Komerční banka, a.s.

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

AS AT 31 DECEMBER 2011

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ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of the Group, 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

ERNST & YOUNG

Opinion

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

Ernst & Young

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

Jan Fanta

Jan Fanta
Partner

Michaela Kubýová

Michaela Kubýová
Auditor, License No. 1810

28 February 2012
Prague, Czech Republic

Consolidated Income Statement for the year ended 31 December 2011

(CZKm)	Note	Year ended 31 Dec 2011	(after reclassification) Year ended 31 Dec 2010
Interest and similar income	5	35,986	34,549
Interest and similar expense	5	(13,886)	(13,205)
Dividend income	5	90	87
Net interest income and similar income		**22,190**	21,431
Net fee and commission income	6	7,305	7,725
Net profit on financial operations	7	3,158	3,135
Other income	8	111	95
Net operating income		**32,764**	32,386
Personnel expenses	9	(6,526)	(6,076)
General administrative expenses	10	(5,154)	(4,966)
Depreciation, impairment and disposal of assets	11	(1,809)	(1,624)
Total operating expenses		**(13,489)**	(12,666)
Profit before allowances/provision for a loan and investment losses, other risk and income taxes		**19,275**	19,720
Allowances for loan losses	12	(1,988)	(3,115)
Allowances for impairment of securities	12	(5,355)	8
Provisions for other risk expenses	12	18	7
Cost of risk		**(7,325)**	(3,100)
Income from share of associated undertakings		81	75
Share of profit of pension scheme beneficiaries		(575)	(620)
Profit before income taxes		**11,456**	16,075
Income taxes	14	(1,738)	(2,665)
Net profit for the period	15	**9,718**	13,410
Profit attributable to the Non-controlling owners		243	80
Profit attributable to the Group's equity holders		9,475	13,330
Earnings per share/diluted earnings per share (in CZK)	16	**249.97**	350.41

Consolidated statement of comprehensive income for the year ended 31 December 2011

(CZKm)	Note	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Net profit for the period	15	**9,718**	13,410
Cash flow hedging			
- Net fair value gain (loss), net of tax		7,450	2,833
- Transfer to net profit, net of tax		(1,602)	(1,307)
Foreign exchange gain/(loss) on hedge of a foreign net investment		1	3
Net value gain on financial assets available for sale, net of tax		(125)	(1,205)
Net value gain on financial assets available for sale, net of tax (associated undertakings)		11	(4)
Other comprehensive income for the period, net of tax	42,43	**5,735**	320
Comprehensive income for the period, net of tax		**15,453**	13,730
Comprehensive income attributable to Non-controlling owners		239	80
Comprehensive income attributable to Group's equity holders		15,214	13,650

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

Consolidated Statement of Financial Position
as at 31 December 2011

(CZKm)	Note	31 Dec 2011	31 Dec 2010
Assets			
Cash and current balances with central banks	17	16,980	13,689
Financial assets at fair value through profit or loss	18	34,927	34,003
Positive fair value of hedging financial derivatives	44	18,802	11,854
Financial assets available for sale	19	125,975	116,445
Assets held for sale	20	138	34
Amounts due from banks	21	101,393	112,180
Loans and advances to customers	22	434,386	384,593
Financial assets held to maturity	23	3,359	6,712
Current tax assets	14	272	44
Deferred tax assets	35	20	12
Prepayments, accrued income and other assets	24	3,258	3,395
Investments in associates	25	766	674
Intangible assets	26	3,848	3,756
Tangible assets	27	6,934	7,072
Goodwill	28	3,752	3,551
Total assets		**754,810**	698,014
Liabilities			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	29	24,061	13,673
Negative fair value of hedging financial derivatives	44	9,545	7,224
Amounts due to banks	30	37,454	29,074
Amounts due to customers	31	560,701	538,051
Securities issued	32	18,338	17,431
Current tax liabilities	14	46	94
Deferred tax liabilities	35	3,097	1,086
Accruals and other liabilities	33	12,648	8,245
Provisions	34	1,067	1,056
Subordinated debt	36	6,002	6,001
Total liabilities		**672,960**	621,936
Shareholders' equity			
Share capital	37	19,005	19,005
Share premium and reserves		60,212	55,774
Non-controlling equity		2,633	1,299
Total shareholders' equity		**81,850**	76,078
Total liabilities and shareholders' equity		**754,810**	698,014

