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

FOR THE YEAR ENDED 31 DECEMBER 2010

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ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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 2010, and the income statement and statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. 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 2010, 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.
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Represented by

Jan Fanta
Partner

Michaela Kubýová
Auditor, License No. 1810

28 February 2011
Prague, Czech Republic

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

Separate Income Statement and Statement of Comprehensive Income

Year ended 31 December 2010

Separate income statement for the year ended 31 December 2010 (CZKm)	Note	Year ended 31 Dec 2010	(after reclassification) Year ended 31 Dec 2009
Interest income and similar income	5	28,929	31,985
Interest expenses and similar expenses	5	(12,036)	(15,130)
Income from dividends	5	717	754
Net interest income and similar income		**17,610**	17,609
Net fee and commission income	6	7,742	7,548
Net profit on financial operations	7	3,090	3,539
Other income	8	89	99
Net operating income		**28,531**	28,795
Personnel expenses	9	(5,521)	(5,812)
General administrative expenses	10	(4,695)	(4,920)
Depreciation, impairment and disposal of assets	11	(1,487)	(1,332)
Total operating expenses		**(11,703)**	(12,064)
Profit before allowances/provision for a loan and investment losses, other risk and income taxes		**16,828**	16,731
Allowances for loan losses	12	(2,394)	(4,132)
Allowances for impairment of securities	12	9	7
Provisions for other risk expenses	12	8	(22)
Cost of risk		**(2,377)**	(4,147)
Loss on subsidiaries and associates	13	(34)	0
Profit before income taxes		**14,417**	12,584
Income taxes	14	(2,382)	(2,215)
Net profit for the period	15	**12,035**	10,369

Separate statement of comprehensive income for the year ended 31 December 2010 (CZKm)	Note	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Net profit for the period	15	**12,035**	10,369
Cash flow hedging			
- Net fair value gain (loss), net of tax		2,854	(250)
- Transfer to net profit, net of tax		(1,313)	(923)
Foreign exchange gain/(loss) on hedge of a foreign net investment		180	51
Foreign exchange gain/(loss) on translation of a foreign net investment		37	0
Net value gain on financial assets available for sale, net of tax		(1,024)	1,245
Other comprehensive income for the period, net of tax	40,41	**734**	123
Separate comprehensive income for the period, net of tax		**12,769**	10,492

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 2010

(CZKm)	Note	31 Dec 2010	(after reclassification) 31 Dec 2009
Assets			
Cash and current balances with central banks	17	12,994	14,168
Financial assets at fair value through profit or loss	18	34,296	24,500
Positive fair value of hedging financial derivative transactions	42	11,845	9,590
Financial assets available for sale	19	68,720	65,273
Assets held for sale	20	25	233
Amounts due from banks	21	108,329	131,910
Loans and advances to customers	22	334,834	321,734
Investments held to maturity	23	954	1,272
Income taxes receivable	14	38	4
Prepayments, accrued income and other assets	24	1,903	1,989
Investments in subsidiaries and associates	25	23,249	23,906
Intangible assets	26	3,363	3,343
Tangible assets	27	6,556	7,164
Total assets		**607,106**	605,086
Liabilities			
Amounts due to central banks		1	2
Financial liabilities at fair value through profit or loss	28	13,966	12,318
Negative fair value of hedging financial derivative transactions	42	6,935	6,531
Amounts due to banks	29	29,079	19,432
Amounts due to customers	30	441,285	456,759
Securities issued	31	31,853	30,731
Income taxes payable	14	0	1
Deferred tax liability	34	991	679
Accruals and other liabilities	32	6,951	8,089
Provisions	33	1,030	1,853
Subordinated debt	35	6,001	6,001
Total liabilities		**538,092**	542,396
Shareholders' equity			
Share capital	36	19,005	19,005
Share premium and reserves		50,009	43,685
Total shareholders' equity		**69,014**	62,690
Total liabilities and shareholders' equity		**607,106**	605,086

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 2011.

Signed on behalf of the Board of Directors:

Henri Bonnet — Chairman of the Board of Directors and CEO

Peter Palečka — Palečka — Member of the Board of Directors and Deputy CEO

Separate Statement of Changes in Shareholders' Equity

Year ended 31 December 2010

(CZKm)	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation gains or losses	Revaluation of available-for-sale financial assets	Total
Balance at 31 December 2008	**19,005**	**35,414**	**3,680**	**0**	**878**	**58,977**
Changes in accounting policies	0	39	0	0	0	39
Balance at 1 January 2009	**19,005**	**35 ,453**	**3,680**	**0**	**878**	**59,016**
Treasury shares, other	0	14	0	0	0	14
Payment of dividends	0	(6,832)	0	0	0	(6,832)
Transactions with owners	**0**	**(6,818)**	**0**	**0**	**0**	**(6,818)**
Profit for the period	0	10,369	0	0	0	10,369
Other comprehensive income for the period, net of tax	0	0	(1,122)	0	1,245	123
Comprehensive income for the period	**0**	**10,369**	**(1,122)**	**0**	**1,245**	**10,492**
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**

Note: / Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings. Retained earnings amount to CZK 28,332 million (2009: CZK 24,424 million) and statutory reserve fund CZK 3,801 million (2009: 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 2010

(CZKm)	**Year ended 31 Dec 2010**	(after reclassification) Year ended 31 Dec 2009
Cash flows from operating activities		
Interest receipts	26,075	30,233
Interest payments	(11,063)	(13,818)
Commission and fee receipts	8,918	8,612
Commission and fee payments	(1,049)	(1,030)
Net income from financial transactions	4,552	3,052
Other income receipts	(7)	101
Cash payments to employees and suppliers, and other payments	(10,579)	(11,051)
Operating cash flow before changes in operating assets and operating liabilities	**16,847**	16,099
Due from banks	20,201	8,457
Financial assets at fair value through profit or loss	(9,823)	19,486
Loans and advances to customers	(11,710)	(7,700)
Other assets	196	1,540
(Increase)/decrease in operating assets	**(1,136)**	21,783
Amounts due to banks	9,466	9,128
Financial liabilities at fair value through profit or loss	1,675	(7,827)
Amounts due to customers	(18,467)	(4,355)
Other liabilities	(1,122)	(1,696)
Increase/(decrease) in operating liabilities	**(8,448)**	(4,750)
Net cash flow from operating activities before taxes	7,263	33,132
Income taxes paid	(2,194)	(2,270)
Net cash flows from operating activities	**5,069**	30,862
Cash flows from investment activities		
Dividends received	717	754
Maturity of investments held to maturity*	328	163
Purchase of financial assets available for sale	(8,684)	(21,902)
Sale and maturity of financial assets available for sale*	5,993	6,155
Purchase of tangible and intangible assets	(1,253)	(1,458)
Sale of tangible and intangible assets	633	388
Purchase of investments in subsidiaries and associates	(550)	(381)
Sale of investments in subsidiaries and associates	359	51
Net cash flow from investment activities	**(2,457)**	(16,230)
Cash flows from financing activities		
Paid dividends	(6,435)	(6,786)
Securities issued	2,023	3,224
Securities redeemed*	(2,018)	(9,395)
Net cash flow from financing activities	**(6,430)**	(12,957)
Net increase/(decrease) in cash and cash equivalents	**(3,818)**	1,675
Cash and cash equivalents at the beginning of the year	12,220	10,545
Adjustment due to merger	901	0
Cash and cash equivalents at the end of the year (see Note 37)	**9,303**	12,220

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

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

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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 percent (2009: 60.35 percent) of the Bank's issued share capital.

2 Events for the year ended 31 December 2010

Dividends declared in respect of the year ended 31 December 2009

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

Changes in the Bank's Financial Group

In May 2010, the Bank decreased the equity in Bastion European Investments S.A. by EUR 2 million (CZK 57 million). The decrease was initiated only by the Bank, as the majority shareholder of Bastion European Investments S.A. The equity decrease was planned. In June 2010 Board of Directors of the Bank approved the report of the liquidator of the company ALL IN REAL ESTATE LEASING, a.s., v likvidaci with the proposal for the distribution of the expected liquidation balance of the company totaling to CZK 2 million and assigned the company's liquidator to file an application for the expungement of the company from the register of companies. The expungement from the register of companies was performed in October 2010. In July 2010 the share capital of Komerční pojišťovna, a.s. was increased by CZK 301 million from undistributed profit from previous years in the form of increasing the nominal value of shares. Based on the Board of Directors of the Bank' decision from July 2010 the equity of Penzijní fond Komerční banky, a. s. was decreased by CZK 300 million in the form of repaying the additional amount to equity allocated to the other capital funds. In October 2010 the Board of Directors of the Bank decided to increase the equity of Modrá pyramida stavební spořitelna, a.s. by subscribing additional shares in the amount of CZK 550 million to strengthen the financial position of the company. Subscribed shares were fully paid in November 2010.

At 1 January 2010 as effective date the Bank merged with its 100% controlled subsidiary Komerční banka Bratislava, a.s. (hereafter ´KBB´) as cross-border merger. The merger was entered in the Commercial Register at 31 December 2010 and KBB was dissolved without liquidation. At 1 January 2011 foreign branch of Komerční banka, a.s. in Slovak Republic (Komerční banka, a.s., pobočka zahraničnej banky) has been established The aim of the merger was to improve the quality of services for corporate clients on the Slovak market.

As this merge is the transaction of the companies under common control, the Bank does not applied standard IFRS 3 to this business combination. Assets, liabilities and equity of KBB were accounted into the Bank's book at their carrying values; no asset or liability was revaluated to its fair value at the date of the business combination. The method of full consolidation was applied on this combination, i.e. all intercompany transactions were eliminated in full. Comparative information was not adjusted and does not include KBB´s balances.

Uncertainty in capital markets

In 2010, 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.

The presented Separate financial statements for the year ended 31 December 2010 are based on the current best estimates and management of the Bank believes that they present the truest and fairest 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 76,078 million and total consolidated profit is CZK 13,410 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 2010.

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, with the exception of the cash flow statement, 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 cash flow statement 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 9 Financial Instruments;
– 2010 Annual Improvements;
– 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;
– IAS 12 Income Taxes – amendment: Deferred Tax: Recovery of Underlying Assets.

