate swap sale in CZK for 5 years plus 150 bps	CZK	28 Dec 2007	28 Dec 2037	1,289	1,339
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest rate swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	6,290	3,966
HZL Komerční banky, a.s., CZ0002001761	4.09 %	CZK	19 Dec 2007	19 Dec 2017	783	915
Dluhopisy Komerční banky, a.s., CZ0003701427	4.22 %	CZK	18 Dec 2007	1 Dec 2017	0	539
Total bonds					**34,525**	31,853

Note: Six-month PRIBOR was 145 basis points as at 31 December 2011 (2010: 156 basis points).

Three-month PRIBID was 78 basis points as at 31 December 2011 (2010: 85 basis points).

The value of the interest rate swap CZK sale average for five years as at 31 December 2011 was 169 bps (2010: 264 bps).

The value of the interest rate swap CZK sale average for ten years as at 31 December 2011 was 219 bps (2010: 319 bps).

/ The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for two to thirty years.*

31 Accruals and other liabilities

Accruals and other liabilities comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Settlement balances and outstanding items	8	1
Payables from securities trading and issues of securities	1,433	1,412
Payables from payment transactions	6,785	2,939
Other liabilities	2,371	2,442
Accruals and deferred income	164	157
Total accruals and other liabilities	**10,761**	6,951

'Payables from payment transactions' in the year ended 31 December 2011 increased due to a higher amount of payments passed onto the Czech National Bank's clearing centre.

'Other liabilities' mainly include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).

Deferred income fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 22 million (2010: CZK 22 million).

32 Provisions

Provisions comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Provisions for contracted commitments (refer to Note 9 and 12)	429	430
Provisions for other credit commitments (refer to Note 12)	617	570
Provision for restructuring (refer to Note 9 and 10)	9	30
Total provisions	**1,055**	1,030

In 2011, the Bank adjusted the amount of the provision for restructuring in respect of the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank. The change in the provisioning amount includes the release and use for the provision reflecting the expenses incurred in 2011. The release and use of provision is reported in the income statement lines *'Personnel costs'* and *'General administrative expenses'*.

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 and the provision for retirement bonuses.

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Provision for off-balance sheet commitments	502	461
Provision for undrawn loan facilities	115	109
Total	**617**	570

Movements in the provisions for contracted commitments are as follows:

(CZKm)	1 Jan 2011	Additions	Disposals	Accrual	Foreign exchange difference	31 Dec 2011
Retirement bonuses	103	10	(21)	5	0	97
Other provisions for contracted commitments	327	47	(46)	0	4	332
Provisions for restructuring	30	0	(21)	0	0	9
Total	**460**	**57**	**(88)**	**5**	**4**	**438**

33 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised.

Deferred tax assets is as follows:

(CZKm)	31 Dec 2011	31 Dec 2010
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	1	0
Difference between accounting and tax net book value of assets	1	0
Revaluation of hedging derivatives – equity impact (refer to Note 39)	4	0
Revaluation of financial assets available for sale – equity impact (refer to Note 40)	0	0
Other temporary differences	0	0
Net deferred tax assets	**6**	0

Deferred tax liabilities is as follows:

(CZKm)	31 Dec 2011	31 Dec 2010
Banking provisions and allowances	271	259
Allowances for assets	4	4
Non-banking provisions	49	50
Difference between accounting and tax net book value of assets	(371)	(367)
Revaluation of hedging derivatives – equity impact (refer to Note 39)	(2,295)	(920)
Revaluation of financial assets available for sale – equity impact (refer to Note 40)	(225)	(86)
Other temporary differences	126	69
Net deferred tax liabilities	**(2,441)**	(991)

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign net investment.

Deferred tax recognised in the financial statements:

(CZKm)	31 Dec 2011	31 Dec 2010
Balance at the beginning of the period	**(991)**	(679)
Movement in the net deferred tax liability – profit and loss impact (refer to Note 14)	65	(166)
Movement in the net deferred tax liability – equity impact (refer to Note 39 and 40)	(1,509)	(146)
Balance at the end of the period	**(2,435)**	(991)

34 Subordinated debt

As at 31 December 2011 the Bank had subordinated debt of CZK 6,002 million (2010: CZK 6,001 million). The nominal value of the subordinated debt received by the Bank at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S. A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has a 10-year maturity until with the Bank's option for early repayment after five years and thereafter as at any interest payment date. Interest payments are made on a monthly basis. In December 2011, the Bank announced the intention to repay prematurely the subordinated debt. The prematurely repayment of subordinated debt is subject to proceeding and approval including the Czech National Bank as the regulator. Subsequently, the Bank will have its regulatory capital in the form of Tier 1 capital, i.e. the highest quality capital from the point of view of capital regulation, and it will save interest costs relating to the subordinated debt.

35 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary bearer shares in dematerialized form with a nominal value of CZK 500 each (ISIN: CZ0008019106). The number of shares authorised is same as the number of issued shares. The share capital is fully paid.

The Bank's shares are publicly traded on exchange markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, Czech Stock Exchange. Its transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 513/1991 Coll., the Commercial Code, as amended. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The exclusion of voting right can occur only on statutory grounds. The Bank cannot exercise voting rights attached to own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from four years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder' death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation is governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Global depository receipts (GDRs) were issued for shares of the Bank administered by The Bank of New York Mellon (that are held on its asset account at the Central Securities Depository). In principle, GDRs bear the same rights as do shares of the Bank and they may be reconverted into shares. One GDR represents one third of one share of the Bank. The GDR program was launched at the end of June 1995. In issuing the first tranche, the Bank marked its entry into the international capital markets; a second tranche followed in 1996. From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as of 31 December 2011 was 491,214 pieces.

Set out below is a summary of the entities that hold more than 3 % of the Bank's issued share capital as at 31 December 2011:

Name of the entity	Registered office	Ownership percentage
SOCIETE GENERALE S.A.	29 Bld Haussmann, Paris	60.35
CHASE NOMINEES LIMITED	125 London Wall, London	4.65
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	3.69
STATE STREET BANK & TRUST COMPANY	1776 Heritage Drive, Boston	3.54

Société Générale S. A., being the only entity with a qualified holding in the Bank as well as the ultimate parent company, is a French joint stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and following the French Commercial Code, as well as its Articles of Association.

As at 31 December 2011, the Bank held 238,672 treasury shares at a cost of CZK 726 million (2010: 54,000 treasury shares at a cost of CZK 150 million).

Capital Management

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and in the future. As part of the capital planning process, the Bank takes into account both internal and external factors which are reflected in the corresponding internal targets expressed in targeted Tier 1 values and the capital adequacy ratio. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.

The Bank's capital principally consists of the following balances: share capital, reserve funds, undistributed profit and subordinated debt.

Following the decision of the Bank's General Meeting held on 21 April 2011, the Bank realized during the year purchases of treasury shares. The Bank purchased a total amount of 184,672 treasury shares at a total cost of CZK 576 million (2010: 0 treasury shares at a total cost of CZK 0 million). Purchase of treasury shares was approved by the Bank's General Meeting to manage the capital adequacy of the Bank.

The Czech National Bank, as the local regulatory authority, oversees the Bank's compliance with the capital adequacy ratio both on a stand-alone and consolidated basis. The Bank's regulatory capital is divided into Tier 1 and Tier 2. The capital components are subject to various limits; for example, subordinated debt may not exceed 50 % of the Tier 1 capital.

The applicable banking regulation, known as Basel II, is based on the three-pillar concept. The first pillar is devoted to the description and quantification of credit, operational and market risks and was implemented under the direct supervision of the regulator. The second pillar allows banks to apply their own approach to risks, but concurrently requires coverage of all types of risks to which the Bank is exposed. The third pillar focuses on reporting requirements with the aim of providing the market with better information on the Bank.

As part of the first pillar of Basel II, the Bank began to use the following approaches starting from 2008:

- Special approach to the calculation of capital requirements relating to credit risks based on an internal rating (Internal Rating Based Advanced Approach);
- Special approach to the calculation of the capital requirement to the operational risk (Advanced Measurement Approach).

Under the second pillar of Basel II which requires the creation of the system for the internal evaluation of the capital adequacy in relation to the risk profile (internally determined capital system), the Bank determined and formalised this system and outlined the relating capital adequacy strategy. The system is based on the Pillar 1 Plus method when mitigation factors are determined for risks not covered by the first pillar either of qualitative nature, e.g. in the form of control processes, or quantitative nature with an impact on the future income of the Bank or directly on the additional capital requirement. The risks already described in the first pillar are actually assessed in the second pillar. In addition, the Bank analyses impacts of stress testing on all risks over a specific time period. For stress testing purposes, the Bank developed a set of macroeconomic "Global Economic Scenarios" which facilitates the evaluation of the impacts of the scenario in a comprehensive manner across all risks to which the Bank is exposed and thus mutually integrates the impact of individual risks. The Bank regularly prepares the Information on the Internally Determined Capital System and submits it to the Czech National Bank.

The Bank monitors the upcoming changes in regulatory requirements affecting the capital and the capital adequacy (together called as Basel III), and analyzes their potential impact on the capital planning process.

During the past year, the Bank complied with its regulatory imposed capital requirements.