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

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

Signed on behalf of the Board of Directors:

Henri Bonnet Chairman of the Board of Directors and CEO

Peter Palečka Member of the Board and Senior Executive Director Palečka

Consolidated Statement of Changes in Shareholders' Equity

Year ended 31 December 2011

(CZKm)	Share capital	Capital and reserve funds and retained earnings/*	Cash flow hedging	Hedge of a foreign net investment	Financial assets available for sale	Total	Non-controlling interest	Total, including non-controlling interest
Balance as at 31 December 2009	**19,005**	**42,776**	**2,382**	**(2)**	**3,412**	**67,573**	**1,219**	**68,792**
Treasury shares, other	0	8	0	0	0	8	0	8
Payment of dividends	0	(6,452)	0	0	0	(6,452)	0	(6,452)
Transactions with owners	**0**	**(6,444)**	**0**	**0**	**0**	**(6,444)**	**0**	**(6,444)**
Profit for the period	0	13,330	0	0	0	13,330	80	13,410
Other comprehensive income for the period, net of tax	0	(4)/**	1,526	3	(1,205)	320	0	320
Comprehensive income for the period	**0**	**13,326**	**1,526**	**3**	**(1,205)**	**13,650**	**80**	**13,730**
Balance as at 31 December 2010	**19,005**	**49,658**	**3,908**	**1**	**2,207**	**74,779**	**1,299**	**76,078**
Non-controlling share due to acquisition	**0**	**0**	**0**	**0**	**0**	**0**	**1,593**	**1,593**
Treasury shares, other	0	(513)	0	0	0	(513)	1	(512)
Payment of dividends	0	(10,263)	0	0	0	(10,263)	(499)	(10,762)
Transactions with owners	**0**	**(10,776)**	**0**	**0**	**0**	**(10,776)**	**(498)**	**(11,274)**
Profit for the period	0	9,475	0	0	0	9,475	243	9,718
Other comprehensive income for the period, net of tax	0	11/**	5,852	1	(125)	5,739	(4)	5,735
Comprehensive income for the period	**0**	**9,486**	**5,852**	**1**	**(125)**	**15,214**	**239**	**15,453**
Balance as at 31 December 2011	**19,005**	**48,368**	**9,760**	**2**	**2,082**	**79,217**	**2,633**	**81,850**

Note:/ Capital and reserve funds and retained earnings consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings. Retained earnings amount to CZK 34,507 million (2010: CZK 31,467 million) and statutory reserve fund CZK 4,119 million (2010: CZK 4,063 million).*

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

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

Consolidated Cash Flow Statement

Year ended 31 December 2011

(CZKm)	**Year ended 31 Dec 2011**		(after reclassification) Year ended 31 Dec 2010	
Cash flows from operating activities				
Interest receipts	31,246		30,065	
Interest payments	(12,283)		(12,892)	
Commission and fee receipts	9,461		9,870	
Commission and fee payments	(1,996)		(1,948)	
Net income from financial transactions	2,187		4,480	
Other income receipts	175		911	
Cash payments to employees and suppliers, and other payments	(11,324)		(11,167)	
Operating cash flow before changes in operating assets and operating liabilities	**17,466**		19,319	
Due from banks	11,386		15,917	
Financial assets at fair value through profit or loss	(1,087)		(9,823)	
Loans and advances to customers	(32,870)		(16,574)	
Other assets	347		195	
Total (increase)/decrease in operating assets	**(22,224)**		(10,285)	
Amounts due to banks	8,218		8,215	
Financial liabilities at fair value through profit or loss	10,612		1,637	
Amounts due to customers	23,079		(14,414)	
Other liabilities	3,923		(1,826)	
Total increase/ (decrease) in operating liabilities	**29,396**		(6,388)	
Net cash flow from operating activities before taxes	24,638		2,646	
Income taxes paid	(2,011)		(2,471)	
Net cash flows from operating activities		**22,627**		175
Cash flows from investing activities				
Dividends received	90		87	
Purchase of investments held to maturity	(197)		(287)	
Maturity of investments held to maturity*	324		596	
Purchase of financial assets available for sale	(23,120)		(15,939)	
Sale and maturity of financial assets available for sale*	20,180		16,246	
Purchase of tangible and intangible assets	(1,889)		(1,382)	
Sale of tangible and intangible assets	153		634	
Purchase of investments in subsidiaries and associated undertakings	(1,800)		0	
Sale/decrease of investments in subsidiaries and associated undertakings	0		2	
Net cash flow from investing activities		**(6,259)**		(43)
Cash flows from financing activities				
Paid dividends	(10,206)		(6,435)	
Paid dividends (non- controlling interest)	(499)		0	
Purchase of own shares	(575)		0	
Securities issued	2,449		2,023	
Securities redeemed*	(2,961)		(2,018)	
Net cash flow from financing activities		**(11,792)**		(6,430)
Net increase/(decrease) in cash and cash equivalents	**4,576**		(6,298)	
Cash and cash equivalents at beginning of year	10,034		16,315	
FX differences on Cash and cash equivalents at beginning of year	(14)		17	
Cash flow of acquired company	46		0	
Cash and cash equivalents at the end of year (refer Note 38)		**14,642**		10,034