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: "Additional exemptions for first-time adopters"	The amendment covers the valuation of assets relating to oil and natural gas. The standard is no more relevant to the Bank (it was only relevant in the first time adoption of IFRS).
IFRS 2 Share-based Payment – amendment: "Group cash-settled share-based payment transactions"	The amendment specifies the scope of the standard and accounting for group cash-settled share-based payment transactions in individual and separate financial statements and supersedes IFRIC 2 and IFRIC 11. There are no remunerations tied to shares in the Bank.
IFRS 3 Business Combinations – revised standard	The revised standard predominantly changes accounting for costs relating to the acquisition and valuation of non-controlling interests or contingent consideration and applies to business combinations initiated subsequent to its effective date; it has no impact on earlier combinations. In the reporting period, the Group did not undertake any business combination for which the standard IFRS 3 would be applicable.
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – amendment: "Assets held for distribution"	The amendment relates to IFRIC 17 – non-current assets should be classified as held for distribution at the time when the entity is obliged to distribute assets to owners of the entity and they should be measured at the lower of their carrying values or fair value less costs of distribution. The Bank does not hold any assets to distribute.
IAS 27 Consolidated and Separate Financial Statements – amendment due to IFRS 3 revision	The amendment specifies the accounting policy used in the event of a reduced equity investment or loss of control in a subsidiary, changes the terminology for minority equity investments (newly non-controlling interests) and requires the allocation of potential loss to non-controlling interests in cases when it would result in the total negative balance of non-controlling interests. In the reporting period, the Bank did not reduce the share or lose a control in any subsidiary.
IAS 39 Financial Instruments: Recognition and Measurement – amendment: "Eligible hedged items"	The amendment covers hedged items and the assessment of hedge effectiveness in purchased options and inflation in a hedged financial item. The Bank does not provide any such items which are related to this amendment.
Annual Improvements to IFRS 2009 – new standard	Annual improvements amend 10 standards to the total of 13 points and two interpretations with the objective of predominantly removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.
IFRIC 17 Distributions of Non-cash Assets to Owners – new interpretation	The interpretation covers the accounting for and valuation of non-cash dividends in an entity paying dividends. The interpretation does not relate to the distribution of dividends in the form of non-cash assets in the Bank. In 2010 the Bank paid only cash dividends.

3.4.3 Standards and interpretations adopted effective from 1 January 2011 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 2010 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, measurement 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 provided they do not comply with the conditions for measurement at amortised cost. 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.

The requirements of the revised IAS 24 Related Party Disclosures will bring extended related party disclosures in the notes to the financial statements.

Standard	**Summarised content**	**Effective for reporting period beginning on or after**
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 including in IFRS 7.44 G).	1 July 2010
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
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.	1 January 2011
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 capital instruments for a fixed amount in any currency are capital instruments provided they are offered proportionally to all current owners of the specific group of non-derivative capital instruments of the entity. The Group issued no rights to acquire its own capital instruments.	1 February 2010
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 capital 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.	1 January 2013
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.	1 July 2010, resp. 1 January 2011

Standard	Summarised content	Effective for reporting period beginning on or after
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – amendment: “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.	1 January 2011
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 capital instruments on the part of the issuer.	1 July 2010

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2010

The Bank did not make use of the possibility for voluntary earlier application of standards or interpretations in the reporting period beginning 1 January 2010.

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 of the Bank) are at the date of the initial recognition translated into the functional currency using the spot exchange rate announced by the Czech National Bank (hereafter only "CNB") for the respective foreign currency.

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 CNB at the end of the reporting period);

(ii) non-monetary items that are measured in term at historical cost are translated using CNB'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 CNB's exchange rate at the date when the fair value was determined.

Gains and losses related to the translation of a 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 chapter 3.5.4.7 Effective interest rate method). 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, for which the effective interest rate is used, 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 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 certain specific circumstances), 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 profit on financial operations*".

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.

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 no 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 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 impaired exposures are impaired using statistical models based on collective approach (refer to chapter 42 (A)). Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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 42(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:

(i) the embedded derivative as a separate instrument meets the definition of a derivative;

(ii) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

(iii) 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.

The Bank as lessor

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 for them 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"*.

The Bank as lessee

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:

	2010	2009
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 33).

3.5.10 Employee benefits

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).

In 2010 the Group has awarded all its employees rights to free shares of Société Générale S.A. that are recognised as equity-settled share based payment. The rights are measured at their fair value 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".

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 Note 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 January 1st 2010 the Bank refined the presentation of certain items of its Income Statement and Statement of Financial Position to reflect presentation mentioned reporting lines or to harmonize the structure of the financial statements used by the parent company. The amounts and balances for 2009 and 2008 respectively were reclassified to reflect the presentation for the current period. The tables below include a reconciliation of individual categories.

Reconciliation of categories in the Income Statement:

(CZKm)	As reported 31 Dec 2009	**After reclassification 31 Dec 2009**	As reported 31 Dec 2008	**After reclassification 31 Dec 2008**	Reference
Interest income and similar income	32,401	**31,985**	37,611	**37,241**	1, 2
Interest expenses and similar expenses	(14,739)	**(15,130)**	(20,480)	**(20,859)**	3
General administrative expenses	(5,388)	**(4,920)**	(5,823)	**(5,379)**	2, 3
Cost of risk	(4,471)	**(4,132)**	(2,382)	**(2,077)**	1

1. Category '*Interest income and similar income'* and *'Allowances for loan losses'* were decreased by accrued interest from impaired loans in the amount of CZK 339 million (2008: CZK 305 million);
2. The cost of loans insurance in the amount of CZK 77 million (2008: CZK 65 million) was reclassified from *"General administrative expenses"* to *"Interest income and similar income";*
3. Expenses related to contribution to Deposit Insurance Fund in the amount of CZK 391 million (2008: CZK 379 million) were reclassified from *"General administrative expenses"* to *"Interest expenses and similar expense".*

Reconciliation of categories in the Statement of Financial Position:

(CZKm)	As reported Year ended 31 Dec 2009	**After reclassification Year ended 31 Dec 2009**	As reported Year ended 31 Dec 2008	**After reclassification Year ended 31 Dec 2008**	Reference
Loans and advances to customers	321,734	**321,734**	318,534	**318,534**	1
Prepayments, accrued income and other assets	1,950	**1,989**	3,480	**3,519**	2
Share premium and reserves	43,646	**43,685**	39,972	**40,011**	2

1. Within the category *"Loans and advances to customers"*, the item *"Loans to customers"* and *"Allowances for loans to customers"* were decreased by accrued interest from impaired loans in the amount of CZK 514 million (2008: CZK 762 million);
2. Categories *"Prepayments, accrued income* and *other assets" and "Share premium and reserves"* were increased by CZK 39 million due to a change in accounting policy for booking fees for payment card insurance in connection with the new acceptance of PSD (Payment Service Directive) (2008: 39 million).

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net interest income and similar income	9,446	10,077	5,554	5,129	142	130	2,468	2,273	**17,610**	17,609
Net fee and commission income	5,042	4,972	2,427	2,336	77	73	196	167	**7,742**	7,548
Net profit on financial operations	818	819	1,176	1,161	978	1,330	118	229	**3,090**	3,539
Other income	122	126	(4)	(11)	119	107	(148)	(123)	**89**	99
Net operating income	**15,428**	15,994	**9,153**	8,615	**1,316**	1,640	**2,634**	2,546	**28,531**	28,795

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)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Interest income and similar income	28,929	31,985
Interest expenses and similar expenses	(12,036)	(15,130)
Income from dividends	717	754
Net interest income and similar income	**17,610**	17,609
Of which net interest income arising from		
- Loans and advances	17,007	19,435
- Investments held to maturity	39	48
- Financial assets available for sale	2,730	2,320
- Financial liabilities at amortised cost	(4,211)	(5,942)

'*Interest income and similar income*' includes interest on substandard, doubtful and loss loans of CZK 560 million (2009: CZK 513 million) due from customers and interest of CZK 0 million (2009: 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 9,081 million (2009: CZK 10,182 million) and '*Interest expenses and similar expense*' includes interest expenses from hedging financial derivatives of CZK 7,753 million (2009: CZK 9,188 million). '*Net interest income*' from these derivatives amounts to CZK 1,328 million (2009: CZK 994 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 632 million (2009: CZK 670 million) and received dividends from financial assets available for sale of CZK 85 million (2009: CZK 84 million).

6 Net fee and commission income

Net fee and commission income comprises:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Fees and commission income from		
Transactions	4,380	4,391
Loans and deposits	2,991	2,959
Others	1,421	1,227
Total fees and commission income	**8,792**	8,577
Fees and commission expenses on		
Transactions	(740)	(724)
Loans and deposits	(205)	(204)
Others	(105)	(101)
Total fees and commissions expenses	**(1,050)**	(1,029)
Total net fee and commission income	**7,742**	7,548

The line Others includes fee income arising from custody services and from depository services in the amount CZK 57 million (2009: CZK 44 million) and fee expense in the amount CZK 5 million (2009: CZK 2 million).

7 Net profit on financial operations

Net profit on financial operations comprises:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Net realised gains/(losses) on securities held for trading	205	181
Net unrealised gains/(losses) on securities held for trading	240	632
Net realised gains/(losses) on securities available for sale	30	64
Net realised and unrealised gains/(losses) on security derivatives	(66)	92
Net realised and unrealised gains/(losses) on interest rate derivatives	350	(190)
Net realised and unrealised gains/(losses) on trading commodity derivatives	16	17
Net realised and unrealised gains/(losses) on foreign exchange from trading	945	1,292
Net realised gains/(losses) on foreign exchange from payments	1,370	1,451
Total net profit/(loss) on financial operations	**3,090**	3,539

In the years ended 31 December 2010 and 2009, the line '*Net realised gains/(losses) on* securities *available for sale*' shows the net gain from the sale of the equity investment in Visa Inc. in the amount of CZK 30 million and from the sale of the equity investment in MasterCard Inc. in the amount of CZK 64 million (refer to Note 19), respectively.

A loss of CZK 300 million (2009: CZK 152 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)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Wages, salaries and bonuses	3,861	4,075
Social costs	1,660	1,737
Total personnel expenses	**5,521**	5,812
Physical number of employees at the period-end	7,883	7,848
Average recalculated number of employees during the period	7,819	7,958
Average cost per employee (CZK)	**706,031**	730,264

'*Social costs*' include costs of CZK 73 million (2009: CZK 126 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 43 million (2009: CZK 44 million) incurred in contributing to the employees' capital life insurance scheme.

'*Personnel expenses*' include the use of the restructuring provision of CZK 63 million (2009: charge of CZK 10 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 6 million (2009: CZK 0 million) relating to the project of the change in the legal status of Komerční banka Bratislava a.s. to a foreign branch of the Bank (refer to Note 33).