(CZKm)	**31 Dec 2011**	31 Dec 2010
Tier 1 capital	49,321	48,162
Tier 2 capital	6,000	6,000
Deductible items of Tier 1 and Tier 2	(2,829)	(2,919)
Total Regulatory capital	**52,492**	51,243

36 Composition of cash and cash equivalents as reported in the cash flow statement

(CZKm)	31 Dec 2011	31 Dec 2010	Change in the year
Cash and balances with central banks	16,248	12,367	3,881
Amounts due from banks – current accounts	60	28	32
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts	(2,517)	(3,091)	574
Total	**13,790**	9,303	**4,487**

37 Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2011. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 166 million (2010: CZK 177 million) for these legal disputes (refer to Note 32). The Bank has also recorded an accrual of CZK 147 million (2010: CZK 147 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2011, the Bank assessed lawsuits filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank 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.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank makes provisions against these instruments on the same basis as is applicable to loans.

Capital commitments

As at 31 December 2011, the Bank had capital commitments of CZK 491 million (2010: CZK 267 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions against these instruments on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans

Principal off-balance sheet exposures include unutilised overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements (i.e. their use is not contingent upon the customers maintaining other specific credit standards). The Bank recognises a provision for irrevocable commitments as and when required (according to a customer's solvency).

Since 2011 the Bank does not report revocable commitments. Comparative amounts for 2010 are restated.

Financial commitments and contingencies comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Non-payment guarantees including commitments to issued non-payment guarantees	37,544	36,686
Payment guarantees including commitments to issued payment guarantees	10,764	10,743
Received bills of exchange/acceptances and endorsements of bills of exchange	23	49
Committed facilities and unutilised overdrafts	15,586	16,204
Undrawn credit commitments	46,744	41,795
Unutilised overdrafts and approved overdraft loans	34,385	33,159
Unutilised discount facilities	0	0
Unutilised limits under framework agreements to provide financial services	11,043	11,596
Open customer/import letters of credit uncovered	554	882
Stand-by letters of credit uncovered	673	444
Confirmed supplier/export letters of credit	252	12
Total commitments and contingencies	**157,568**	151,570

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As at 31 December 2011, the Bank recorded provisions for these risks in the amount of CZK 617 million (2010: CZK 570 million), refer to Note 32.

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Food industry and agriculture	8,557	6,921
Mining and extraction	1,036	363
Chemical and pharmaceutical industry	2,376	3,138
Metallurgy	4,742	4,678
Automotive industry	699	701
Manufacturing of other machinery	8,943	11,409
Manufacturing of electrical and electronic equipment	1,665	1,825
Other processing industry	4,537	4,360
Power plants, gas plants and waterworks	15,496	13,209
Construction industry	34,788	35,928
Retail	4,115	5,833
Wholesale	12,702	12,345
Accommodation and catering	591	674
Transportation, telecommunication and warehouses	7,521	6,489
Banking and insurance industry	7,190	8,218
Real estate	3,490	2,104
Public administration	12,426	10,489
Other industries	14,317	11,417
Individuals	12,377	11,469
Total commitments and contingencies	**157,568**	151,570

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

Set out below is an analysis of the types of collateral held in support of financial commitments and contingencies:

	31 Dec 2011			31 Dec 2010		
(CZKm)	**Total commitments and contingencies collateral***	**Discounted commitments and contingencies collateral value****	**Applied commitments and contingencies collateral value*****	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	42	38	38	2,385	1,905	1,905
Bank guarantee	2,111	2,016	1,726	1,121	1,087	938
Guaranteed deposits	2,136	2,095	1,926	1,986	1,970	1,848
Issued debentures in pledge	0	0	0	204	204	165
Pledge of real estate	7,252	4,037	3,359	6,744	3,773	2,944
Pledge of movable assets	116	7	7	110	7	7
Guarantee by legal entity	5,841	4,007	3,870	6,555	4,290	4,270
Guarantee by individual (natural person)	20	1	1	7	0	0
Pledge of receivables	2,135	0	0	5,963	730	636
Insurance of credit risk	4,882	4,638	4,636	2,742	2,605	985
Other	3	3	3	355	282	281
Total nominal value of collateral	**24,538**	**16,842**	**15,566**	28,172	16,853	13,979

Note:

/ The nominal value of the collateral is determined based on internal rules of the Bank (e.g.internal property valuation, the current value of collateral, the market value of securities, etc.).*

*/** The nominal value of the collateral is reduced by coefficient taking into acount the time value of money, the cost of selling of the collateral, the risk of falling prices in the market, the risk of insolvency, etc..*

*/*** The applied collateral value is the discounted collateral value reduced up to the actual amount of the hedged exposure balance.*

38 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 at 31 December 2011, the Bank was controlled by Société Générale S.A. which owns 60.35% of its 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, transactions with derivative financial instruments and other types of transactions. These transactions were carried out on arm's length basis.

Amounts due to and from the Group companies

The following table summarises loans issued to the Group companies and their deposits with the Bank:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Bastion European Investments S.A.	3,211	3,278
ESSOX, s.r.o.	6,799	7,296
Factoring KB, a.s.	2,171	1,473
Modrá pyramida stavební spořitelna, a.s.	0	951
SG Equipment Finance Czech Republic s.r.o.*	9,804	0
Total loans	**21,985**	12,998
ESSOX, s.r.o.	313	46
Factoring KB, a.s.	1	1
KB Real Estate, s.r.o.	88	0
Modrá pyramida stavební spořitelna, a.s.	1,505	6
Penzijní fond Komerční banky, a.s.	2,913	1,562
Protos, uzavřený investiční fond, a.s.	7,106	471
SG Equipment Finance Czech Republic s.r.o.*	1,015	0
Total deposits	**12,941**	2,086

Note.: / The Bank becomes a majority shareholder of SG Equipment Finance Czech Republic s.r.o since May 2011, related party transactions as at 31 December 2010 are stated in „Amounts due to and from the Société Générale Group entities".*

Positive fair value of financial derivatives to companies in the Financial Group amounted to 359 million (2010: CZK 286 million) and a negative fair value amounted to CZK 1 million (2010: CZK 8 million).

During the year ended 31 December 2011, the Bank purchased Italian government bonds in the nominal amout CZK 7,470 million (2010: CZK 0 million) from Protos, uzavřený investiční fond, a.s.

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds with the nominal amount of CZK 14,490 million (2010: CZK 12,790 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds with the nominal amount of CZK 972 million (2010: CZK 1,000 million) issued by the Bank.

As at 31 December 2011 and 2010, other amounts due to and from the Group companies were immaterial.

Interest income from loans granted to Group companies:

(CZKm)	**2011**	2010
Bastion European Investments S.A.	123	129
ESSOX, s.r.o.	198	237
Factoring KB, a.s.	19	19
Modrá pyramida stavební spořitelna, a.s.	4	14
SG Equipment Finance Czech Republic s.r.o.*	145	0
Total interest from loans granted by Bank	**489**	399

Note.: / The Bank becomes a majority shareholder of SG Equipment Finance Czech Republic s.r.o since May 2011, related party transactions as at 31 December 2010 are stated in „Amounts due to and from the Société Générale Group entities".*

In addition to interest on loans to the Bank's Financial Group, other income in the year ended 31 December 2011 amounted to CZK 350 million (2010: CZK 224 million) and total expenses amounted to CZK 774 million (2010: CZK 677 million).

As at 31 December 2011, the Bank reported guarantees granted to Group companies totalling CZK 715 million (2010: CZK 5 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

(CZKm)	**31 Dec 2011**	31 Dec 2010
ALD Automotive Czech Republic s.r.o.	2,618	2,221
BRD Romania	136	10
ESSOX SK s.r.o.	197	0
Komerční pojišťovna, a.s.	462	276
Rosbank	101	0
SG Equipment Finance Czech Republic s.r.o.*	0	5,980
SG Express bank	2	13
SG Orbeo	378	127
SG Private Banking (Suisse)	5	7
SG Vostok	0	31
SGBT Luxemburg	0	26
Société Générale Paris	19,617	11,434
Succursale Newedge UK	10	0
Total	**23,526**	20,125

Note.: / The Bank becomes a majority shareholder of SG Equipment Finance Czech Republic s.r.o since May 2011, related party transactions as at 31 December 2011 are stated in „Amounts due to and from the Société Générale Group entities".*

Principal balances owed to the Société Générale Group entities include:

(CZKm)	**31 Dec 2011**	31 Dec 2010
ALD Automotive Czech Republic s.r.o.	0	11
BRD Romania	2	0
Crédit du Nord	4	4
ESSOX SK s.r.o.	130	0
Inter Europe Conseil	8	286
Komerční pojišťovna, a.s.	869	520
SG Amsterdam	28	0
SG Equipment Finance Czech Republic s.r.o.*	0	1,198
SG Frankfurt	0	28
SG Lisabon	533	31
SG London	23	25
SG New York	2	6
SG Orbeo	0	169
SG Private Banking (Suisse)	39	71
SG Vostok	0	5
SGBT Luxemburg	10	648
Société Générale Paris	22,806	28,574
Société Générale Warsaw	1	15
Splitska Banka	2	0
Total	**24,457**	31,591

Note.: / The Bank becomes a majority shareholder of SG Equipment Finance Czech Republic s.r.o since May 2011. related party transactions as at 31 December 2011 are stated in „Amounts due to and from the Société Générale Group entities".*

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 (refer to Note 20), issued bonds and subordinated debt (refer to Note 34).

As at 31 December 2011, the Bank also carried off-balance sheet exposures for the Société Générale Group, of which off-balance sheet notional assets and liabilities amounted to CZK 180,708 million (2010: CZK 148,764 million) and CZK 191,004 million (2010: CZK 181,426 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 at 31 December 2011 and 2010, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2011, the Bank made a total income of CZK 24,119 million (2010: CZK 22,295 million) and total expenses of CZK 26,717 million (2010: CZK 21,187 million), refer to Note 20. Income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, a loss from financial operations, interest expenses on hedging derivatives and expenses related to the provision of management, consultancy and software services.