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

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

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1 Principal activities

The Financial Group of Komerční banka, a.s. (the 'Group') consists of Komerční banka, a.s. (the 'Bank') and 10 subsidiaries and associated undertakings. The parent company of the Group is the Bank which 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; and
VII. Investment banking.

The Bank generates a substantial proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its foreign branch Komerční banka Bratislava, a.s., pobočka zahraničnej banky and in Belgium through its subsidiary Bastion European Investments S. A.

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

The main activities of subsidiary companies of the Bank as of 31 December 2011:

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Penzijní fond Komerční banky, a. s.	100.0	100.0	Pension fund	Prague
Modrá pyramida stavební spořitelna, a. s.	100.0	100.0	Building society	Prague
Protos uzavřený investiční fond, a. s.	89.64	100.0	Investments	Prague
Factoring KB, a. s.	100.0	100.0	Factoring	Prague
Bastion European Investments S. A.	99.98	99.98	Financial services	Brussels
KB Real Estate s.r.o.	100.0	100.0	Ancillary banking services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Leasing	Prague
ESSOX s. r. o.	50.9	50.9	Consumer loans, leases	České Budějovice

The main activities of associated undertakings of the Bank as of 31 December 2011:

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a. s.	49.0	49.0	Insurance	Prague
CBCB - Czech Banking Credit Bureau, a. s.	20.0	20.0	Data collection for credit risk assessments	Prague

2 Events for the year ended 31 December 2011

Dividends declared in respect of the year ended 31 December 2010

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

Changes in the Bank's Financial Group

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

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

The Bank has acquired 50.1% ownership interest in SG Equipment Finance Czech Republic s.r.o. (hereafter only "SGEF") for 1 800 MCZK as at May 4th, 2011. The primary reason for acquisition of SGEF was to further reinforce the Bank's group leading position in financing corporations and entrepreneurs in the Czech Republic.

Acquisition of SGEF is a business combination under common control which is out of the scope of IFRS. The Bank has to use judgement in developing and applying an accounting policy. Taking into account the economic substance of the transaction and the view of the Bank minority shareholders this transaction is treated using the acquisition method in compliance with IFRS.
As the Bank has power over more than half of the SGEF's voting rights, power to govern the SGEF's financial and operating policies and power to appoint SGEF's executive director, the Bank has obtained control of SGEF.

The principal factors that make up the recognised goodwill are expected synergies stemming from the combination of Bank's strong client franchise and SGEF's long term experience on the leasing market and intangible assets that do not quality for separate recognition.

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

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

Uncertainty in capital markets

In 2011, the effects of the global financial and economic crisis persisted, in particular the increased uncertainty in capital markets caused by problems of some states of the European Union. The Group 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 Group in the future. The exposure of the Group to these risks is disclosed in Note 18, 19 and 23.