10 General administrative expenses

General administrative expenses comprise:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Marketing and entertainment costs	502	592
Costs of sale and banking products	1,040	1,122
Staff costs	201	199
Property maintenance charges	1,292	1,276
IT support	752	758
Office equipment and other consumption	56	62
Telecommunications, post and other services	141	186
External advisory services	659	654
Other expenses	52	71
Total general administrative expenses	**4,695**	4,920

'*General administrative expenses*' include the charge of CZK 0 million (2009: CZK 37 million) and the release and use of the provision in the amount of CZK 38 million (2009: CZK 58 million) relating to the restructuring provision in respect of the project of the reorganisation and centralisation of back office functions and the charge of CZK 9 million (2009: CZK 8 million) and the release and use of the provision in the amount of CZK 12 million (2009: CZK 0 million) relating to the project of the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank (refer to Note 33).

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Depreciation of tangible and intangible assets	1,558	1,484
Allowances for assets and net gain on the sale of assets	(71)	(152)
Total depreciation, impairment and disposal of assets	**1,487**	1,332

12 Cost of risk

Allowance for loan impairment and provisions for other credit commitments

The movement in the Allowances and Provisions was as follows:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Balance at 1 January	(12,292)	(10,679)
Adjustment due to merger	(453)	0
Allowances and Provisions for loan losses		
Individuals	(746)	(913)
Corporates/*	(1,820)	(3,185)
Impact of loans written off and transferred	2,214	2,379
Exchange rate differences attributable to provisions	34	106
Balance at 31 December	**(13,063)**	(12,292)

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

The balance of Allowances and Provisions as at 31 December 2010 and 2009 comprises:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Allowances for loans to banks (refer to Note 21)	0	(1)
Allowances for loans to customers (refer to Note 22)	(12,492)	(11,271)
Allowances for other loans to customers (refer to Note 22)	(1)	(1)
Provisions for guarantees and other credit related commitments (refer to Note 33)	(570)	(1,019)
Total	**(13,063)**	(12,292)

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 0 million as at 31 December 2010 (2009: CZK 9 million). During the year ended 31 December 2010, the Bank released the provision of CZK 8 million due to repayment of the nominal value of a security. The foreign exchange rate gain from provisions against securities denominated in foreign currencies amounted to CZK 1 million.

Provisions for other risk expenses

The balance of '*Provisions for other risk expenses*' of CZK 8 million (2009: a net charge of CZK 22 million) principally consists of the charge for provisions of CZK 51 million (2009: CZK 44 million) and the release and use of provisions of CZK 279 million (2009: CZK 30 million) for legal disputes, together with the costs incurred by the Bank as a result of the outcome of legal disputes of CZK 220 million (2009: CZK 8 million).

Additional information on the provisions for other risk expenses is provided in Note 33.

13 Loss on subsidiaries and associates

The profit on subsidiaries and associates includes the following:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Gain on the sale of investments in subsidiaries and associates	0	2
Loss from the disposal of investments in subsidiaries and associates	(71)	0
Charge for allowances	0	(2)
Use of allowances	37	0
Total profit or loss on subsidiaries and associates	**(34)**	**0**

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 (2009: CZK 0 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 (2009: CZK 0 million) and is included in *Use of allowances* (refer to Note 25).

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 (2009: CZK 0 million) included in *Loss from the disposal of investments in subsidiaries and associates* is caused due to the fact that hedge accounting hedge foreign currency investments 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)	**31 Dec 2010**	31 Dec 2009
Balance at 1 January	(392)	(390)
Charge for allowances	0	(2)
Use of allowances	37	0
Balance at 31 December	**(355)**	(392)

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 (for further information see Note 25).

14 Income taxes

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

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Tax payable – current year, reported in profit or loss	(2,278)	(2,196)
Tax paid – prior year	68	4
Deferred tax	(166)	(38)
Hedge of a deferred tax asset against foreign currency risk	(6)	15
Total income taxes	**(2 382)**	(2 215)
Tax payable - current year, reported in equity	25	3
Total tax expense	**(2 357)**	(2 212)

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Profit before tax	**14,417**	12,584
Theoretical tax calculated at a tax rate of 19% (2009: 20%)	2,739	2,517
Tax on pre-tax profit adjustments	(27)	2
Non-taxable income	(1,627)	(1,425)
Expenses not deductible for tax purposes	1,261	1,196
Tax allowance	(3)	(3)
Tax credit	(93)	(91)
Hedge of a deferred tax asset against foreign currency risk	6	(15)
Movement in deferred tax	166	38
Tax losses	28	0
Income tax expense	**2,450**	2,219
Prior period tax expense	(68)	(4)
Total income taxes	**2,382**	2,215
Tax payable on financial assets available for sale reported in equity*	(25)	(3)
Total tax expense	**2,357**	2,212
Effective tax rate	16.52%	17.60%

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 2010 is 19 percent (2009: 20 percent). 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.

Further information about deferred tax is presented in Note 34.

15 Distribution of net profit

For the year ended 31 December 2010, the Bank generated a net profit of CZK 12,035 million. Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 270 per share that represents in total amount CZK 10 263 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 the General Meeting of Shareholders held on 29 April 2010, the aggregate balance of the net profit of CZK 10,369 million for the year ended 31 December 2009 was allocated as follows: CZK 6,452 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 percent of the share capital of the Bank.

16 Earnings per share

Earnings per share would had been calculated by dividing the net profit of CZK 12,035 million (2009: CZK 10,369 million) by the number of shares in issue, that is, 38,009,852, decreased by the average number of treasury shares held by the Bank during the period 54,000 (2009: 54,000).

17 Cash and current balances with central banks

Cash and current balances with central banks comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Cash and cash equivalents	7,051	7,593
Balances with central banks	5,943	6,575
Total cash and current balances with central banks	**12,994**	14,168

Obligatory minimum reserves in the amount of CZK 3,652 million (2009: CZK 4,084 million) are included in '*Balances with central banks'* and they bore the interest. As at 31 December 2010 the interest rate was 0.75% (2009: 1%) in the Czech Republic and 1% (2009: 1%) in the Slovak Republic.

18 Financial assets at fair value through profit or loss

As at 31 December 2010 and 2009, 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 2010**	2009
Securities	23,778	13,515
Derivative financial instruments	10,518	10,985
Financial assets at fair value through profit or loss	**34,296**	24,500

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 42 (*42(C) Financial derivative instruments*).

Trading securities comprise:

	31 Dec 2010		31 Dec 2009	
(CZKm)	**Fair value**	**Cost***	Fair value	Cost*
Shares and participation certificates	**1**	**1**	0	0
Fixed income debt securities	10,277	10,129	7,725	7,648
Variable yield debt securities	3,507	3,498	3,237	3,243
Bills of exchange	990	990	1,443	1,439
Treasury bills	9,003	9,004	1,110	1,109
Total debt securities	**23,777**	**23,621**	13,515	13,439
Total trading securities	**23,778**	**23,622**	13,515	13,439

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 9,003 million (2009: CZK 1,110 million).

As at 31 December 2010, the portfolio of trading securities includes securities at a fair value of CZK 13,785 million (2009: CZK 10,962 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 9,993 million (2009: CZK 2,553 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 2010**	31 Dec 2009
Shares and participation certificates		
- Czech crowns	1	0
Total trading shares and participation certificates	**1**	0

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Trading shares and participation certificates issued by:		
- Other entities in the Czech Republic	1	0
Total trading shares and participation certificates	**1**	0

Debt trading securities at fair value comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Variable yield debt securities		
- Czech crowns	3,321	3,039
- Other currencies	186	198
Total variable yield debt securities	**3,507**	3,237
Fixed income debt securities (including bills of exchange and treasury bills)		
- Czech crowns	16,153	9,624
- Other currencies	4,117	654
Total fixed income debt securities	**20,270**	10,278
Total trading debt securities	**23,777**	13,515

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Debt trading securities issued by:		
- State institutions in the Czech Republic	19,585	10,595
- Foreign state institutions	2,877	640
- Financial institutions in the Czech Republic	208	117
- Foreign financial institutions	96	111
- Other entities in the Czech Republic	990	494
- Other foreign entities	21	1,558
Total trading debt securities	**23,777**	13,515

Of the debt securities issued by state institutions in the Czech Republic, CZK 10,199 million (2009: CZK 10,393 million) represents securities eligible for refinancing with the Czech National Bank.

19 Financial assets available for sale

Financial assets available for sale comprise:

	31 Dec 2010		31 Dec 2009	
(CZKm)	**Fair value**	**Cost***	Fair value	Cost*
Shares and participation certificates	**702**	**63**	791	115
Fixed income debt securities	59,051	56,610	55,413	53,395
Variable yield debt securities	8,967	8,992	9,069	9,149
Total debt securities	**68,018**	**65,602**	64,482	62,544
Total financial assets available for sale	**68,720**	**65,665**	65,273	62,659

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

As at 31 December 2010, the available-for-sale portfolio includes securities at a fair value of CZK 68,018 million (2009: CZK 64,482 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 702 million (2009: CZK 791 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. In 2009, the Bank sold the equity investment in MasterCard Inc. The net gain from the sale for the Bank amounted to 64 million (refer to Note 7).

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Shares and participation certificates		
- Czech Crowns	700	700
- Other currencies	2	91
Total shares and participation certificates available for sale	**702**	791

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Shares and participation certificates available for sale issued by:		
- Banks in the Czech Republic	700	700
- Non-banking foreign entities	2	91
Total shares and participation certificates available for sale	**702**	791

'Shares and participation certificates available for sale issued by banks in the Czech Republic' include the Bank's 13 percent 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 (2009: 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 2010**	31 Dec 2009
Fixed income debt securities		
- Czech Crowns	37,692	33,478
- Other currencies	21,359	21,935
Total fixed income debt securities	**59,051**	55,413
Variable yield debt securities		
- Czech Crowns	8,185	8,242
- Other currencies	782	827
Total variable yield debt securities	**8,967**	9,069
Total debt securities available for sale	**68,018**	64,482

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	36,376	28,857
- Foreign state institutions	15,371	16,961
- Financial institutions in the Czech Republic	14,383	15,657
- Foreign financial institutions	1,855	1,850
- Other entities in the Czech Republic	33	35
- Other foreign entities	0	1,122
Total debt securities available for sale	**68,018**	64,482

Of the debt securities issued by state institutions in the Czech Republic, CZK 30,196 million (2009: CZK 23,923 million) represents securities eligible for refinancing with the Czech National Bank.