Remuneration and amounts due from the members of the Board of Directors and Supervisory Board and Directors' Committee

Remuneration paid to the members of the Board of Directors and Supervisory Board and Directors' committee during the years was as follows:

(CZKm)	2011	2010
Remuneration to the Board of Directors members*	45	50
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	60	70
Total	**110**	125

Note:

/ **Remuneration to the Board of Directors members** includes amounts paid during the year ended 31 December 2011 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2011 but including bonuses for 2010, figures for expatriate members of the Board of Directors include remuneration net of bonuses for 2011 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Board of Directors does not include accommodation related services.*

*/** **Remuneration to the Supervisory Board members** includes amounts paid during the year ended 31 December 2011 to the current and former members of the Supervisory Board, amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.*

*/*** **Remuneration to the Directors' committee members** represents the sum of compensation and benefits paid in 2011 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Board of Directors members (as it is reflected in the remuneration to the Board of Directors members). All the Board of Directors members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2011, the total balance reflects his/her aggregate annual remuneration.*

	31 Dec 2011	31 Dec 2010
Number of the Board of Directors members	6	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members*	17	17

Note: / These figures include all members of the Board of Directors who are also members of the Directors' Committee.*

As at 31 December 2011, the Bank recorded an estimated payable of CZK 18 million (2010: CZK 14 million) for Board of Directors bonuses.

In respect of loans and guarantees as at 31 December 2011, the Bank recorded loan receivables totalling CZK 7 million (2010: CZK 5 million) granted to the members of the Board of Directors and Supervisory Board and Directors' Committee. During 2011, draw-downs of CZK 0 million were made under the loans granted. Loan repayments were during 2011 amounted to CZK 2 million. The increase of loans is affected by a new member of the Directors' Committee in amount of CZK 4 million.

39 Movements in the revaluation of hedging instruments in the statement of changes in shareholders' equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate category of equity in the hedging reserve.

(CZKm)	2011	2010
Cash flow hedge fair value at 1 January	5,283	3,113
Deferred tax asset/(liability) at 1 January	(920)	(555)
Balance at 1 January	**4,363**	2,558
Adjustment due to merger		
Gains/(losses) from changes in fair value	0	87
Deferred income tax	0	(3)
	0	84
Movements during the year		
Gains/(losses) from changes in fair value	9,192	3,524
Deferred income tax	(1,746)	(670)
	7,446	2,854
Transferred to interest income/expense	(1,973)	(1,621)
Deferred income tax	375	308
	(1,598)	(1,313)
Change in the hedge of foreign currency risk of foreign net investment	(101)	180
	(101)	180
Cash flow hedge fair value at 31 December	12,401	5,283
Deferred tax asset/(liability) at 31 December	(2,291)	(920)
Balance at 31 December	**10,110**	4,363

40 Movements in the revaluation of available for sale financial assets

(CZKm)	2011	2010
Reserve from fair value revaluation at 1 January	1,206	2,471
Deferred tax liability/income tax liability at 1 January	(107)	(348)
Balance at 1 January	**1,099**	2,123
Movements during the year		
Gains/(losses) from changes in fair value	(1,002)	(1,235)
Deferred tax liability/income tax liability	190	235
	(812)	(1,000)
(Gains)/losses from the sale	0	(30)
Deferred tax liability/income tax liability	0	6
	0	(24)
(Gains)/losses from impairment	1,663	0
Deferred tax liability/income tax liability	(316)	0
	1,347	0
Reserve from fair value revaluation at 31 December	1,867	1,206
Deferred tax liability/income tax liability at 31 December	(233)	(107)
Balance at 31 December	**1,634**	1,099

41 Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

Assessment of credit risk is based on quantitative and qualitative criteria, the output of which is rating. The Bank uses several types of ratings, depending on the type and profile of the counterparty, and type of transactions. As a result, specific ratings are assigned to both the Bank's clients and to specific clients' transactions. In relevant cases the same rating procedure is applied to respective guarantors and sub-debtors, which provides for a better assessment of the quality of accepted guarantees and collateral.

The Bank uses a 22-degree range to evaluate the client's risk rating; the last three steps indicate a default of the client and the others designate portfolio without default.

In 2011, the Bank predominantly focused on three core areas – (1) review of selected models of credit risk in order to optimally take into account the current macroeconomic situation and set goals of Bank, (2) regular analysis of the profitability of individual client portfolios in order to optimize the criteria for approving the Bank's credit products and (3) increase the effectiveness of monitoring the risk profile of individual client portfolios and the quality of tools and models of credit risk.

Similarly as in previous years, especially in the first two mentioned areas, an important role have had the results of a regular stress testing, which allowed more precise estimate of the expected intensity level of credit risk for the following periods and thus the optimization of tools for the Bank's credit risk management.

(a) *Business clients and municipalities*

For businessmen, corporate clients and municipalities, the Bank uses the obligor rating with the aim of evaluating the probability of default of the counterparty and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collateral and to evaluate the potential loss from counterparty transactions. Both these models are also used for regular updates of the Probability of Default (PD) of all client exposures reported in accordance with the Basel II requirements.

For large and medium-sized clients, the obligor rating is the combination of the financial rating based primarily on financial data and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Bank. When clients are funded using simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour in the Bank (behavioural rating). In 2011, the Bank updated all of these models with reflection of the experience gained during the economic crisis.

In the municipalities segment, the obligor rating is the combination of the financial rating based on data in the financial statements and an economic rating acquired through the assessment of non-financial information relating to specific municipalities.

In 2011 the Bank developed new special model to assign rating to Association of Owners and Building Socities based on individual characteristics of these subjects.

Bank also updated models for loss given default (LGD – Loss Given Default) for entrepreneurs and corporate clients and developed and implemented special LGD model for defaulted clients. This model is used for capital adequacy calculation.

(b) Ratings for Banks and Sovereign

For banks and other financial institutions the Bank uses a central economic rating model developed by Société Générale. The model is based on variables in a qualitative questionnaire, including the quantitative financial criteria, and the country support questionnaire. Central models have also been developed for sovereigns (central banks and central governments) and other financial institutions (namely insurance companies, brokers and funds).

(c) Ratings for Individual clients

The Bank uses two types of ratings with the aim of evaluating the default risk for individuals: the application rating which results from the evaluation of personal data of clients, data on the behaviour in the Bank and the data of clients from available external registers, and behavioural rating which is based on the evaluation of the information on the clients' behaviour in the Bank. The application rating is primarily used for active applications of clients for funding, while the behavioural rating which includes the calculation of pre-approved limits for simple products with low exposure is used for active offers of funding for clients by the Bank. The behavioural rating of clients is concurrently used for regular updates of the probability of default of all client exposures reported in accordance with the BASEL II requirements.

In 2011 the Bank started the process of regular update of application rating models with expected implementation during the first quarter 2012.

Bank also focused on updating models to calculate the loss given default (LGD – Loss Given Default), especially for mortgages loans taking into account the last observations. The Bank also actualized its models for provisioning using the last information about recoveries.

Pursuant to the back testing of the rating and LGD models and the results of stress testing, the Bank initiated a thorough review of the process of pricing all loan products provided to individuals with the aim of eliminating potential loss production and updated the setting of credit risk margins representing the valuation of the anticipated cost of risk.

(d) Internal register of negative information

During 2011 the Bank released new internal registry of negative information. The new register integrates the maximum quantity of available Bank's internal and external negative information about the subjects related to the credit process. It includes improved algorithms for evaluation of the negative information and thus contribute substantially to protect the Bank from risky entities.

(e) Credit bureaus

The evaluation of data from credit bureaus is one of the principal factors impacting the assessment of applications for client funding, predominantly in the retail clients sector. During the year, the Bank principally focused on optimising the rules for reflecting information from credit bureaus in the approval process, predominantly with respect to the behavioural rating and individual assessment of applications for funding.

(f) Credit fraud prevention

Bank uses an automated system for detection of individual credit frauds and also for coordinated reactions on credit fraud attacks. The system is fully integrated with Bank's main applications and it will be fully promoted in the entire group.

In 2011 the Bank has started project focused on building the system for detection and investigation of organized frauds (it is based on fraud monitoring of portfolio). The results from this projects are expected in 2012-2013.

Credit risk concentration

Concentration of credit risk is the risk of such excess losses related to credit transactions, which in particularly difficult circumstances could jeopardize the financial stability of the Bank. The Bank's credit concentration risk is actively managed in the overall credit risk management using standard tools (evaluation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. The system of internal limits is established so that the Bank complies with regulatory limits set in respect of concentration risk. Refer to Note 21 and 37 for quantitative information about credit risk concentration.

The Bank's maximum credit exposure as at 31 December 2011:

	Total exposure			**Applied collateral**		
(CZKm)	Statement of financial position	Off-balance sheet*	**Total credit exposure**	Statement of financial position	Off-balance sheet*	**Total collateral**
Balances with central banks	**8,707**	**x**	**8,707**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**35,287**	**x**	**35,287**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**18,801**	**x**	**18,801**	**0**	**x**	**0**
Financial assets available for sale	**86,456**	**x**	**86,456**	**0**	**x**	**0**
Amounts due from banks	**94,127**	**5,517**	**99,644**	**59,319**	**28**	**59,347**
Loans and advances to customers	**384,987**	**152,051**	**537,038**	**162,132**	**15,538**	**177,670**
- individuals	142,153	12,377	**154,530**	101,632	1,053	**102,685**
of which: mortgage loans	123,553	4,730	**128,283**	100,460	1,028	**101,488**
consumer loans	14,826	202	**15,028**	1,173	22	**1,195**
- corporates**	242,429	139,674	**382,103**	60,500	14,485	**74,985**
of which: top corporate clients	110,706	77,846	**188,552**	32,490	6,259	**38,749**
- other amounts due from customers	405	x	**405**	0	x	**0**
Financial assets held to maturity	**184**	**x**	**184**	**0**	**x**	**0**
Total	**628,549**	**157,568**	**786,117**	**221,451**	**15,566**	**237,017**

Note: / Undrawn amounts, commitments, guarantees, etc.*

*/** This item also includes loans provided to individuals entrepreneurs.*

The maximum credit exposure is presented in gross values, i.e. without the impact of allowances.