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

3 Principal accounting policies

3.1 Statement of compliance with IFRS

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

The consolidated 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 consolidated financial statements

3.2.1 Accrual basis

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

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

3.2.2 Going concern

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

3.3.2 Historical cost

The consolidated 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 consolidated financial statements in line with IFRS requires the Group'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 except Goodwill (refer to Note 3.5.8);
- the amount of impairment of assets (refer to Notes 3.5.4, 3.5.8 and 3.5.9.);
- provisions recognised under liabilities (refer to Note 3.5.10);
- initial value of goodwill for each business combination (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 3.5.6.2).

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 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and of its subsidiaries. A subsidiary is an entity over which the Bank has control, i.e. it directly or indirectly owns more than half of the voting power or it has the power to govern the entity in another way. Subsidiaries are consolidated using the full method of consolidation from the date when the Bank obtains the control to the date when the Bank ceases to exercise control over such entity.

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as at the Bank's financial statements' date, using consistent accounting policies. The assets and liabilities of foreign subsidiaries and branches are translated into the Bank's presentation currency at the rate of exchange as at the Bank's financial statements' date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. The consolidation principles are unchanged as against the previous year. All intragroup transactions, balances, income and expenses were eliminated in full.

Investments in associates are presented in the consolidated financial statements using the equity method. An associate is an entity over which the Bank exercises significant influence, i.e. it directly or indirectly owns more than 20% but less than half of the voting power, but it does not exercise control. Equity accounting involves recognising in the Income Statement and in Statement of Comprehensive Income the Group's share of the associates' profit or loss for the period and comprehensive income for the period. The Group's interest in the associates is carried in the Statement of Financial Position at an amount that reflects its share of net assets of the associates and includes goodwill on acquisition.

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

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

- IFRS 1 First-time Adoption of IFRS –amendment: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Transfer of Financial Assets
- IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments
- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – amendment: Mandatory Effective Date and Transition Disclosures
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements - amendment: Presentation of Items of Other Comprehensive Income
- IAS 19 Employee Benefits (revised 2011)
- IAS 27 Individual Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Financial Instruments: Presentation - amendment: Offsetting Financial Assets and Financial Liabilities
- IAS 12 Income Taxes – amendment: Deferred Tax: Recovery of Underlying Assets
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

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

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

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

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

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

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

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

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

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

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

3.4.4 Standards and interpretations voluntarily adopted earlier and applied for the reporting period beginning 1 January 2011

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

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

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

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

3.5.1.2 Transactions and balances translation

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

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

- (i) foreign currency monetary items are translated using the closing rate (exchange rate announced by BA at the end of the reporting period);
- (ii) non-monetary items that are measured in term at historical cost are translated using BA's exchange rate at the date of the translation;
- (iii) non-monetary items that are measured at fair value in a foreign currency are translated using BA's exchange rate at the date when the fair value was determined.

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

However, where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in other comprehensive income, related exchange differences are recognised in the same way. These non-monetary items include equity instruments and 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. These exchange differences are recognised in other comprehensive income.

For consolidation purposes the results and financial position of entities whose functional currency is different from group presentation currency are translated into this currency using following procedures:

- (i) assets and liabilities are translated using the closing rate (exchange rate announced by CNB at the end of the reporting period);
- (ii) income and expenses presenting profit or loss are translated using the average rate for the period (average of exchange rates announced by CNB during period);
- (iii) all resulting exchange differences are recognised in other comprehensive income and presented in the line "*Share premium and reserves*".

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

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

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

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

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

3.5.3 Cash and cash equivalents

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

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

In preparing its cash flow statement for the period, the Group 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 Group recognises financial derivatives in the Statement of Financial Position at trade date. Financial derivatives are derecognised at their maturity.

The Group 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 Group 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 Group 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 Group are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Group's intention as at the acquisition date, and pursuant to the Group'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 Group 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 Group 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 Group 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 Group 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 Group 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 Group recognises allowances in the Income statement in the line "*Allowance for impairment of securities*".