During the year ended 31 December 2010, the Bank acquired Government bonds with a nominal value of CZK 5,492 million and EUR 104 million (a total CZK equivalent of CZK 8,064 million). During 2010, the Bank redeemed at maturity debt securities in the aggregate nominal amount of CZK 2,130 million and EUR 28 million (a total CZK equivalent of CZK 2,854 million).

20 Assets held for sale

As at 31 December 2010, the Bank reported assets held for sale at a carrying amount of CZK 25 million (2009: CZK 233 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.

21 Amounts due from banks

Balances due from banks comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Deposits with banks (current accounts)	28	111
Debt securities of banks acquired under initial offerings not designated for trading	8,800	8,179
Loans and advances to banks	10,158	11,604
Advances due from the Czech National Bank (reverse repo transactions)	71,008	95,211
Term placements with other banks	18,335	16,806
Gross advances to banks	**108,329**	131,911
Allowances (refer to note 12)	0	(1)
Total amounts due from banks	**108,329**	131,910

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 2010**	31 Dec 2009
Treasury bills	69,613	94,856
Debt securities issued by state institutions	6,099	3,394
Debt securities issued by other institutions	621	653
Shares	949	1,452
Total	**77,282**	100,355

Securities acquired as loans and receivables

As at 31 December 2010, the Bank maintains in its portfolio bonds at an amortised cost of CZK 8,800 million (2009: CZK 8,179 million) and a nominal value of CZK 8,705 million (2009: CZK 8,115 million), of which CZK 4,000 million represents a bond issued by the parent company Société Générale S. A. (2009: CZK 6,000 million) which the Bank acquired under an initial offering and normal market conditions in 2002. The bond is denominated in CZK, bears fixed interest at 4.27 percent and will ultimately mature in 2012. During 2010, the nominal value of the bond in the amount of CZK 2,000 million was partially repaid. During 2010 the Bank acquired under an initial offering and normal market conditions another bond issued by the parent company Société Générale S. A. in nominal value of CZK 2,590 million. The bond is denominated in CZK, bears fixed interest at 2.84% and will ultimately mature in 2015.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 (2009: CZK 2,115 million).

22 Loans and advances to customers

Loans and advances to customers comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Loans to customers	344,657	330,865
Bills of exchange	398	434
Forfaits	2,168	1,680
Other amounts due from customers	104	27
Total gross loans and advances to customers	**347,327**	333,006
Allowances for loans to customers		
Allowances for loans to Individuals	(2,906)	(2,731)
Allowances for loans to Corporates *	(9,586)	(8,540)
Allowances for other amounts due from customers	(1)	(1)
Total Allowances for loans (refer to note 12)	**(12,493)**	(11,272)
Total loans and advances to customers, net	**334,834**	321,734

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

Loans and advances to customers include interest due of CZK 1,104 million (2009: CZK 1,099 million), of which CZK 667 million (2009: CZK 568 million) relates to overdue interest. Loans provided to customers under reverse repurchase transactions as at 31 December 2010 in the amount of CZK 187 million (2009: CZK 959 million) are collateralised by securities with fair values of CZK 212 million (2009: CZK 1,618 million).

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**	

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

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	298,709	129,496	169,213	0	298,709	0%
Watch	12,522	4,533	7,989	(1,004)	11,518	13%
Substandard	7,830	3,226	4,604	(1,353)	6,477	29%
Doubtful	4,102	732	3,370	(1,382)	2,720	41%
Loss	9,816	406	9,410	(7,532)	2,284	80%
Total	332,979	138,393	194,586	(11,271)	321,708	

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Food industry and agriculture	12,571	14,965
Mining and extraction	731	2,614
Chemical and pharmaceutical industry	5,013	5,131
Metallurgy	6,583	9,004
Automotive industry	2,473	3,022
Manufacturing of other machinery	5,268	5,124
Manufacturing of electrical and electronic equipment	3,158	2,297
Other processing industry	7,145	7,761
Power plants, gas plants and waterworks	17,832	13,105
Construction industry	11,286	12,078
Retail	10,937	11,668
Wholesale	28,866	21,755
Accommodation and catering	1,017	1,044
Transportation, telecommunication and warehouses	9,090	10,188
Banking and insurance industry	35,756	39,865
Real estate	22,414	19,625
Public administration	23,370	18,633
Other industries	16,319	15,456
Individuals	127,394	119,644
Loans to customers	**347,223**	332,979

The majority of loans (99%) 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 2010			31 Dec 2009		
(CZKm)	**Total client loan collateral**	**Discounted client loan collateral value**	**Applied client loan collateral value**	Total client loan collateral	Discounted client loan collateral value	Applied client loan collateral value
Guarantees of state and governmental institutions	10,703	8,699	6,777	3,157	2,667	2,514
Bank guarantee	22,803	21,637	18,834	17,765	17,362	16,661
Guaranteed deposits	1,240	1,238	1,008	787	785	664
Issued debentures in pledge	219	219	0	0	0	0
Pledge of real estate	232,954	148,077	103,874	214,219	137,022	96,159
Pledge of movable assets	12,135	1,116	998	7,220	667	606
Guarantee by legal entity	23,172	14,886	12,228	21,449	14,703	12,316
Guarantee by individual (natural person)	1,295	195	159	1,588	238	194
Pledge of receivables	34,131	7,084	6,204	37,939	7,208	6,344
Insurance of credit risk	9,581	9,101	4,058	3,015	2,863	2,448
Other	3,710	373	164	3,279	707	487
Total nominal value of collateral	**351,943**	**212,625**	**154,304**	310,418	184,222	138,393

Pledges on industrial real-estate represent 14 percent of total pledges on real estate (2009:14 percent).

Loans and advances to customers – restructured

(CZKm)	**31 Dec 2010**	31 Dec 2009
Individuals	423	285
Corporates /*	5,535	3,912
Total	**5,958**	4,197

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 2010, the statement of financial position included loans to this client in the amount of CZK 1,310 million (2009: CZK 1,284 million) that was fully provided for. The increase in the balance between 2010 and 2009 arises from a foreign exchange rate difference. The Bank did not report any off balance sheet receivables from this client in 2010 and 2009. The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

23 Investments held to maturity

Investments held to maturity comprise:

	31 Dec 2010		31 Dec 2009	
(CZKm)	**Carrying value**	**Cost***	Carrying value	Cost*
Fixed income debt securities	954	938	1,272	1,272
Total investments held to maturity	**954**	**938**	1,272	1,272

Note:/ Amortised acquisition cost.*

As at 31 December 2010, investments held to maturity include bonds of CZK 954 million (2009: CZK 1,272 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Fixed income debt securities		
- Foreign currencies	954	1,272
Total fixed income debt securities	**954**	1,272

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Fixed income debt securities issued by:		
- Foreign state institutions	954	1,272
Total fixed income debt securities	**954**	1,272

No purchase or sale within this portfolio took place during the year ended 31 December 2010. During 2010, debt securities in the total nominal amount of EUR 11 million (a total equivalent of CZK 277 million) were redeemed at maturity.

24 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Prepayments and accrued income	242	342
Settlement balances	264	311
Receivables from securities trading	87	264
Other assets	1,310	1,072
Total prepayments, accrued income and other assets	**1,903**	1,989

Other assets includes mainly provided advances and receivables for Other debtors

25 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Investments in subsidiary undertakings	22,767	23,424
Investments in associated undertakings	482	482
Total investments in subsidiaries and associates	**23,249**	23,906

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as at 31 December 2010:

Company name	**Direct holding %**	**Group holding %**	**Principal activity**	**Registered office**	**Cost of investment (CZKm)**	**Allowances (CZKm)**	**Carrying value (CZKm)**
Penzijní fond Komerční banky, a. s.	100	100	Additional pension insurance	Prague	230	0	230
Factoring KB, a. s.	100	100	Factoring	Prague	1,190	0	1,190
Protos, uzavřený investiční fond, a. s.	89.64	100	Financial services	Prague	11,705	0	11,705
Bastion European Investments S. A.	99.98	99.98	Financial services	Brussels	3,604	0	3,604
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
Total					**22,767**	**0**	**22,767**

Associated undertakings

The following companies are associated undertakings of the Bank as at 31 December 2010:

Company name	Direct holding	Group holding	Principal activity	Registered office	Cost of investment	Allowances	Carrying value
	%	%			(CZKm)	(CZKm)	(CZKm)
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	(355)	482
CBCB, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0*	0	0
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 2010	Additions	Decreases	Investment at cost at 31 Dec 2010
ALL IN REAL ESTATE LEASING, a.s., v likvidaci	39	0	(39)	0
Komerční banka Bratislava, a. s.	848	0	(848)	0
Penzijní fond Komerční banky, a. s.	530	0	(300)	230
Factoring KB, a. s.	1,190	0	0	1,190
Protos, uzavřený investiční fond, a. s.	11,705	0	0	11,705
Bastion European Investments S. A.	3,661	0	(57)	3,604
ESSOX s. r. o.	1,165	0	0	1,165
Modrá pyramida stavební spořitelna, a. s.	4,323	550	0	4,873
Total subsidiaries	**23,461**	**550**	**(1,244)**	**22,767**
Komerční pojišťovna, a. s.	837	0	0	837
CBCB, a.s.	0*	0	0	0*
Total associates	**837**	**0**	**0**	**837**

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

Changes in equity investments in subsidiaries and associates in 2010

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

In June 2010 Board of Directors of the Bank approved the report of the liquidator of the company ALL IN REAL ESTATE LEASING, a.s., v likvidaci with the proposal for the distribution of the expected liquidation balance of the company totaling to CZK 2 million and assigned the company's liquidator to file an application for the expungement of the company from the register of companies. The expungement from the register of companies was performed in October 2010.

In July 2010 the share capital of Komerční pojištovna, a.s. was increased by CZK 301 million from undistributed profit from previous years in the form of increasing the nominal value of shares.

Based on the Board of Directors of the Bank' decision from July 2010 the equity of Penzijní fond Komerční banky, a. s. was decreased by CZK 300 million in the form of repaying the additional amount to equity allocated to the other capital funds which was invested to the company in May 2008 to strengthen its financial position. Decreasing of other capital funds is not registered in the register of companies.

In October 2010 the Board of Directors of the Bank decided to increase the equity of Modrá pyramida stavební spořitelna, a.s. by subscribing additional shares in the amount of CZK 550 million to strengthen the financial position of the company. Subscribed shares were fully paid in November 2010.