The Bank's maximum credit exposure as at 31 December 2010:

	Total exposure			Applied collateral		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Balances with central banks	5,943	x	5,943	0	x	0
Financial assets at fair value through profit or loss	34,296	x	34,296	0	x	0
Positive fair value of hedging financial derivatives	11,845	x	11,845	0	x	0
Financial assets available for sale	68,720	x	68,720	0	x	0
Amounts due from banks	108,329	4,954	113,283	71,468	0	71,468
Loans and advances to customers	347,327	146,616	493,943	154,304	13,979	168,283
- individuals	127,394	11,469	138,863	89,261	806	90,067
of which: mortgage loans	108,773	3,582	112,355	88,451	786	89,237
consumer loans	14,744	169	14,913	810	14	824
- corporates**	219,829	135,147	354,976	65,043	13,173	78,216
of which: top corporate clients	89,115	72,697	161,812	37,218	6,443	43,661
- other amounts due from customers	104	x	104	0	x	0
Financial assets held to maturity	954	x	954	0	x	0
Total	577,414	151,570	728,984	225,772	13,979	239,751

Note: / Undrawn amounts, commitments, guarantees, etc.*

*/** This item also includes loans provided to individuals entrepreneurs.*

The maximum credit exposure is presented in gross values net of the impact of allowances.

Classification of receivables

The Bank classifies its receivables arising from financial activities into five categories according to Regulation of the Czech National Bank No. 123/2007. Categories Standard and Watch are Non-default, Substandard, Doubtful and Loss are Default. The classification reflects both quantitative criteria (payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring). Since 2008, the classification has reflected the default sharing principle for co-debtors and guarantors in respect of the default receivables in accordance with the BASEL II principles.

The structure of the credit portfolio according to the classification is regularly reported to the Czech National Bank and investors.

Characteristics of receivables that are not categorised

Pursuant to the Regulation issued by the Czech National Bank, the Bank does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically amounts receivable arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Allowances for receivables

All significant impaired credit exposures (i.e. classified as Watch, Substandard, Doubtful or Loss according to CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committees or, whenever required, by recovery specialists. Allowances are established on the basis of the present value of the estimated future cash flows to the Bank and after due consideration of all available information, including the estimated value of collateral and expected duration of the recovery process.

The remaining exposures are provisioned based on statistical models. These models were developed based on the BASEL II principles using the LGD (LGD – Loss Given Default) database which is established in respect of historically observed losses for clients not individually assessed. This new model was implemented in August 2007. In November 2011, the model used in the calculation of allowances was updated based on new information on incurred losses for the most recent period and total revision of EL/ELBE models namely in connection to (i) changes in internal risk processes, (ii) results from back-tests focused on performance of ELBE model for some products and (iii) continuing negative macroeconomic and real estates market outlooks. On the basis of regular back testing of models conducted on a quarterly basis, the Bank regularly verifies the validity of values Expected Loss (EL – Expected Loss) and Expected Loss Best Estimate (ELBE – Expected Loss Best Estimate) for calculating of allowances and provisions.

The following table shows the split of classified customer loans based on the type of assessment:

	31 Dec 2011		31 Dec 2010	
(CZKm)	**Individually**	**Statistical model**	Individually	Statistical model
Individuals	4,320	4,357	3,489	4,673
Corporates*	20,346	2,827	22,429	3,304
Total	**24,666**	**7,184**	25,918	7,977

Note: / This item includes loans granted to individual entrepreneurs.*

As at 31 December 2011, the Bank reported the following loans before due date and past due loans not impaired:

(CZKm)	**Loans before due date**	**Past due loans, not impaired: 1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days to 1 year**	**Over 1 year**	**Total**	**Total**
Banks								
- standard	**93,853**	0	0	0	0	0	**0**	**93,853**
- watch	**266**	0	0	0	0	0	**0**	**266**
Total	**94,119**	**0**	**0**	**0**	**0**	**0**	**0**	**94,119**
Customers								
- standard	**346,395**	6,301	35	1	0	0	**6,337**	**352,732**
- watch	**10,029**	0	0	0	0	0	**0**	**10,029**
Total	**356,424**	**6,301**	**35**	**1**	**0**	**0**	**6,337**	**362,761**

As at 31 December 2010, the Bank reported the following loans before due date and past due loans not impaired:

(CZKm)	Loans before due date	Past due loans, not impaired						Total
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	
Banks								
- standard	107,663	0	0	0	0	0	0	107,663
- watch	652	0	0	0	0	0	0	652
Total	108,315	0	0	0	0	0	0	108,315
Customers								
- standard	307,264	5,769	294	1	0	0	6,064	313,328
- watch	10,241	190	222	77	0	0	489	10,730
Total	317,505	5,959	516	78	0	0	6,553	324,058

The amount of the used collateral in respect of past due loans not impaired was CZK 3,117 million (2010: CZK 3,893 million).

Loan collateral

The amount of the recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral realisation, length of realisation, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically for all real estate collateral, which represents the most frequent type of collateral, the Bank uses independent valuations performed or supervised by a dedicated specialised department.

The Bank (except of business division Slovakia) uses the on-line connection to the state-run Real Estate Register for reviewing and acquiring data on pledged real estate in approving mortgages and in the process of regular monitoring of selected events that may put the pledge of the Bank on the real estate at risk.

The Bank has fully implemented in its internal system the rules for assessment of collateral eligibility according to CNB Regulation No.123/2007. In compliance with the CNB validation the Bank uses AIRB (AIRB – Advanced Internal Ratings-Based) approach. For clients of business division Slovakia the bank uses for assessment of collateral eligibility STD (STD – Standardized) approach.

Real estate collateral valuation

Activities relating to the valuation of real estate obtained as collateral for commercial and retail loans are independent from the Bank's business processes. The valuation process is managed and controlled by the internal specialized Risk Management Department which cooperates with a selection of external valuation experts.

In 2011, together with the principal activity involving real estate valuation, the Bank focused on the ongoing monitoring of the real estate market with the aim of promptly identifying a negative development and taking appropriate measures as required. The Bank monitors both the residential real estate market and the commercial real estate market. The integral part of the monitoring is the revaluation of selected real estate depending on the Basel II requirements. As a result of the statistical monitoring of market prices of residential real estate, residential real estate values were discounted in masse by appropriate discount factor (only in selected regions with a significant decline in prices of residential property over the valuation originally made), which took place in the last quarter of 2011. In line with this activity, a regular annual process of updating discount factor values which are used to update the values of residential real estates was set up.

Recovery of amounts due from borrowers

As a result of the negative economic development and thus worsened the financial situation of enterprises and retail clients Bank continuously responded to changing market conditions that primarily result in an extended period of recovery, increase judicial enforcement and increase the complexity of the recovery process, especially in real estate collaterals.

Given the growing volume of the loans portfolio in recovery, the Bank continues improving the efficiency and process of the recovery. These efforts also involve the intensified and enhanced use of external recovery capacities which cover approximately 18 % of the total portfolio of exposures in recovery and 82 % of the total number of clients in recovery. During 2011, the Bank continued regular monthly sales of groups of uncollateralized retail receivables to selected investors, so the maximum achievable recovery rate is obtained. The main emphasis is on further automation of recovery process, including the replacement of existing applications of recovery by the new ones.

The Bank gave increased attention to the application of the new Insolvency Act and its reflection in the process of collecting the receivables for retail and corporate clients. The Bank plays an active role in the insolvency process, the position of secured creditors, creditors' committee member or representative of creditors, both in bankruptcy proceeding, or even part of the reorganization, which are used by the Bank depending on the debtor's circumstances and attitudes of other creditors.

Credit risk hedging instruments

The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (hereafter only "CVAR") indicator. This indicator estimates the potential future development of the price of a derivative and the potential loss that the Bank may incur if the counterparty fails to comply with its obligations. The maximum potential exposure is calculated at the confidence level of 99 % and depends on the current market value and type of the derivative product, the remaining period until the maturity of the derivative transaction and the nominal value and volatility of the underlying assets.

As at 31 December 2011, the Bank posted a credit exposure of CZK 17,665 million (2010: CZK 13,860 million) on financial derivative instruments (expressed in CVAR). This amount represents the gross replacement costs at market rates as at 31 December 2011 of all outstanding agreements. The netting agreement is taken into account where applicable.

The Bank put limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients, which could arise due to movements in market prices. On a daily basis, the Bank monitors its compliance with all limits and if exceeding the Bank takes corrective action to reduce risk exposure. The Board of Directors is informed about all overruns on monthly basis.

(B) Market risk

Segmentation of the Bank's financial operations

For market risk management purposes, the Bank has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions entered into by the Bank's dealers for trading purposes or for accommodating customer needs. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.