If the Group was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in due to a significant decrease of client's creditworthiness, changes in tax laws, business combination or sale of a part of business (segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for financial assets held to maturity to calculate the capital adequacy), the entire portfolio would have to be reclassified as available-for-sale. Furthermore, the Group 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 Group intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Group upon initial recognition designates as at fair value through profit or loss;
- assets that the Group 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 Group 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 Group derecognises these securities, i.e. the item "*Securities issued*" is decreased. Gains and losses arising as a result of repurchasing the Group's own debt securities are recognised as at the date of their repurchase in the Income statement in the line "*Net interest income*" as an adjustment to the interest paid from own bonds".

3.5.4.5. Reclassification of financial assets

The Group 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 Group 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 Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Group may also reclassify, in certain circumstances, financial assets out of the *Available-for-sale* portfolio and into the *Loans and receivables* portfolio. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

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

3.5.4.6. Fair value and hierarchy of fair value

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

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

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

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

The Group 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 Group 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 Group uses for fair value measurement inputs that are available but not directly observable within a market and which in the Group's view reflect presumptions about assumptions that market participants take into account when pricing the financial instrument. Fair value of debt securities is estimated using the present value of future cash flow, and fair value of unquoted equity instruments is estimated using the present value of future cash flow or using price/book value ratios refined to reflect the specific circumstances of the issuer. Fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models, as appropriate.

3.5.4.7. Effective interest rate method

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

When calculating the effective interest rate, the Group 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 Group 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 Group 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 Group 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 Group 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 Group management judgment. As indicators of possible significant or prolonged decline, the Group 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 Group 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 Group 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 Group.

The Group assesses all significant impaired credit exposures on individual basis. The remaining insignificant impaired exposures are assessed using statistical models based on collective approach (refer to Note 44 (A)). Assets that are not indentified for impairment on individual basis are included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group'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 Group 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 Group 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 Group cannot reverse any impairment loss recognised in the Income statement for an equity instrument.

3.5.4.10. Repurchase agreements

The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Note 3.5.4.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Group 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 Group 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 Group'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 Fiancial position as part of carrying amount of hedged item and in the Income Statement line *"Net profit on financial operations"*.

On this basis, the Group 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 Group 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 Group additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investment 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 Group'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 44(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 Group 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 Group 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 Group 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 Group'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 Group 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.

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

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

3.5.7 Leasing

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

<u>The Group as lessor</u>

Operating leases

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

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

Finance leases

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

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

<u>The Group as lessee</u>

Operating lease

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

Finance leases

At the commencement of a lease term, an asset held under finance lease is recognised in the appropriate item in the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Group 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 Group 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 (except goodwill)

The intangible assets include principally software and internally generated intangible assets. The tangible assets include plant, property and equipment that are held by the Group for supplying the banks 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 Group 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 Group estimates no residual value for other assets. Depreciation is reported in the Income Statement line "*Depreciation, impairment and disposal of assets*".

The Group 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 Group used the following useful lives in years:

	2011	2010
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Group	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
Right of use – software	4	4
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Group 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 Group 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 Group 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 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010 it represents the excess of the acquisition cost (including acquisition related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 2010 it represents difference between the transferred consideration and amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary identifiable net assets on one side and the net of the identifiable assets and the liabilities assumed on other side. Acquisition related costs are recognised in profit or loss.
Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of possible impairment loss.

The Group tests goodwill for impairment on a regular annual basis at 30 September or more frequently if there is indication that the goodwill may be impaired. If the recoverable amount of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying value, the Group recognises an impairment of the cash-generating unit which is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or on a pro-rata basis).

For the purpose of calculating the recoverable amount the Group calculates value in use as the present value of the future cash flow to be generated by cash generation unit from its continuing use in the business. The Group estimates future cash flow on the base of the middle term financial plan of cash generation unit that is approved by management. Cash flows represent income after tax of cash generating units available for distribution to owners. Used discount rate is a cost of capital calculated using Capital Asset Pricing Model. This method is based on a risk free interest rate grossed up by a risk premium determined according to the underlying activities of the cash generating unit. As all subsidiaries are located in the Czech Republic and their functional currency is the Czech crown, no other premium is added. For the period beyond the middle term financial plan the projected cash flow is extrapolated without taking into account any growth rate. Key assumptions used in the preparation of financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

3.5.10 Provisions

Provisions are recognised when and only when:

- the Group 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 Group 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 Group 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 34).