At 1 January 2010 as effective date the Bank merged with is 100% controlled subsidiary Komerční banka Bratislava, a.s. (hereafter ´KBB´). As this merge is the transaction under common control, the Bank does not applied standard IFRS 3 to this business combination. Assets, liabilities and equity of KBB were accounted into the Bank's book at their carrying values; no asset or liability was revaluated to its fair value at the date of the business combination. The method of full consolidation was applied on this combination, i.e. all intercompany transactions were eliminated in full. Comparative information was not adjusted and does not include KBB´s balances.

26 Intangible assets

The movements in intangible assets during the year ended 31 December 2010 are as follows:

(CZKm)	**Internally generated assets**	**Software**	**Other intangible assets**	**Aquisition of assets**	**Total**
Cost					
31 December 2009	6,396	1,397	371	1,201	9,365
Adjustment due to merger	0	24	0	0	24
Additions	1,389	197	13	866	2,465
Disposals/Transfers	(391)	(237)	(300)	(1,599)	(2,527)
Exchange rate difference	0	(1)	0	0	(1)
31 December 2010	**7,394**	**1,380**	**84**	**468**	**9,326**
Accumulated amortisation and Allowances					
31 December 2009	4,597	1,081	344	0	6,022
Adjustment due to merger	0	23	0	0	23
Additions	703	133	11	0	847
Disposals	(391)	(237)	(300)	0	(928)
Impairment charge	0	0	0	0	0
Exchange rate difference	0	(1)	0	0	(1)
31 December 2010	**4,909**	**999**	**55**	**0**	**5,963**
Net book value					
31 December 2009	1, 799	316	27	1,201	3,343
31 December 2010	**2,485**	**381**	**29**	**468**	**3,363**

During the year ended 31 December 2010, the Bank invested CZK 157 million (2009: CZK 183 million) in research and development through a charge in operating expenses.

27 Tangible assets

The movements in tangible assets during the year ended 31 December 2010 are as follows:

(CZKm)	**Land**	**Buildings**	**Machinery, furniture and fixtures and other**	**Acquisition of assets**	**Total**
Cost					
31 December 2009	153	10,666	5,225	259	16,303
Adjustment due to merger	0	24	58	0	82
Reallocation from / to assets held for sale	0	(4)	0	0	(4)
Additions	0	182	250	388	820
Disposals/Transfers	(9)	(518)	(552)	(461)	(1,540)
Exchange rate difference	0	(1)	(3)	0	(4)
31 December 2010	**144**	**10,349**	**4,978**	**186**	**15,657**
Accumulated depreciation and Allowances					
31 December 2009	0	4,946	4,193	0	9,139
Adjustment due to merger		8	46	0	54
Reallocation of accumulated depreciation of assets held for sale	0	(7)	0	0	(7)
Additions	0	366	345	0	711
Disposals	0	(261)	(529)	0	(790)
Impairment charge	0	(7)	4	0	(3)
Exchange rate difference	0	0	(3)		(3)
31 December 2010	**0**	**5,045**	**4,056**	**0**	**9,101**
Net book value					
31 December 2009	153	5,720	1,032	259	7,164
31 December 2010	**144**	**5,304**	**922**	**186**	**6,556**

As at 31 December 2010, the Bank recognised allowances against tangible assets of CZK 17 million (2009: CZK 20 million). These allowances primarily included allowances charged in respect of buildings and improvements of leased assets.

28 Financial liabilities at fair value through profit or loss

As at 31 December 2010 and 2009, 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 2010**	31 Dec 2009
Sold securities	2,608	1,020
Derivative financial instruments	11,358	11,298
Financial liabilities at fair value through profit or loss	**13,966**	12,318

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 42 (*42(C) Financial derivative instruments*).

29 Amounts due to banks

Amounts due to banks comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Current accounts	3,091	2,057
Amounts due to banks	25,988	17,375
Total amounts due to banks	**29,079**	19,432

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 0 million (2009: CZK 1,370 million). At the end of 2010 the Bank did not receive any repos from banks.

30 Amounts due to customers

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Current accounts	300,500	294,762
Savings accounts	37,881	20,271
Term deposits	82,370	107,830
Depository bills of exchange	15,804	25,640
Amounts received from customers	2,369	6,000
Other payables to customers	2,361	2,256
Total amounts due to customers	**441,285**	456,759

The fair value of securities and treasury bills that serve as a pledge of received repurchase loans from customers amounted to CZK 2,363 million (2009: CZK 5,979 million).

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Private companies	172,443	184,597
Other financial institutions, non-banking entities	11,242	16,142
Insurance companies	10,930	13,705
Public administration	2,002	2,522
Individuals	150,249	150,364
Individuals - entrepreneurs	24,241	25,265
Government agencies	54,585	49,464
Other	10,019	9,149
Non-residents	5,574	5,551
Total amounts due to customers	**441,285**	456,759

31 Securities issued

Securities issued comprise bonds of CZK 539 million (2009: CZK 615 million) and mortgage bonds of CZK 31,314 million (2009: CZK 30,116 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 2010**	31 Dec 2009
In less than one year	0	0
In one to five years	12,904	0
In five to ten years	5,278	18,824
In ten to twenty years	0	0
Over twenty years	13,671	11,907
Total debt securities	**31,853**	30,731

During the year ended 31 December 2010, the Bank repurchased the mortgage bonds with the aggregate nominal volume of CZK 411 million and increased the nominal volume by CZK 1,784 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 2010 CZKm**	31 Dec 2009 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	3 Aug 2015	2,478	2,892
HZL Komerční banky, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,426	10,490
HZL Komerční banky, a.s., CZ0002000854	3.74%	EUR	1 Sept 2006	1 Sept 2016	649	800
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,175	3,188
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	2,480	2,486
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	1,050	1,055
HZL Komerční banky, a.s., CZ0002001514, CZ0002001522, 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	2,030	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	2,806	2,690
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	1,339	0
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	3,966	3,646
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	915	839
Dluhopisy Komerční banky, a.s., CZ0003701427	4.22%	CZK	18 Dec 2007	1 Dec 2017	539	615
Total bonds					**31,853**	30,731

Note: Six-month PRIBOR was 156 basis points as at 31 December 2010 (2009: 182 basis points).
Three-month PRIBID was 85 basis points as at 31 December 2010 (2009: 126 basis points).
The value of the interest rate swap CZK sale average for five years as at 31 December 2010 was 264 bps (2009 - 300 bps).
The value of the interest rate swap CZK sale average for ten years as at 31 December 2010 was 319 bps (2009 - 354 bps).
/ The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for two to thirty years.*

32 Accruals and other liabilities

Accruals and other liabilities comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Settlement balances and outstanding items	1	0
Payables from securities trading and issues of securities	1,412	1,930
Payables from payment transactions	2,939	3,326
Other liabilities	2,442	2,639
Accruals and deferred income	157	194
Total accruals and other liabilities	**6,951**	8,089

'Payables from payment transactions' in the year ended 31 December 2010 decreased due to a lower amount of payments passed onto the Czech National Bank's clearing centre.

'Other liabilities' largely 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 (2009: CZK 22 million).

33 Provisions

Provisions comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Provisions for contracted commitments (refer to Note 9 and 12)	430	725
Provisions for other credit commitments (refer to Note 12)	570	1,019
Provision for restructuring (refer to Note 9 and 10)	30	109
Total provisions	**1,030**	1,853

In 2010, the Bank adjusted the amount of the provision for restructuring in respect the project 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 use of the provision to cover the expenses in 2010 and the charge for the provision reflecting changes in the project. During 2010 the Bank completed the project of reorganization and centralization of back office services and the provision was completely utilized. The charge for and use of provisions 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 jubilee bonuses.

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Provision for off balance sheet commitments	461	866
Provision for undrawn loan facilities	109	153
Total	**570**	1,019

Movements in the provisions for contracted commitments are as follows:

(CZKm)	**1 Jan 2010**	Adjustment due to merger	Additions	Disposals	Accrual	Foreign exchange difference	**31 Dec 2010**
Jubilee bonuses	98	0	13	(15)	7	0	103
Other provisions for contracted commitments	627	64	53	(421)	0	4	327
Provisions for restructuring	109	33	9	(119)	0	(2)	30
Total	**834**	**97**	**75**	**(555)**	**7**	**2**	**460**

34 Deferred tax liability

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 is as follows:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Banking provisions and allowances	259	263
Allowances for assets	4	47
Non-banking provisions	50	120
Difference between accounting and tax net book value of assets	(367)	(328)
Revaluation of hedging derivatives - equity impact (refer to Note 40)	(920)	(555)
Revaluation of financial assets available-for-sale - equity impact (refer to Note 41)	(86)	(301)
Other temporary differences	69	75
Net deferred tax liability	**(991)**	(679)

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 2010**	31 Dec 2009
Balance at the beginning of the period	(679)	(677)
Movement in the net deferred tax liability - profit and loss impact (refer to Note 14)	(166)	(38)
Movement in the net deferred tax liability - equity impact (refer to Note 40 and 41)	(146)	36
Balance at the end of the period	**(991)**	(679)

The changes in tax rates had no significant impact on the deferred tax in 2010 and 2009.

35 Subordinated debt

As at 31 December 2010 the Bank had subordinated debt of CZK 6,001 million (2009: 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.

36 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 shares with a nominal value of CZK 500 each (ISIN: CZ0008019106). The share capital is fully paid.

Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as at 31 December 2010:

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	4.97
NORTRUST NOMINEES LIMITED	155, Bishopsgate, London	4.59
STATE STREET BANK & TRUST COMPANY	Heritage Drive 1776, Boston	4.42

Société Générale S. A., being the only entity with a qualified holding in the Bank, 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 2010, the Bank held 54,000 treasury shares at a cost of CZK 150 million
(2009: 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.

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 percent 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 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 2010**	31 Dec 2009
Tier 1 capital	48,162	44,258
Tier 2 capital	6,000	6,000
Deductible items of Tier 1 and Tier 2	(2,919)	(2,785)
Total Regulatory capital	**51,243**	47,473

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

(CZKm)	**31 Dec 2010**	31 Dec 2009	**Change in the year**
Cash and balances with central banks	12,367	14,168	(1,801)
Amounts due from banks – current accounts	28	111	(83)
Amounts due to central banks	(1)	(2)	1
Amounts due to banks - current accounts	(3,091)	(2,057)	(1,034)
Total	**9,303**	12,220	**(2,917)**

38 Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2010. 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 177 million (2009: CZK 126 million) for these legal disputes (refer to Note 33). The Bank has also recorded an accrual of CZK 147 million (2009: CZK 360 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2010, 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 2010, the Bank had capital commitments of CZK 267 million (2009: CZK 401 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. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. The Bank does not recognise a provision for revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements (that is, 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).