Products traded by the Bank

Products that are traded by the Bank and can generate market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards, options), interest rate instruments (interest rate swaps, FRAs, interest rate futures, interest rate options), corporate and governmental bonds, emission allowances as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.). On the market book, the Bank trades derivatives on its own account and for sale to customers. On the structural book derivatives are used for structural hedged risk. With some clients, the Bank entered into complex derivatives known as structured. These structures are designed to allow clients to use the sophisticated features of the deals that can not be achieved by simple (so-called "plain-vanilla") derivatives. The Bank is not taking market risk (e.g. volatility risk) associated with these derivatives. The risk is eliminated by the market is closed immediately a counter to the client business (so-called "back-to-back").

Market risk in the Market Book

In order to measure market risks inherent in the activities of the Market Book, the Bank uses the Value-at-Risk (hereafter only "VaR") concept.

VaR is calculated using historical scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1 % most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses, out of the 250 considered scenarios.

The Value-at-Risks for a one-day holding period with a confidence level of 99 % were EUR -178,000 and EUR -548,000 as at 31 December 2011 and 2010, respectively. The average Global Value-at-Risks were EUR -415,000 and EUR -447,000 for the years ended 31 December 2011 and 2010, respectively.

The accuracy of the VaR model is validated through back-testing calculation, when actual sales results and hypothetical results (i.e., results excluding deals closed during the day) are compared with the VaR results. The number of exceedances should not occur in more cases than 1 % of days for given period. In 2011, 2% (2010: 2%) of the daily losses (actual or hypothetical) exceeded 99% of VaR. Unprecedented developments in market conditions in connection with the ongoing crisis has resulted in the emergence of some new market factors that are not currently fully covered by the existing VaR model. A major project for improving the VaR calculation by implementing a more sophisticated VaR model is launched in collaboration with Société Générale's Market Risks Department.

In addition, the Bank performs stress tests that capture the events with a lower probability of occurrence than VaR scenarios, and that measure potential losses relevant to all open positions generated by larger shocks on a daily basis. Several types of stress tests for foreign exchange, interest rate and equity exposures are used. They are developed either based on actual large shock events in the past (such as the bond crisis of 1998) or from a hypothetical crisis that could harm the positions.

Various specific metrics such as sensitivities to market parameters or size of the exposure are used to obtain a detailed picture of risks and strategies.

The Bank has established a system of market risk limits, which aims at reducing the losses due to movements in market prices by limiting the size of the open positions. On a daily basis the Bank monitors its compliance with all limits and if exceeding the Bank takes corrective action to reduce risk exposure. The Board of Directors is informed on a monthly basis about the exposure development to market risk.

Market risk in the Structural Book

The Bank manages foreign exchange risk so as to achieve minimum risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk (hereafter only "EaR") for net interest income. The indicators are monitored separately for CZK, USD and EUR, and the sum of other foreign currencies. The EaR indicator shows the maximum departure of the planned net interest income over a one-year period attributable to the movements in interest rates with a 99 % confidence level from the initial value. EaR is set using stochastic simulations of random scenarios of interest rate developments and a change in interest income relative to the initial value is established for each scenario. The calculation of EaR for net interest income involves a stress-testing approach to the interest rate risk within the Structural Book.

The indicator of the Bank's sensitivity to a change in market interest rates is measured upon assumption of an instant, one-off and adverse parallel shift of the market yield curve of 1 % p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As at 31 December 2011, the interest rate risk sensitivity was in CZK CZK -104 million, in EUR CZK -15 million, in USD CZK 31 million and in other currencies CZK -21 million (2010: CZK -152 million) upon hypothetical assumption of a change in market interest rates of 1 %. The Bank is limited by this indicator and the level of the limit is determined to be approximately 2 % of capital.

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as FRAs and interest rate swaps) and appropriate investments in securities or a selection of interest rate parameters of other assets and liabilities.

(C) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict inadequate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading:

	31 Dec 2011		31 Dec 2010		**31 Dec 2011**		31 Dec 2010	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Interest rate instruments								
Interest rate swaps	417,644	417,644	338,422	338,422	9,828	9,803	5,482	5,515
Interest rate forwards and futures*	85,931	85,931	116,280	116,280	15	17	32	41
Interest rate options	22,512	22,512	48,395	48,395	535	535	473	473
Total interest rate instruments	**526,087**	**526,087**	503,097	503,097	**10,378**	**10,355**	5,987	6,029
Foreign currency instruments								
Currency swaps	136,828	137,041	102,176	102,840	1,955	2,191	580	1,186
Cross currency swaps	39,595	39,755	32,553	32,419	1,102	1,139	946	720
Currency forwards	29,806	29,644	31,352	31,907	718	560	164	665
Purchased options	25,754	25,715	19,882	19,814	1,030	0	633	0
Sold options	25,684	25,724	19,814	19,882	0	1,030	0	633
Total currency instruments	**257,667**	**257,879**	205,777	206,862	**4,805**	**4,920**	2,323	3,204
Other instruments								
Futures on debt securities*	0	0	100	100	0	0	0	0
Forwards on debt securities	0	0	26	26	0	0	0	0
Forwards on emission allowances	7,457	7,417	12,481	12,437	3,606	3,540	1,916	1,839
Commodity forwards	1,035	1,035	1,055	1,055	36	35	55	54
Commodity swaps	13,953	13,953	8,300	8,300	896	884	223	218
Purchased commodity options	11	11	128	128	2	0	14	0
Sold commodity options	11	11	128	128	0	2	0	14
Total other instruments	**22,467**	**22,427**	22,218	22,174	**4,540**	**4,461**	2,208	2,125
Total	**806,221**	**806,393**	731,092	732,133	**19,723**	**19,736**	10,518	11,358

Note.: / Fair values include only forwards, with regard to futures the Bank places funds on a margin account which is used on a daily basis to settle fair value changes and receivables arising from these margin accounts are reported within other assets.*

Financial derivative instruments designated as held for trading at nominal values per remaining maturity as at 31 December 2011:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	80,041	231,354	106,249	417,644
Interest rate forwards and futures*	85,647	284	0	85,931
Interest rate options	0	1,113	21,399	22,512
Total interest rate instruments	**165,688**	**232,751**	**127,648**	**526,087**
Foreign currency instruments				
Currency swaps	134,632	1,972	224	136,828
Cross currency swaps	4,311	20,916	14,368	39,595
Currency forwards	25,235	4,324	247	29,806
Purchased options	20,725	5,029	0	25,754
Sold options	20,652	5,032	0	25,684
Total currency instruments	**205,555**	**37,273**	**14,839**	**257,667**
Other instruments				
Futures on debt securities	0	0	0	0
Forwards on debt securities	0	0	0	0
Forwards on emission allowances	7,447	10	0	7,457
Commodity forwards	1,035	0	0	1,035
Commodity swaps	8,428	5,525	0	13,953
Purchased commodity options	11	0	0	11
Sold commodity options	11	0	0	11
Total other instruments	**16,932**	**5,535**	**0**	**22,467**
Total	**388,175**	**275,559**	**142,487**	**806,221**

Note: / The remaining maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off balance sheet exposures are reversed.*

Financial derivative instruments designated as held for trading at nominal values per remaining maturity as at 31 December 2010:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	74,436	191,910	72,076	338,422
Interest rate forwards and futures*	114,631	1,649	0	116,280
Interest rate options	23,335	25,060	0	48,395
Total interest rate instruments	212,402	218,619	72,076	503,097
Foreign currency instruments				
Currency swaps	96,620	5,255	301	102,176
Cross currency swaps	2,060	15,253	15,240	32,553
Currency forwards	24,207	6,808	337	31,352
Purchased options	14,413	5,469	0	19,882
Sold options	14,392	5,422	0	19,814
Total currency instruments	151,692	38,207	15,878	205,777
Other instruments				
Futures on debt securities	100	0	0	100
Forwards on debt securities	26	0	0	26
Forwards on emission allowances	4,132	8,349	0	12,481
Commodity forwards	1,055	0	0	1,055
Commodity swaps	4,056	4,244	0	8,300
Purchased commodity options	10	118	0	128
Sold commodity options	10	118	0	128
Total other instruments	9,389	12,829	0	22,218
Total	373,483	269,655	87,954	731,092

Note: / The remaining maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off balance sheet exposures are reversed.*

Financial derivative instruments designated as hedging:

	31 Dec 2011		31 Dec 2010		**31 Dec 2011**		31 Dec 2010	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Cross currency swaps for cash flows hedging	31,036	29,193	27,690	24,444	114	1,089	722	264
Cross currency swaps for fair value hedging	0	2,709	0	2,631	0	42	80	0
Interest rate swaps for cash flow hedging	350,284	350,284	320,775	320,775	18,687	6,159	11,013	5,958
Interest rate swaps for fair value hedging	11,821	11,822	9,286	9,286	0	1,887	30	713
Total	**393,141**	**394,008**	357,751	357,136	**18,801**	**9,177**	11,845	6,935

Remaining maturity of derivatives designated as hedging 31 December 2011:

(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Cross currency swaps for cash flow hedging	418	26,798	3,820	31,036
Interest rate swaps for cash flow hedging	49,367	178,021	122,896	350,284
Interest rate swaps for fair value hedging	0	386	11,435	11,821
Total	**49,785**	**205,205**	**138,151**	**393,141**

Remaining maturity of derivatives designated as hedging 31 December 2010:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	15,093	12,597	0	27,690
Interest rate swaps for cash flow hedging	52,414	153,753	114,608	320,775
Interest rate swaps for fair value hedging	0	461	8,825	9,286
Total	67,507	166,811	123,433	357,751

The periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss for instruments designated as cash flow hedging:

	31 Dec 2011			31 Dec 2010		
(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	Up to 1 year	1 to 5 years	Over 5 years
Cash inflows	2,370	4,179	626	2,052	3,028	293
Cash outflows	(3,010)	(9,498)	(4,946)	(2,638)	(8,468)	(4,896)
Net cash flow	**(640)**	**(5,319)**	**(4,320)**	(586)	(5,440)	(4,603)

The Bank treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met.