3.5.11 Employee benefits

3.5.11.1 General

The Group 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 Group until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Group for a minimum defined period. These provisions are presented in the line *"Provisions"*, its 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 Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group'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 Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions as incurred in the line "*Personnel expenses*".

The Group has following share plans and deferred compensation schemes:

3.5.11.2 Deferred bonus payment

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

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

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

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

3.5.11.3 Free share plan

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

The shares will be acquired in two tranches:

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

3.5.12 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 Group purchases the Group'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*".

3.5.13 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 Group enters into transactions under which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities as off-balance sheet items. The Group monitors these transactions as much as they represent a substantial proportion of its activities and materially impact the level of risks to which the Group 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 Group. 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.

3.5.14 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Group'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 Group.

The Group 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, building savings, pension insurance, 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, leasing, foreign currency and derivative products, syndicated and export financing, and guarantee transactions;
- Investment Banking – trading with financial instruments;
- Other – head office of the Group.

The Investment Banking segment does not achieve quantitative limits for obligatory reporting. However, the management of the Group 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 Group 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 Group 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 Group 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 Group's financial accounting records.

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

3.5.15 Regulatory requirements

The Group 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 banks clients, as well as its liquidity, interest rate and foreign currency positions.

3.6 Reclassification

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

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

(CZKm)	As reported 31 Dec 2010	**After reclassification 31 Dec 2010**	As reported 31 Dec 2009	**After reclassification 31 Dec 2009**	Reference
Net fees and commissions	8,038	**7,725**	7,839	**7,502**	1,2
Net profit from financial operations	3,098	**3,135**	3,024	**3,084**	1
General administrative expenses	(5,242)	**(4,966)**	(5,619)	**(5,342)**	2

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

4 Segment reporting

(CZKm)	Retail banking 2011	Retail banking 2010	Corporate banking 2011	Corporate banking 2010	Investment banking 2011	Investment banking 2010	Other 2011	Other 2010	Total 2011	Total 2010
Net interest and similar income	13,112	13,186	6,183	5,618	7	142	2,888	2,485	22,190	21,431
Net fee and commission income	4,762	5,046	2,380	2,385	7	77	156	217	7,305	7,725
Net profit on financial operations	1,051	866	1,115	1,174	976	978	16	117	3,158	3,135
Other income	124	130	(43)	(6)	111	119	(81)	(148)	111	95
Net banking income	**19,049**	19,228	**9,635**	9,171	**1,101**	1,316	**2,979**	2,671	**32,764**	32,386

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

5 Net interest income and similar income

Net interest and similar income comprises: (CZKm)	2011	2010
Interest and similar income	35 986	34,549
Interest and similar expense	(13,886)	(13,205)
Dividend income	90	87
Net interest and similar income	**22,190**	21,431
Of which net interest income arising from		
- Loans and advances	22,420	20,488
- Securities held to maturity	341	327
- Securities available for sale	4,837	4,552
- Financial liabilities at amortised cost	(7,123)	(5,329)

'*Interest and similar income*' includes interest on substandard, doubtful and loss loans of CZK 584 million (2010: CZK 692 million) due from customers and interest of CZK 386 million (2010: CZK 0 million) on securities that have suffered impairment.

'*Interest and similar income*' also includes accrued interest income from hedging financial derivatives of CZK 9,686 million (2010: CZK 9,137 million) and '*Interest and similar expense*' also includes accrued interest expense from hedging financial derivatives of CZK 8,061 million (2010: CZK 7,831 million). '*Net interest and similar income*' from these derivatives amounts to CZK 1,625 million (2010: CZK 1,276 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

6 Net fee and commission income

Net fee and commission income comprises:

(CZKm)	2011	2010
Fees and commission income from		
Transactions	4,375	4,403
Loans and deposits	3,648	3,791
Others	1,445	1,468
Total fees and commission income	**9,468**	9,662
Fees and commission expenses on		
Transactions	(968)	(903)
Loans and deposits	(738)	(727)
Others	(457)	(307)
Total fees and commissions expenses	**(2,163)**	(1,937)
Total net fee and commission income	**7,305**	7,725