Financial commitments and contingencies comprise:

(CZKm)	**31 Dec 2010**	31 Dec 2009
Non-payment guarantees incl. commitments to issued non-payment guarantees	36,709	33,772
Payment guarantees including commitments to issued payment guarantees	10,723	10,096
Received bills of exchange/acceptances and endorsements of bills of exchange	49	51
Committed facilities and unutilised overdrafts	18,873	23,632
Undrawn credit commitments	41,633	42,430
Unutilised overdrafts and approved overdraft loans	33,159	36,638
Unutilised discount facilities	21	26
Unutilised limits under Framework agreements to provide financial services	54,467	57,386
Open customer/import letters of credit uncovered	882	684
Stand-by letters of credit uncovered	444	380
Confirmed supplier/export letters of credit	12	70
Open customer/import letters of credit covered	103	81
Stand-by letters of credit covered	25	25
Total contingent revocable and irrevocable commitments	**197,100**	205,271

Of the Bank's committed facilities and overdraft facilities, CZK 45,373 million (2009: CZK 43,468 million) is revocable.

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 2010, the Bank recorded provisions for these risks in the amount of CZK 570 million (2009: CZK 1,019 million) - for further information see Note 33.

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

(CZKm)	**31 Dec 2010**	31 Dec 2009
Food industry and agriculture	7,461	7,105
Mining and extraction	389	731
Chemical and pharmaceutical industry	4,341	5,894
Metallurgy	6,118	6,470
Automotive industry	1,234	2,241
Manufacturing of other machinery	15,325	12,370
Manufacturing of electrical and electronic equipment	2,089	2,027
Other processing industry	5,544	7,067
Power plants, gas plants and waterworks	16,166	22,242
Construction industry	47,879	42,353
Retail	6,903	5,913
Wholesale	15,289	15,608
Accommodation and catering	712	614
Transportation, telecommunication and warehouses	8,435	10,293
Banking and insurance industry	16,915	16,770
Real estate	2,188	1,902
Public administration	10,511	9,997
Other industries	17,909	22,910
Individuals	11,692	12,764
Contingent liabilities	**197,100**	205,271

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

39 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 2010, the Bank was controlled by Société Générale which owns 60.35 percent 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 2010**	31 Dec 2009
Bastion European Investments S.A.	3,278	3,516
ESSOX s.r.o.	7,296	7,635
Factoring KB, a.s.	1,473	1,437
Komerční banka Bratislava, a.s.	0	2,282
Modrá pyramida stavební spořitelna, a.s.	951	3,377
Total loans	**12,998**	18,247
ALL IN REAL ESTATE LEASING, a.s., v likvidaci	0	2
ESSOX s.r.o.	46	28
Factoring KB, a.s.	1	2
Komerční banka Bratislava, a.s.	0	725
Modrá pyramida stavební spořitelna, a.s.	6	8
Penzijní fond Komerční banky, a.s.	1,562	2,075
Protos, uzavřený investiční fond, a.s.	471	521
Total deposits	**2,086**	3,361

Positive fair value of financial derivatives to companies in the Financial Group amounted to 286 million (2009: CZK 18 million) and a negative fair value amounted to CZK 8 million (2009: CZK 0 million).

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds with the nominal amount of CZK 12,790 million (2009: CZK 11,250 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds with the nominal amount of CZK 1,000 million (2009: CZK 835 million) issued by the Bank.

As at 31 December 2010 and 2009, other amounts due to and from the Group companies were immaterial.

Interest income from loans granted to Group companies:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Bastion European Investments S.A.	129	137
ESSOX s.r.o.	237	255
Factoring KB, a.s.	19	34
Komerční banka Bratislava, a.s.	0	78
Modrá pyramida stavební spořitelna, a.s.	14	40
Total interest from loans granted by Bank	**399**	544

In addition to interest on loans to the Bank's Financial Group, other income in the year ended 31 December 2010 amounted to CZK 224 million (2009: CZK 222 million) and total expenses amounted to CZK 677 million (2009: CZK 794 million).

As at 31 December 2010, the Bank reported guarantees granted to Group companies totalling CZK 5 million (2009: CZK 91 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

(CZKm)	**31 Dec 2010**	31 Dec 2009
ALD Automotive Czech Republic, s. s r. o.	2,221	2,281
BRD Romania	10	0
Investiční kapitálová společnost KB, a.s.*	0	14
Komerční pojišťovna, a.s.	276	92
SG Equipment Finance Czech Republic, s. s r.o.	5,980	7,396
SG Express bank	13	1
SG London	0	29
SG Orbeo	127	0
SG Private Banking (Suisse)	7	6
SG Vostok	31	7
SG Zurich	0	29
SGBT Luxemburg	26	0
Société Générale Paris	11,434	10,934
Société Générale Warsaw	0	20
Total	**20,125**	20,809

Note:/* Société Générale becomes a non-controlling shareholder of Investiční kapitálová společnost KB, a.s. since July 2009.

Principal balances owed to the Société Générale Group entities include:

(CZKm)	**31 Dec 2010**	31 Dec 2009
ALD Automotive Czech Republic, s. s r. o.	11	0
Crédit du Nord	4	0
Investiční kapitálová společnost KB, a. s.*	0	168
Komerční pojišťovna, a.s.	520	133
Inter Europe Conseil	286	0
SG Cyprus LTD	31	30
SG Frankfurt	28	0
SG Equipment Finance Czech Republic, s. s r.o.	1,198	1,451
SG London	25	1
SG Orbeo	169	0
SG New York	6	4
SG Private Banking Switzerland	71	35
SG Vostok	5	1
SG Zurich	0	5
SGBT Luxemburg	648	537
Société Générale Paris	28,574	20,829
Société Générale Warsaw	15	19
Splitska Banka	0	14
Total	**31,591**	23,227

Note:/* Société Générale becomes a non-controlling shareholder of Investiční kapitálová společnost KB, a.s. since July 2009.

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 also to Note 21), issued bonds and subordinated debt (refer also to Note 35).

As at 31 December 2010, 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 148,764 million (2009: CZK 133,988 million) and CZK 181,426 million (2009: CZK 142,646 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 2010 and 2009, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2010, the Bank made a total income of CZK 22,295 million (2009: CZK 14,749 million) and total expenses of CZK 21,187 million (2009: CZK 13,585 million). 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 Management and Supervisory Boards and Directors' Committee

Remuneration paid to the members of the Management and Supervisory Boards during the years was as follows:

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Remuneration to the Management Board members*	50	46
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	70	68
Total	**125**	116

Note:

/* ***Remuneration to the Management Board members*** *includes amounts paid during the year ended 31 December 2010 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2010 but including bonuses for 2009, figures for expatriate members of the Management Board include remuneration net of bonuses for 2010 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 Management Board does not include accommodation related services.*

/** ***Remuneration to the Supervisory Board members*** *includes amounts paid during the year ended 31 December 2010 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 2010 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board 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 2009, the total balance reflects his/her aggregate annual remuneration.*

	31 Dec 2010	31 Dec 2009
Number of the Management Board members	6	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members*	17	16

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

As at 31 December 2010, the Bank recorded an estimated payable of CZK 14 million (2009: CZK 13 million) for Management Board bonuses.

In respect of loans and guarantees as at 31 December 2010, the Bank recorded loan receivables totalling CZK 5 million (2009: CZK 4 million) granted to the members of the Management Board, Directors' Committee and Supervisory Board. During 2010, draw-downs of CZK 4 million were made under the loans granted. Loan repayments were during 2010 amounted to CZK 3 million.

40 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)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Cash flow hedge fair value at 1 January	3,113	4,563
Deferred tax asset/(liability) at 1 January	(555)	(883)
Balance at 1 January	**2,558**	3,680
Adjustment due to merger		
Gains/(losses) from changes in fair value	87	0
Deferred income tax	(3)	0
	(84)	0
Movements during the year		
Gains/(losses) from changes in fair value	3,524	(348)
Deferred income tax	(670)	98
	2,854	(250)
Transferred to interest income/expense	(1,621)	(1,153)
Deferred income tax	308	230
	(1,313)	(923)
Change in the hedge of foreign currency risk of foreign net investment	180	51
	180	51
Cash flow hedge fair value at 31 December	5,283	3,113
Deferred tax asset /(liability) at 31 December	(920)	(555)
Balance at 31 December	**4,363**	2,558

41 Movements in the revaluation of available-for-sale financial assets

(CZKm)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Reserve from fair-value revaluation at 1 January	2,471	938
Deferred tax liability/income tax liability at 1 January	(348)	(60)
Balance at 1 January	**2,123**	878
Movements during the year		
Gains/(losses) from changes in fair value	(1,235)	1,597
Deferred tax liability/income tax liability	235	(301)
	(1,000)	1,296
(Gains)/losses from the sale	(30)	(64)
Deferred tax liability/income tax liability	6	13
	(24)	(51)
Reserve from fair-value revaluation at 31 December	1,206	2,471
Deferred tax liability/income tax liability at 31 December	(107)	(348)
Balance at 31 December	**1,099**	2,123

42 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 2010, the Bank predominantly focused on four 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, (3) complete the implementation of preventive instruments increasing the protection of the Bank from the untrustworthy parties, in particular the system for the identification and coordinated response on suspicion of credit fraud and innovative internal registry of negative information, and (4) 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) Ratings for business clients

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 2010, the Bank updated both components of the obligor rating, updated models now show both the period before and during the economic crisis. The Bank also has implemented several improvements to regular monitoring and back-testing of these models.

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 2010, the Bank began the process of updating all of these models with the aim to reflect the experience gained during the economic crisis and support the targets set by the Bank.

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 the last quarter of 2010 the Bank carried out a remapping of the model to more accurately assess the expected level of risk assessed subjects.

In 2010 the Bank also launched an update of models to calculate the loss given default (LGD - Loss Given Default).

b) Ratings for Banks and Sovereign

For banks and other financial institutions the Bank uses a central economic rating model developed by Société Générale S.A. 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 2010 the Bank has significantly increased the model behavior rating taking into account the evaluation of data from other subsidiaries of the Bank. In addition to evaluating client data from the Modrá pyramida stavební spořitelna (Building Society), the data evaluation from Penzijní fond and Komerční pojišťovna are also taken into account. This increased accuracy and extend the potential for a simplified procedure for granting loans to customers with low risk profile. The Bank also developed and implemented a new model of rating behaviour to provide prestigious Platinum credit card TOP to affluent clients based on the evaluation of a broader range of information which takes into account the specifics of the target segment.

At the same time, the Bank focused on implementing further improvements to monitoring and back-testing of these models.