During 2011, the Bank recorded the following hedges:

1. Interest rate risk hedge:
   a. The fair value of provided long-term loans/investments in long-term government securities classified into the Available for sale portfolio is hedged by an interest rate swap and cross currency swap, respectively;
   b. Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's income statement on an ongoing basis);
   c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's income statement on an ongoing basis).

2. Foreign exchange risk hedge:

    a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g., contractual payments to third parties in a foreign currency) or receivables of the Bank, the hedging instrument includes foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;

    b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent on the foreign exchange rate developments and selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market).

3. Hedge of an investment in a foreign subsidiary:

    a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market and short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probably forecasted transaction that is no longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these financial statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped in the 'Undefined' category.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	7,877	0	0	0	8,371	**16,248**
Financial assets at fair value through profit or loss	3,356	5,715	4,642	1,851	19,723	**35,287**
Positive fair values of hedging financial derivatives	0	0	0	0	18,801	**18,801**
Financial assets available for sale	961	9,139	26,019	49,639	698	**86,456**
Assets held for sale	0	0	0	0	13	**13**
Amounts due from banks	85,669	2,976	4,486	996	0	**94,127**
Loans and advances to customers, net	179,831	59,629	119,404	13,824	0	**372,688**
Financial assets held to maturity	0	1	183	0	0	**184**
Current tax assets	0	0	0	0	236	**236**
Deferred tax assets	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	0	0	0	0	1,662	**1,662**
Investments in subsidiaries and associates	0	0	0	0	24,586	**24,586**
Intangible assets	0	0	0	0	3,449	**3,449**
Tangible assets	0	0	0	0	6,536	**6,536**
Total assets	**277,694**	**77,460**	**154,734**	**66,310**	**84,081**	**660,279**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	4,686	0	0	0	19,736	**24,422**
Negative fair values of hedging financial derivative transactions	0	0	0	0	9,177	**9,177**
Amounts due to banks	27,685	1,943	0	0	0	**29,628**
Amounts due to customers	60,019	15,606	3,760	0	390,414	**469,799**
Securities issued	2,295	1,290	10,362	20,578	0	**34,525**
Deferred tax liabilities	0	0	0	0	2,441	**2,441**
Accruals and other liabilities	0	0	0	0	10,761	**10,761**
Provisions	0	0	0	0	1,055	**1,055**
Subordinated debt	6,002	0	0	0	0	**6,002**
Total liabilities	**100,688**	**18,839**	**14,122**	**20,578**	**433,584**	**587,811**
Statement of financial position interest rate sensitivity gap at 31 December 2011	**177,006**	**58,621**	**140,612**	**45,732**	**(349,503)**	**72,468**
Derivatives*	339,412	244,508	210,925	163,979	0	**958,824**
Total off-balance sheet assets	**339,412**	**244,508**	**210,925**	**163,979**	**0**	**958,824**
Derivatives*	403,951	238,789	235,288	81,821	0	**959,849**
Undrawn portion of loans**	(5,009)	(263)	4,700	572	0	**0**
Undrawn portion of revolving loans**	(254)	254	0	0	0	**0**
Total off-balance sheet liabilities	**398,688**	**238,780**	**239,988**	**82,393**	**0**	**959,849**
Net off-balance sheet interest rate sensitivity gap at 31 December 2011	**(59,276)**	**5,728**	**(29,063)**	**81,586**	**0**	**(1,025)**
Cumulative interest rate sensitivity gap at 31 December 2011	**117,730**	**182,079**	**293,628**	**420,946**	**71,443**	**x**

Note: / Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.*

*/** Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.*

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	4,279	0	0	0	8,715	12,994
Financial assets at fair value through profit or loss	3,262	15,615	2,837	2,064	10,518	34,296
Positive fair values of hedging financial derivatives	0	0	0	0	11,845	11,845
Financial assets available for sale	1,090	4,795	33,080	29,054	701	68,720
Assets held for sale	0	0	0	0	25	25
Amounts due from banks	98,340	3,985	6,004	0	0	108,329
Loans and advances to customers, net	155,936	55,158	109,398	14,342	0	334,834
Financial assets held to maturity	10	6	938	0	0	954
Current tax assets	0	0	0	0	38	38
Prepayments, accrued income and other assets	0	0	0	0	1,903	1,903
Investments in subsidiaries and associates	0	0	0	0	23,249	23,249
Intangible assets	0	0	0	0	3,363	3,363
Tangible assets	0	0	0	0	6,556	6,556
Total assets	262,917	79,559	152,257	45,460	66,913	607,106
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	2,608	0	0	0	11,358	13,966
Negative fair values of hedging financial derivative transactions	0	0	0	0	6,935	6,935
Amounts due to banks	28,624	455	0	0	0	29,079
Amounts due to customers	83,242	13,430	3,723	51	340,839	441,285
Securities issued	3,007	0	11,770	17,076	0	31,853
Deferred tax liabilities	0	0	0	0	991	991
Accruals and other liabilities	0	0	0	0	6,951	6,951
Provisions	0	0	0	0	1,030	1,030
Subordinated debt	6,001	0	0	0	0	6,001
Total liabilities	123,483	13,885	15,493	17,127	368,104	538,092
Statement of financial position interest rate sensitivity gap at 31 December 2010	139,434	65,674	136,764	28,333	(301,191)	69,014
Derivatives*	338,666	240,099	169,396	145,239	0	893,401
Total off-balance sheet assets	338,666	240,099	169,396	145,239	0	893,401
Derivatives*	388,169	247,496	198,584	58,402	0	892,652
Undrawn portion of loans**	(3,753)	(740)	3,725	767	0	0
Undrawn portion of revolving loans**	(536)	(58)	538	56	0	0
Total off-balance sheet liabilities	383,880	246,698	202,848	59,225	0	892,652
Net off-balance sheet interest rate sensitivity gap at 31 December 2010	(45,214)	(6,599)	(33,451)	86,014	0	749
Cumulative interest rate sensitivity gap at 31 December 2010	94,220	153,294	256,607	370,954	69,763	x

Note: / Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.*

*/** Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.*

Average interest rates as at 31 December 2011 and 2010:

	31 Dec 2011			31 Dec 2010		
	CZK	**USD**	**EUR**	CZK	USD	EUR
Assets						
Cash and balances with central banks	0.40 %	x	x	0.25 %	x	x
Treasury bills	1.08 %	x	x	1.23 %	x	x
Amounts due from banks	0.97 %	1.04 %	1.37 %	1.01 %	0.52 %	1.13 %
Loans and advances to customers	4.06 %	2.38 %	3.29 %	4.35 %	1.11 %	3.46 %
Interest earning securities	3.62 %	4.16 %	4.02 %	3.21 %	4.28 %	3.34 %
Total assets	**2.95 %**	**2.20 %**	**2.79 %**	3.02 %	1.84 %	2.87 %
Total interest earning assets	**3.40 %**	**2.36 %**	**3.02 %**	3.44 %	1.93 %	3.10 %
Liabilities						
Amounts due to central banks and banks	0.27 %	1.23 %	1.64 %	0.27 %	0.38 %	2.01 %
Amounts due to customers	0.43 %	0.10 %	0.30 %	0.37 %	0.13 %	0.18 %
Debt securities	2.63 %	x	0.00 %	2.96 %	x	3.76 %
Subordinated debt	1.32 %	x	x	1.38 %	x	x
Total liabilities	**0.55 %**	**0.15 %**	**0.60 %**	0.53 %	0.20 %	0.49 %
Total interest bearing liabilities	**0.46 %**	**0.16 %**	**0.65 %**	0.48 %	0.21 %	0.53 %
Off-balance sheet assets						
Derivatives (interest rate swaps, options, etc)	2.34 %	1.92 %	2.20 %	2.52 %	2.28 %	1.99 %
Undrawn portion of loans	3.04 %	2.30 %	3.70 %	3.16 %	1.36 %	2.44 %
Undrawn portion of revolving loans	6.21 %	x	1.30 %	6.48 %	x	2.19 %
Total off-balance sheet assets	**2.63 %**	**2.01 %**	**2.19 %**	2.75 %	2.28 %	2.01 %
Off-balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	2.05 %	1.89 %	2.38 %	2.23 %	2.56 %	2.23 %
Undrawn portion of loans	3.04 %	2.30 %	3.70 %	3.16 %	1.36 %	2.44 %
Undrawn portion of revolving loans	6.21 %	x	1.30 %	6.48 %	x	2.19 %
Total off-balance sheet liabilities	**2.37 %**	**1.99 %**	**2.36 %**	2.49 %	2.55 %	2.24 %

Note: The above table sets out the average interest rates for December 2011 and 2010 calculated as a weighted average for each asset and liability category.

Since May 2010, remains the 2W repo rate announced by CNB unchanged at 0.75 %. This approximately corresponds to the movements in crown money market rates, where the rates have not experienced an average decline of more than 0.12 % (6M). The market spreads have experienced almost no change during 2011 (up to 3 basis points) and stagnated on the value of 25-40 basis points (1D-1Y). Interest rates in derivatives market declined in the first half of the year by about 10 basis points, in the second half of the year fell further by 90 basis points (2-10Y).

Euro money market rates increased during the year slightly by 50 basis points. Derivative market rates rose in the first half of 2011 by about 60 basis points, in the second half reversed this trend and declined by almost 100 basis points.