During 2010, the Bank also focused on updating models to calculate the loss given default (LGD - Loss Given Default). The updated models are taken into account particularly the observations obtained during the economic crisis and a refined cost allocation model for recovery has been integrated.

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 2010 the Bank worked on implementation of new internal registry of negative information. The new register will integrate the maximum quantity of available Bank's internal and external negative information about the subjects related to the credit process. It will include improved algorithms evaluate the information and thus contribute substantially to protect the Bank from untrusted entities.

e) Credit registers

During 2010, the evaluation of data from credit registers was 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 registers in the approval process, predominantly with respect to the behavioural rating and individual assessment of applications for funding (approval of the transaction denied by a rating model).

During 2010, the Bank also started work on extending the use of information from credit bureaus in the process of fixation of interest rates for mortgage loans.

f) Credit fraud prevention

During 2009, a large project ran in the Bank with the aim of creating an automated system for identification and coordinated reactions on suspicion of credit fraud. The new system was started in the fourth quarter of 2009 at selected branches of the Bank. During 2010 the project was successfully extended in the whole distribution network of the Bank. The system is fully integrated with Bank’s main applications and it will be fully promoted in the entire group.

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 usingstandard 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 such that the Bank complies with regulatory limits set in respect of concentration risk. Refer to Note 22 and 38 for quantitative information about credit risk concentration.

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 derivative transactions	**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**	**4,972**	**113,301**	**71,468**	**0**	**71,468**
Loans and advances to customers	**347,327**	**192,128**	**539,455**	**154,304**	**13,620**	**167,924**
Corporates**	219,829	180,436	**400,265**	65,043	12,814	**77,857**
Of which: top corporate clients	89,115	110,406	**199,521**	37,218	6,328	**43,546**
Individuals	127,394	11,692	**139,086**	89,261	806	**90,067**
Of which: mortgage loans	108,773	3,582	**112,355**	88,451	786	**89,237**
consumer loans	14,744	392	**15,136**	810	14	**824**
Other amounts due from customers	104	x	**104**	0	x	**0**
Investments held to maturity	**954**	**x**	**954**	**0**	**x**	**0**
Total	**577,414**	**197,100**	**774,514**	**225,772**	**13,620**	**239,392**

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 2009:

(CZKm)	Total exposure: Statement of financial position	Total exposure: Off-balance sheet*	Total exposure: Total credit exposure	Applied collateral: Statement of financial position	Applied collateral: Off-balance sheet*	Applied collateral: Total collateral
Balances with central banks	6,575	x	6,575	0	x	0
Financial assets at fair value through profit or loss	24,500	x	24,500	0	x	0
Positive fair value of hedging financial derivative transactions	9,590	x	9,590	0	x	0
Financial assets available for sale	65,273	x	65,273	0	x	0
Amounts due from banks	131,910	4,950	136,860	95,970	0	95,970
Loans and advances to customers	333,006	200,321	533,327	138,393	11,142	149,535
Corporates**	213,335	187,557	400,892	56,574	10,085	66,659
Of which: top corporate clients	99,271	120,742	220,013	35,397	6,131	41,528
Individuals	119,644	12,764	132,408	81,819	1,057	82,876
Of which: mortgage loans	99,937	3,485	103,422	80,984	827	81,811
consumer loans	15,775	1,006	16,781	835	221	1,056
Other amounts due from customers	27	x	27	0	x	0
Investments held to maturity	1,272	x	1,272	0	x	0
Total	572,126	205,271	777,397	234,363	11,142	245,505

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. 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 (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 2009, the model used in the calculation of allowances was updated based on new information on incurred losses for the most recent period including the reflection of the current phase of the economic cycle. On the basis of regular back testing of models conducted on a quarterly basis, the Bank confirmed the validity of values Expected Loss (EL) and Expected Loss Best Estimate (ELBE) for calculating of allowances and provisions for 2010.

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

	31 Dec 2010		31 Dec 2009	
(CZKm)	**Individually**	**Statistical model**	Individually	Statistical model
Corporates*	22,429	3,304	22,894	3,718
Individuals	3,489	4,673	2,422	5,236
Total	**25,918**	**7,977**	25,316	8,954

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

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**

As at 31 December 2009, 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	131,063	0	0	0	0	25	25	131,088
Watch	800	0	0	0	0	0	0	800
Total	131,863	0	0	0	0	25	25	131,888
Customers								
Standard	291,640	7,030	35	1	3	0	7,069	298,709
Watch	10,852	246	157	70	0	0	473	11,325
Total	302,492	7,276	192	71	3	0	7,542	310,034

The amount of the used collateral in respect of past due loans not impaired was CZK 3,893 million (2009: CZK 4,283 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.

In 2007, the Bank fully implemented in its internal system the new rules for assessment of collateral eligibility according to CNB Regulation No.123/2007. The Bank's compliance with the new rules was validated by the CNB as part of the validation of the IRBA Basel II approach in September 2007.

In 2009, the Bank finalised 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.

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 specialised Risk Management Department which cooperates with a selection of external valuation experts.

In 2010, 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. Result of the statistical monitoring of market prices of residential real estate was mass decrease of the residential real estate values 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 2010. 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 17 percent of the total portfolio of exposures in recovery and 82 percent of the total number of clients in recovery. During 2010, the Bank continued regular monthly sales of groups of uncollateralised 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.

Revocable contractual commitments

The Bank monitors revocable contractual commitments on the same basis as irrevocable commitments, but recognises no allowances or provisions. As at 31 December 2010, the revocable commitments account for 23 percent (2009: 22 percent) of all the Bank’s revocable and irrevocable commitments.

Credit risk of financial derivatives

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (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 percent 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 2010, the Bank posted a credit exposure of CZK 13,860 million (2009: CZK 16,017 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as at 31 December 2010 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 baiss, 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 ("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 concept.

Value-at-Risk 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 percent VaR indicator captures the loss that would be incurred after eliminating the top 1 percent 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 percent were EUR (548,000) and EUR (419,000) as at 31 December 2010 and 2009, respectively. The average Global Value-at-Risks were EUR (447,000) and EUR (605,000) for the years ended 31 December 2010 and 2009, respectively.

The accuracy of the VaR model is validated through back-testing calculation, when actual sales results and hypothetical results (ie, 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 2010, 2% of the daily losses (actual or hypothetical) exceeded 99% of VaR Unprecedented developments in market conditions in connection with theongoing crisis has resulted in the emergence of some new market factors that are not currently fully covered by the existing VaR model.

In addition, the Bank performs stress tests that capture the events with a lower probability of occurrence than Value-at-Risk 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 ('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 percent 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 sensitivity to a change in market interest rates shows a change in the Bank's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent 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 2010, the interest rate risk sensitivity was CZK (152) million (2008: CZK (247) million). The Bank is limited by this indicator and the level of the limit is determined to be approximately 2 percent 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 2010		31 Dec 2009		**31 Dec 2010**		31 Dec 2009	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Interest rate instruments								
Interest rate swaps	338,422	338,422	267,757	267,757	5,482	5,515	4,579	5,038
Interest rate forwards and futures*	116,280	116,280	204,296	204,296	32	41	374	335
Interest rate options	48,395	48,395	617	617	473	473	0	0
Total interest rate instruments	**503,097**	**503,097**	472,670	472,670	**5,987**	**6,029**	4,953	5,373
Foreign currency instruments								
Currency swaps	102,176	102,840	75,848	76,016	580	1,186	843	1,016
Cross currency swaps	32,553	32,419	17,741	17,867	946	720	354	428
Currency forwards	31,352	31,907	38,360	38,206	164	665	784	565
Purchased options	19,882	19,814	30,964	30,576	633	0	1,634	0
Sold options	19,814	19,882	30,576	30,964	0	633	0	1,633
Total currency instruments	**205,777**	**206,862**	193,489	193,629	**2,323**	**3,204**	3,615	3,642
Other instruments								
Futures on debt securities*	100	100	1,218	1,218	0	0	0	0
Forwards on debt securities	26	26	155	155	0	0	1	1
Forwards on emission allowances	12,481	12,437	10,667	10,610	1,916	1,839	2,189	2,062
Commodity forwards	1,055	1,055	1,297	1,297	55	54	81	76
Commodity swaps	8,300	8,300	1,228	1,228	223	218	48	46
Purchased commodity options	128	128	1,320	1,320	14	0	98	0
Sold commodity options	128	128	1,320	1,320	0	14	0	98
Total other instruments	**22,218**	**22,174**	17,205	17,148	**2,208**	**2,125**	2,417	2,283
Total	**731,092**	**732,133**	683,364	683,447	**10,518**	**11,358**	10,985	11,298

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 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 held for trading at nominal values per remaining maturity as at 31 December 2009:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	103,595	124,163	39,999	267,757
Interest rate forwards and futures*	190,878	13,418	0	204,296
Interest rate options	197	420	0	617
Total interest rate instruments	294,670	138,001	39,999	472,670
Foreign currency instruments				
Currency swaps	73,542	1,901	405	75,848
Cross currency swaps	4,022	9,212	4,507	17,741
Currency forwards	28,177	9,724	459	38,360
Purchased options	19,421	11,543	0	30,964
Sold options	19,217	11,359	0	30,576
Total currency instruments	144,379	43,739	5,371	193,489
Other instruments				
Futures on debt securities	1,218	0	0	1,218
Forwards on debt securities	155	0	0	155
Forwards on emission allowances	3,236	7,431	0	10,667
Commodity forwards	1,297	0	0	1,297
Commodity swaps	1,085	143	0	1,228
Purchased commodity options	1,088	232	0	1,320
Sold commodity options	1,088	232	0	1,320
Total other instruments	9,167	8,038	0	17,205
Total	448,216	189,778	45,370	683,364

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 2010		31 Dec 2009		**31 Dec 2010**		31 Dec 2009	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Cross currency swaps for cash flows hedging	27,690	24,444	27,734	24,258	722	264	1,053	378
Cross currency swaps for fair value hedging	0	2,631	0	2,779	80	0	0	12
Interest rate swaps for cash flow hedging	320,775	320,775	285,251	285,251	11,013	5,958	8,537	5,758
Interest rate swaps for fair value hedging	9,286	9,286	6,807	6,807	30	713	0	383
Total	**357,751**	**357,136**	319,792	319,095	**11,845**	**6,935**	9,590	6,531

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**

Remaining maturity of derivatives designated as hedging 31 December 2009:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	6,000	21,734	0	27,734
Interest rate swaps for cash flow hedging	38,431	149,718	97,102	285,251
Interest rate swaps for fair value hedging	0	202	6,605	6,807
Total	44,431	171,654	103,707	319,792

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 2010			31 Dec 2009		
(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	2,052	3,028	293	2,725	4,242	414
Cash outflows	(2,638)	(8,468)	(4,896)	(3,003)	(9,345)	(5,363)
Net cashflow	**(586)**	**(5,440)**	**(4,603)**	(278)	(5,103)	(4,949)

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 2010, the Bank recorded the following hedges:

(i) Interest rate risk hedge:

a. The fair value of provided long-term loans/investments in long-term governmental 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); and
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).