Dollar money market rates experienced a decline in the first half of 2011 by 10 basis points and in the second half a rise by 40 basis points. Derivative market rates recorded a decrease in the total of 10-140 basis points (2-10Y).

Breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2011 Fixed interest rate	31 Dec 2011 Floating interest rate	31 Dec 2011 No interest	31 Dec 2011 Total	31 Dec 2010 Fixed interest rate	31 Dec 2010 Floating interest rate	31 Dec 2010 No interest	31 Dec 2010 Total
Assets								
Cash and balances with central banks	0	7,877	8,371	**16,248**	0	4,279	8,715	12,994
Financial assets at fair value through profit or loss	13,935	1,622	19,730	**35,287**	20,271	3,507	10,518	34,296
Positive fair values of hedging financial derivative transactions	0	0	18,801	**18,801**	0	0	11,845	11,845
Financial assets available for sale	74,390	11,364	702	**86,456**	59,051	8,967	702	68,720
Amounts due from banks	7,605	86,443	79	**94,127**	9,259	98,996	74	108,329
Loans and advances to customer	221,144	149,311	2,233	**372,688**	196,954	135,823	2,057	334,834
Financial assets held to maturity	184	0	0	**184**	954	0	0	954
Liabilities								
Amounts due to central banks	1	0	0	**1**	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	24,422	**24,422**	0	0	13,966	13,966
Negative fair values of hedging financial derivative transactions	0	0	9,177	**9,177**	0	0	6,935	6,935
Amounts due to banks	6,881	22,388	359	**29,628**	3,175	25,742	162	29,079
Amounts due to customers	4,563	459,231*	6,005	**469,799**	4,463	434,362*	2,460	441,285
Securities issued	14,304	20,221	0	**34,525**	15,704	16,149	0	31,853
Subordinated debt	6,002	0	0	**6,002**	0	6,001	0	6,001

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up are included in the 'No interest' category.

/ This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.*

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Management Board. Liquidity is monitored on a bank wide level, with the Market Book also having a stand-alone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank's experiences show, that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (especially not based on the undiscounted cash flows).

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	8,364	0	0	0	0	7,884	**16,248**
Financial assets at fair value through profit or loss	107	2,794	5,753	4,846	2,054	19,733	**35,287**
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,801	**18,801**
Financial assets available for sale	47	1,321	10,253	29,662	47,583	(2,410)	**86,456**
Assets held for sale	0	0	13	0	0	0	**13**
Amounts due from banks	47,241	34,608	2,869	4,708	1,258	3,443	**94,127**
Loans and advances to customers	4,037	32,926	61,282	101,486	153,250	19,707	**372,688**
Financial assets held to maturity	0	0	1	183	0	0	**184**
Current tax assets	0	0	231	0	0	5	**236**
Deferred tax assets	0	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	52	1	0	0	0	1,609	**1,662**
Investments in subsidiaries and associates	0	0	0	0	0	24,586	**24,586**
Intangible assets	0	0	0	0	0	3,449	**3,449**
Tangible assets	0	0	0	0	0	6,536	**6,536**
Total assets	**59,848**	**71,650**	**80,402**	**140,885**	**204,145**	**103,349**	**660,279**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss	4,686	0	0	0	0	19,736	**24,422**
Negative fair values of hedging financial derivative transactions	0	0	0	0	0	9,177	**9,177**
Amounts due to banks	19,779	1,513	1,768	1,798	4,770	0	**29,628**
Amounts due to customers	417,988	28,945	17,013	5,726	127	0	**469,799**
Securities issued	0	65	237	12,577	21,646	0	**34,525**
Deferred tax liabilities	0	0	0	0	0	2,441	**2,441**
Accruals and other liabilities	10,264	175	0	0	0	322	**10,761**
Provisions	10	82	212	271	3	477	**1,055**
Subordinated debt	0	6,002	0	0	0	0	**6,002**
Equity	0	0	0	0	0	72,468	**72,468**
Total liabilities	**452,728**	**36,782**	**19,230**	**20,372**	**26,546**	**104,621**	**660,279**
Statement of financial position liquidity gap at 31 December 2011	**(392,880)**	**34,868**	**61,172**	**120,513**	**177,599**	**(1,272)**	**0**
Off-balance sheet assets*	30,618	110,662	66,987	64,072	18,659	0	**290,998**
Off-balance sheet liabilities*	35,119	134,812	138,434	101,324	23,692	16,261	**449,642**
Net off-balance sheet liquidity gap at 31 December 2011	**(4,501)**	**(24,150)**	**(71,447)**	**(37,252)**	**(5,033)**	**(16,261)**	**(158,644)**

Note: / Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.*

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	9,063	0	0	0	0	3,931	12,994
Financial assets at fair value through profit or loss	990	1,709	12,604	6,314	2,160	10,519	34,296
Positive fair values of hedging financial derivatives	0	0	0	0	0	11,845	11,845
Financial assets available for sale	44	1,435	5,676	32,686	27,268	1,611	68,720
Assets held for sale	0	0	25	0	0	0	25
Amounts due from banks	38,734	56,909	3,852	6,430	710	1,694	108,329
Loans and advances to customers	3,147	32,315	57,838	86,887	133,577	21,070	334,834
Financial assets held to maturity	0	10	6	938	0	0	954
Current tax assets	0	0	29	0	0	9	38
Prepayments, accrued income and other assets	353	1	0	0	0	1,549	1,903
Investments in subsidiaries and associates	0	0	0	0	0	23,249	23,249
Intangible assets	0	0	0	0	0	3,363	3,363
Tangible assets	0	0	0	0	0	6,556	6,556
Total assets	52,331	92,379	80,030	133,255	163,715	85,396	607,106
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss	2,608	0	0	0	0	11,358	13,966
Negative fair values of hedging financial derivative transactions	0	0	0	0	0	6,935	6,935
Amounts due to banks	22,514	1,789	230	733	3,813	0	29,079
Amounts due to customers	387,567	33,371	13,589	6,435	323	0	441,285
Securities issued	0	65	221	12,815	18,752	0	31,853
Deferred tax liabilities	0	0	0	0	0	991	991
Accruals and other liabilities	6,751	166	0	0	0	34	6,951
Provisions	6	53	174	161	128	508	1,030
Subordinated debt	0	1	0	0	6,000	0	6,001
Equity	0	0	0	0	0	69,014	69,014
Total liabilities	419,447	35,445	14,214	20,144	29,016	88,840	607,106
Statement of financial position liquidity gap at 31 December 2010	(367,116)	56,934	65,816	113,111	134,699	(3,444)	0
Off-balance sheet assets*	23,215	72,491	71,857	50,803	15,878	0	234,244
Off-balance sheet liabilities*	26,080	98,349	141,998	84,244	17,888	16,454	385,013
Net off-balance sheet liquidity gap at 31 December 2010	(2,865)	(25,858)	(70,141)	(33,441)	(2,010)	(16,454)	(150,769)

Note: / Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.*

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as at 31 December 2011.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	4,686	0	0	0	0	0	**4,686**
Amounts due to banks	19,791	1,517	1,783	1,904	4,837	0	**29,832**
Amounts due to customers	418,081	29,219	17,291	7,439	1,529	0	**473,559**
Securities issued	4	146	1,420	16,707	23,974	0	**42,251**
Deferred tax liabilities	0	0	0	0	0	2,442	**2,442**
Accruals and other liabilities	10,264	175	0	0	0	322	**10,761**
Provisions	10	82	212	271	3	477	**1,055**
Subordinated debt	7	6,002	0	0	0	0	**6,009**
Total non-derivative financial liabilities	**452,844**	**37,141**	**20,706**	**26,321**	**30,343**	**3,241**	**570,596**
Other loans commitment granted	2,412	16,218	54,645	17,832	1,687	16,190	**108,984**
Guarantee commitments granted	2,075	7,999	16,736	18,520	3,183	71	**48,584**
Total contingent liabilities	**4,487**	**24,217**	**71,381**	**36,352**	**4,870**	**16,261**	**157,568**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as at 31 December 2010.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss (except derivatives)	2,608	0	0	0	0	0	2,608
Amounts due to banks	22,527	1,792	233	800	3,837	0	29,189
Amounts due to customers	387,689	33,612	13,820	8,286	1,843	0	445,250
Securities issued	2	156	1,360	17,177	21,516	0	40,211
Deferred tax liabilities	0	0	0	0	0	991	991
Accruals and other liabilities	6,724	165	0	0	0	35	6,924
Provisions	6	53	175	161	128	510	1,033
Subordinated debt	7	1	0	77	6,000	0	6,085
Total non-derivative financial liabilities	419,564	35,779	15,588	26,501	33,324	1,536	532,292
Other loans commitment granted	2,751	18,005	53,094	12,797	997	16,434	104,078
Guarantee commitments granted	1,279	7,715	17,267	20,291	920	20	47,492
Total contingent liabilities	4,030	25,720	70,361	33,088	1,917	16,454	151,570

(F) Foreign exchange position

The table below provides an analysis of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	14,487	1,258	259	244	**16,248**
Financial assets at fair value through profit or loss	31,768	2,050	144	1,325	**35,287**
Positive fair values of hedging financial derivative transactions	17,654	814	333	0	**18,801**
Financial assets available for sale	63,396	20,235	2,825	0	**86,456**
Assets held for sale	13	0	0	0	**13**
Amounts due from banks	78,694	11,171	3,850	412	**94,127**
Loans and advances to customers	319,796	49,818	2,866	208	**372,688**
Financial assets held to maturity	0	184	0	0	**184**
Current tax assets	236	0	0	0	**236**
Deferred tax assets	0	6	0	0	**6**
Prepayments, accrued income and other assets	1,528	122	12	0	**1,662**
Investments in subsidiaries and associates, net	21,045	3,541	0	0	**24,586**
Intangible assets	3,449	0	0	0	**3,449**
Tangible assets	6,528	8	0	0	**6,536**
Total assets	**558,594**	**89,207**	**10,289**	**2,189**	**660,279**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	22,560	1,707	148	7	**24,422**
Negative fair values of hedging financial derivative transactions	7,281	1,719	177	0	**9,177**
Amounts due to banks	17,072	12,272	245	39	**29,628**
Amounts due to customers	420,237	40,357	6,860	2,345	**469,799**
Securities issued	34,525	0	0	0	**34,525**
Deferred tax liabilities	2,441	0	0	0	**2,441**
Accruals and other liabilities	9,390	1,124	170	77	**10,761**
Provisions	711	290	44	10	**1,055**
Subordinated debt	6,002	0	0	0	**6,002**
Equity	72,449	19	0	0	**72,468**
Total liabilities	**592,669**	**57,488**	**7,644**	**2,478**	**660,279**
Net FX position at 31 December 2011	**(34,075)**	**31,719**	**2,645**	**(289)**	**0**
Off-balance sheet assets*	881,008	248,979	67,529	4,150	**1,201,666**
Off-balance sheet liabilities*	847,178	280,800	70,406	3,802	**1,202,186**
Net off-balance sheet FX position at 31 December 2011	**33,830**	**(31,821)**	**(2,877)**	**348**	**(520)**
Total net FX position at 31 December 2011	**(245)**	**(102)**	**(232)**	**59**	**(520)**

Note: / Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.*

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	10,761	1,787	202	244	12,994
Financial assets at fair value through profit or loss	29,341	4,043	23	889	34,296
Positive fair values of hedging financial derivative transactions	11,220	486	139	0	11,845
Financial assets available for sale	46,579	19,581	2,560	0	68,720
Assets held for sale	25	0	0	0	25
Amounts due from banks	95,345	8,486	4,098	400	108,329
Loans and advances to customers	290,489	42,830	1,293	222	334,834
Financial assets held to maturity	0	762	192	0	954
Current tax assets	38	0	0	0	38
Prepayments, accrued income and other assets	1,746	144	13	0	1,903
Investments in subsidiaries and associates, net	19,645	3,604	0	0	23,249
Intangible assets	3,363	0	0	0	3,363
Tangible assets	6,545	11	0	0	6,556
Total assets	515,097	81,734	8,520	1,755	607,106
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	12,788	1,085	42	51	13,966
Negative fair values of hedging financial derivative transactions	5,487	1,228	220	0	6,935
Amounts due to banks	18,775	7,512	2,769	23	29,079
Amounts due to customers	393,398	40,496	6,235	1,156	441,285
Securities issued	31,203	650	0	0	31,853
Deferred tax liabilities	989	2	0	0	991
Accruals and other liabilities	6,027	775	123	26	6,951
Provisions	679	300	44	7	1,030
Subordinated debt	6,001	0	0	0	6,001
Equity	69,139	(126)	0	1	69,014
Total liabilities	544,487	51,922	9,433	1,264	607,106
Net FX position at 31 December 2010	(29,390)	29,812	(913)	491	0
Off-balance sheet assets*	823,278	228,310	36,457	3,059	1,091,104
Off-balance sheet liabilities*	793,197	258,913	35,925	3,495	1,091,530
Net off-balance sheet FX position at 31 December 2010	30,081	(30,603)	532	(436)	(426)
Total net FX position at 31 December 2010	691	(791)	(381)	55	(426)

Note: / Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.*

(G) Operational risk

The Operational Risk Management Department of the Bank is focused on continuous development of the instruments used to manage operational risks, i.e. records of losses, scenario analyses, setting of key risk indicators and risk control self assessment, including setting the first level control system. Over the past year was accented effectiveness of individual instruments, including their interconnection and also was enhanced cooperation with other members of the Bank's group.

The acquired knowledge is evaluated on a regular basis and made available to the Bank's management to take strategic decisions on operational risk management. Operational risks are also an integral part of the process of approving new products and projects.

(H) Legal risk

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50 %. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

(I) Estimated fair value of assets and liabilities of the Bank

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and balances with central banks

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Amounts due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis, the fair value of a loss loans is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are estimated based on discounted cash flow models using the interest rate currently offered at the balance sheet date.

(e) Amounts owed to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand at the balance sheet date. The carrying value of term deposits at variable interest rates approximates their fair values at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the balance sheet date.

(f) Debt securities issued

The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

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

	31 Dec 2011		31 Dec 2010	
(CZKm)	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	16,248	16,248	12,994	12,994
Amounts due from banks	94,127	94,278	108,329	108,520
Loans and advances to customers, net	372,688	381,931	334,834	344,545
Financial assets held to maturity	184	196	954	911
Financial liabilities				
Amounts due to central banks and banks	29,629	29,635	29,080	29,088
Amounts due to customers	469,799	469,840	441,285	441,327
Securities issued	34,525	36,674	31,853	32,861
Subordinated debt	6,002	6,003	6,001	6,003

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy:

(CZKm)	31 Dec 2011	Level 1	Level 2	Level 3	31 Dec 2010	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
- shares and participation certificates	7	7	0	0	1	1	0	0
- debt securities	15,557	8,746	6,811	0	23,777	7,172	16,605	0
- derivatives	19,723	3,606	16,117	0	10,518	1,916	8,602	0
Financial assets at fair value through profit or loss	**35,287**	**12,359**	**22,928**	**0**	34,296	9,089	25,207	0
Positive fair value of hedging financial derivatives	**18,801**	**0**	**18,801**	**0**	11,845	0	11,845	0
Financial assets available for sale								
- shares and participation certificates	702	0	0	702	702	0	0	702
- debt securities	85,754	55,919	27,764	2,071	68,018	43,028	24,990	0
Financial assets available for sale	**86,456**	**55,919**	**27,764**	**2,773**	68,720	43,028	24,990	702
Financial assets at fair value	**140,544**	**68,278**	**69,493**	**2,773**	114,861	52,117	62,042	702
Financial liabilities								
Financial liabilities at fair value through profit or loss								
- sold securities	4,686	4,686	0	0	2,608	2,608	0	0
- derivatives	19,736	3,540	16,196	0	11,358	1,839	9,519	0
Financial liabilities at fair value through profit or loss	**24,422**	**8,226**	**16,196**	**0**	13,966	4,447	9,519	0
Negative fair value of hedging financial derivatives	**9,177**	**0**	**9,177**	**0**	6,935	0	6,935	0
Financial liabilities at fair value	**33,599**	**8,226**	**25,373**	**0**	20,901	4,447	16,454	0

Financial assets at fair value – Level 3:

(CZKm)	**2011** Financial assets available for sale	**2011** Total	2010 Financial assets available for sale	2010 Total
Balance at 1 January	**702**	**702**	702	702
Comprehensive income/(loss)				
- in the statement of comprehensive income	(4,909)	(4,909)	0	0
- in other comprehensive income	1,663	1,663	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	(44)	(44)	0	0
Transfer from Level 1	5,361	5,361	0	0
Balance at 31 December	**2,773**	**2,773**	702	702

Shares and participation certificates

When using an alternative method of valuation based on price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows, which was used for the original valuation.

Debt securities

At the end of June 2011 the Bank transferred the Greek government bonds held in the portfolio of Financial assets available for sale into Level 3 fair value hierarchy (refer to Note 18). The fair value of the bonds at the transfer date was CZK 5,361 million (2010: CZK 0 million). At the same time the Bank decided to record the impairment and the actual loss from revaluation of these bonds was reclassified from "Other comprehensive income" into "Income statement" in the amount of CZK 1,663 million (2010: CZK 0 million).

42 Assets under management

As at 31 December 2011, the Bank managed on balance client assets in the amount of CZK 977 million (2010: CZK 980 million), of which no assets were from the Bank's subsidiaries.

43 Post balance sheet events

Repayment of the subordinated debt

In December 2011, the Bank announced the intention to repay prematurely the subordinated debt (refer to Note 34). The prematurely repayment of subordinated debt was subject to proceeding and approval including the Czech National Bank as the regulator. Due to a positive result of these negotiations and a capital position of the Bank, the subordinated debt was repayed as at 27th January 2012.

Greece – PSI (PSI – Private Sector Involvement) agreement

The new proposed terms of the restructuring agreed by the Eurogroup, the European Central Bank, the European commission, the International Monetary Fund and the Steering Committee of the Private Creditor-Investor Committee for Greece, not yet translated into legal documents, are as follows:

- 53.5 % write-off of the original nominal value of Greek Government Bond (GGB's);
- 15 % of the original nominal value of GGB's is replaced by securities issued by the EFSF considered to be equivalent to cash, with 1-2 years maturity;
- 31.5 % of the original nominal value of GGB's to be replaced with new Greek Government Bonds (NGGB's), with the same issuer (Greek government), the same currency (Euro) and issued under UK law. NGGB's will consist of 20 tranches with maturity of 11 to 30 years replicating an amortisation of 5 % p.a. commencing in 2023. The coupon on the new Greek government bonds will be as follows:
  - 2012-2015: 2%
  - 2015-2020: 3%
  - 2020-2042: 4.3%
- GDP warrants for the full original nominal value of GGB's, which will provide the holder with interests (no principal) in case the GDP growth of Greece in a particular year exceeds a certain percentage.

The level of impairment for the Greek Government Bonds from our Mark to model approach as at 31 December 2011 is consistent with the new proposed terms for the PSI.