(ii) 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 ; and
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).

(iii) 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	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 derivative transactions	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**
Investments held to maturity	10	6	938	0	0	**954**
Income taxes receivable	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 liability	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**
Total assets at 31 December 2009	275,560	75,679	142,937	42,821	68,089	605,086
Total liabilities at 31 December 2009	152,031	14,415	2,126	27,887	345,937	542,396
Net statement of financial position interest rate sensitivity gap at 31 December 2009	123,529	61,264	140,811	14,934	(277,848)	62,690
Net off balance sheet interest rate sensitivity gap at 31 December 2009	(24,206)	2,144	(48,521)	71,154	0	571
Cumulative interest rate sensitivity gap at 31 December 2009	99,323	162,731	255,021	341,109	63,261	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 2010 and 2009:

	2010			2009		
	CZK	**USD**	**EUR**	CZK	USD	EUR
Assets						
Cash and balances with central banks	0.25%	x	x	0.33%	x	x
Treasury bills	1.23%	x	x	1.86%	x	x
Amounts due from banks	1.01%	0.52%	1.13%	1.32%	0.49%	0.67%
Loans and advances to customers	4.35%	1.11%	3.46%	4.59%	0.99%	2.73%
Interest earning securities	3.21%	4.28%	3.34%	5.13%	5.89%	3.97%
Total assets	**3.02%**	**1.84%**	**2.87%**	3.36%	2.15%	2.52%
Total interest earning assets	**3.44%**	**1.93%**	**3.10%**	3.74%	2.26%	2.79%
Liabilities						
Amounts due to central banks and banks	0.27%	0.38%	2.01%	0.39%	0.01%	2.39%
Amounts due to customers	0.37%	0.13%	0.18%	0.52%	0.14%	0.13%
Debt securities	2.96%	x	3.76%	3.72%	x	3.71%
Subordinated debt	1.38%	x	x	1.91%	x	x
Total liabilities	**0.53%**	**0.20%**	**0.49%**	0.71%	0.11%	0.47%
Total interest bearing liabilities	**0.48%**	**0.21%**	**0.53%**	0.63%	0.14%	0.50%
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	2.52%	2.28%	1.99%	2.99%	1.76%	2.03%
Undrawn portion of loans	3.16%	1.36%	2.44%	4.02%	x	2.67%
Undrawn portion of revolving loans	6.48%	x	2.19%	6.34%	1.54%	1.16%
Total off balance sheet assets	**2.75%**	**2.28%**	**2.01%**	3.38%	1.76%	1.97%
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	2.23%	2.56%	2.23%	2.79%	1.97%	2.42%
Undrawn portion of loans	3.16%	1.36%	2.44%	4.02%	x	2.67%
Undrawn portion of revolving loans	6.48%	x	2.19%	6.34%	1.54%	1.16%
Total off balance sheet liabilities	**2.49%**	**2.55%**	**2.24%**	3.21%	1.97%	2.34%

Note: The above table sets out the average interest rates for December 2010 and 2009 calculated as a weighted average for each asset and liability category.

In May 2010, 2W repo rate announced by the CNB decreased from 1.00% to 0.75%. This approximately corresponded to the decrease in crown money market rates, although rates on the long-end recorded, on average ,decreased by more than 0.25%. Market spreads experienced in the first half on 2010 an increase by approximately 10 basis points to around 40 basis points. In the second half of 2010, the crown money market interest rates held roughly constant. 2W repo rate remained at the value of 0.75%. Also, the market spreads remained almost unchanged. Interest rate derivates market in the first half year decreased by 70 basis points, in the second half of the year rose by more than 40 basis points (2-10R).

The euro money market rates during the year increased slightly by approximately 25 basis points. The euro interest rate in derivatives market fell by approximately 70 basis points in the first half of 2010 points, but in the second half of 2010 this decline was again almost caught up.

Dollar money market interest rates experienced an increase in the first half of 2010 by approximately 25 basis points and the second about the same decline. The resulting change was thus almost negligible. Derivative market rates recorded in the total decline of 64 basis points.

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

	31 Dec 2010				31 Dec 2009			
(CZKm)	**Fixed interest rate**	**Floating interest rate**	**No interest**	**Total**	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and balances with central banks	0	4,279	8,715	**12,994**	0	4,084	10,084	14,168
Financial assets at fair value through profit or loss	20,271	3,507	10,518	**34,296**	10,278	3,237	10,985	24,500
Positive fair values of hedging financial derivative transactions	0	0	11,845	**11,845**	0	0	9,590	9,590
Financial assets available for sale	59,051	8,967	702	**68,720**	55,413	9,069	791	65,273
Amounts due from banks	9,259	98,996	74	**108,329**	8,843	123,024	43	131,910
Loans and advances to customer	196,954	135,823	2,057	**334,834**	188,094	125,341	8,299	321,734
Investments held to maturity	954	0	0	**954**	1,272	0	0	1,272
Liabilities								
Amounts due to central banks	1	0	0	**1**	2	0	0	2
Financial liabilities at fair value through profit or loss	0	0	13,966	**13,966**	0	0	12,318	12,318
Negative fair values of hedging financial derivative transactions	0	0	6,935	**6,935**	0	0	6,531	6,531
Amounts due to banks	3,175	25,742	162	**29,079**	4,815	14,381	236	19,432
Amounts due to customers	4,463	434,362*	2,460	**441,285**	3,030	452,005*	1,724	456,759
Securities issued	15,704	16,149	0	**31,853**	15,932	14,799	0	30,731
Subordinated debt	0	6,001	0	**6,001**	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 does not maintain cash resources to meet all of these needs as experience shows 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), and, as such the information on undiscounted cash flows is not provided.
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	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 derivative transactions	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**
Investments held to maturity	0	10	6	938	0	0	**954**
Income taxes receivable	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 liability	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*	26,771	107,472	176,670	83,745	18,056	19,352	**432,066**
Net off balance sheet liquidity gap at 31 December 2010	**(3,556)**	**(34,891)**	**(104,813)**	**(32,942)**	**(2,178)**	**(19,352)**	**(197,822)**
Total assets at 31 December 2009	41,991	126,239	69,143	126,210	154,876	86,627	605,086
Total liabilities at 31 December 2009	413,323	45,279	17,201	6,433	40,769	82,081	605,086
Net statement of financial position liquidity gap at 31 December 2009	(371,332)	80,960	51,942	119,777	114,107	4,546	0
Net off balance sheet liquidity gap at 31 December 2009	(6,602)	(31,952)	(110,115)	(32,351)	(4,300)	(19,395)	(204,715)

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.*

(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	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**
Investments held to maturity	0	762	192	0	**954**
Income taxes receivable	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 liability	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)**
Total assets at 31 December 2009	520,282	74,365	9,471	968	605,086
Total liabilities at 31 December 2009	547,378	48,504	7,817	1,387	605,086
Net FX position at 31 December 2009	(27,096)	25,861	1,654	(419)	0
Off balance sheet net FX position at 31 December 2009	27,729	(25,500)	(2,009)	398	618
Total net FX position at 31 December 2009	633	361	(355)	(21)	618

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 continue focused on interconnecting individual instruments used for operational risk management, i.e. records of losses, scenario analyses, setting of key risk indicators and risk control self assessment, including setting the first level control system In 2010, the Bank focused in particular on efficient interconnection of individual tools.

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 percent. 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 2010		31 Dec 2009	
(CZKm)	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	12,994	12,994	14,168	14,168
Amounts due from banks	108,329	108,520	131,910	132,378
Loans and advances to customers, net	334,834	344,545	321,734	328,507
Investments held to maturity	954	984	1,272	1,329
Financial liabilities				
Amounts due to central banks and banks	29,080	29,088	19,434	19,443
Amounts due to customers	441,285	441,327	456,759	456,734
Securities issued	31,853	32,861	30,731	32,021
Subordinated debt	6,001	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 2010**	**Level 1**	**Level 2**	**Level 3**	31 Dec 2009	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
- Securities	23,778	7,173	16,605	0	13,515	5,900	7,615	0
- Derivatives	10,518	1,916	8,602	0	10,985	2,190	8,795	0
Financial assets at fair value through profit or loss	**34,296**	**9,089**	**25,207**	**0**	24,500	8,090	16,410	0
Positive fair value of hedging financial derivative transactions	**11,845**	**0**	**11,845**	**0**	9,590	0	9,590	0
Financial assets available for sale								
- Shares and participation certificates	702	0	0	702	791	89	0	702
- Debt securities	68,018	43,028	24,990	0	64,482	38,331	26,151	0
Financial assets available for sale	**68,720**	**43,028**	**24,990**	**702**	65,273	38,420	26,151	702
Financial assets at fair value	**114,861**	**52,117**	**62,042**	**702**	99,363	46,510	52,151	702
Financial liabilities								
Financial liabilities at fair value through profit or loss								
- Sold securities	2,608	2,608	0	0	1,020	1,020	0	0
- Derivatives	11,358	1,839	9,519	0	11,298	2,063	9,235	0
Financial liabilities at fair value through profit or loss	**13,966**	**4,447**	**9,519**	**0**	12,318	3,083	9,235	0
Negative fair value of hedging financial derivative transactions	**6,935**	**0**	**6,935**	**0**	6,531	0	6,531	0
Financial liabilities at fair value	**20,901**	**4,447**	**16,454**	**0**	18,849	3,083	15,766	0

Financial assets at fair value – Level 3:

(mil. Kč)	**Year ended 31 Dec 2010** **Financial assets available for sale**	**Total**	Year ended 31 Dec 2009 Financial assets available for sale	Total
Balance at 1 January	**702**	**702**	702	702
Comprehensive income / (loss)	0	0	0	0
- in the statement of comprehensive income	0	0	0	0
- in other comprehensive income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 3	0	0	0	0
Balance at 31 December	**702**	**702**	702	702

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.

43 Assets under management

As at 31 December 2010, the Bank managed client assets in the amount of CZK 980 million (2009: CZK 1,475 million), of which no assets were from the Bank's subsidiaries.