The line *'Other's'* includes particularly fees and commissions from trade finance, investment banking and distribution of the Group companies' products. The line comprises fee income arising from custody services and from depository services in the amount CZK 62 million (2010: CZK 57 million) and fee expense in the amount CZK 35 million (2010: CZK 34 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

(CZKm)	2011	2010
Net realised gains/(losses) on securities held for trading	(41)	205
Net unrealised gains/(losses) on securities held for trading	493	240
Net realised gains/(losses) on securities available for sale	184	36
Net realised and unrealised gains/(losses) on security derivatives	88	(66)
Net realised and unrealised gains/(losses) on interest rate derivatives	188	350
Net realised and unrealised gains/(losses) on trading commodity derivatives	17	16
Net realised and unrealised gains/(losses) on foreign exchange from trading	823	947
Net realised gains/(losses) on foreign exchange from payments	1,406	1,407
Total net profit on financial operations	**3,158**	3,135

In the year ended 31 December 2011, the line *'Net realised gains/(losses) on securities available for sale'* shows the net loss from the sale of asset backed securities in the amount of CZK 5 million and in the years ended 31 December 2010 the net gain from the sale of the equity investment in Visa Inc. in the amount of CZK 30 million (refer to Note 19).

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

A loss of CZK 1 million (2010: a profit of CZK 3 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in '*Net realized and unrealized gains on foreign exchange from trading*'. This amount matches the loss arising from the retranslation of hedged foreign currency assets reported in the same line.

8 Other income

The Group reports *'Other income'* in the amount of CZK 111 million (2010: 95 million). In the years ended 31 December 2011, *'Other income'* predominantly included income arising from the property rental income and intermediation.

9 Personnel expenses

Personnel expenses comprise:

(CZKm)	2011	2010
Wages, salaries and bonuses	4,637	4,268
Social costs	1,889	1,808
Total personnel expenses	**6,526**	6,076
Physical number of employees at the period-end	8,918	8,689
Average recalculated number of employees during the period	8,774	8,619
Average cost per employee (CZK)	**743,866**	704,872

'*Social costs*' include costs of CZK 86 million (2010: 82 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 45 million (2010: 43 million) incurred in contributing to the employees' capital life insurance scheme.

'*Personnel expenses*' include the use of the restructuring provision of CZK 0 million (2010: charge of CZK 63 million) relating to provisions for restructuring in relation to the project of the reorganisation and centralisation of the back office divisions and also the release and use of the restructuring provision of CZK 10 million (2010: CZK 6 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 34).

Indexed bonuses

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

The movement in the number of shares was as follows:

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

Free shares

The shares price at granted date is equal to 34.55 EUR for the first tranche and 33.15 EUR for the second tranche. The total number of granted free share for both periods is 332,960 pieces (2010: 305,240 pieces). In 2011 the total amount relating to free shares program recognized in personnel expenses is CZK 46 million (2010: CZK 5 million) and from the start of the grant the cumulative amount of CZK 51 million (2010: CZK 5 million) recognized as "Share premium" in equity.

10 General administrative expenses

General administrative expenses comprise:

(CZKm)	**2011**	2010
Marketing and entertainment costs	706	661
Costs of sale and banking products	827	818
Staff costs	272	242
Property maintenance charges	1,412	1,405
IT support	862	848
Office equipment and other consumption	73	68
Telecommunications, post and other services	216	233
External advisory services	696	621
Other expenses	90	70
Total general administrative expenses	**5,154**	4,966

'*General administrative expenses*' include the release and use of the provision in the amount of CZK 0 million (2010: CZK 38 million) relating to the restructuring provision in respect of the project of the reorganisation and centralisation of back office functions and the charge of CZK 0 million (2010: CZK 9 million) and the release and use of the provision in the amount of CZK 11 million (2010: CZK 12 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 34).

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

(CZKm)	**2011**	2010
Tangible and intangible assets depreciation and amortization	1,766	1,695
Impairment and disposal of fixed assets	43	(71)
Total depreciation, impairment and disposal of assets	**1,809**	1,624

12 Cost of risk

Allowance for loan impairment and provisions for other credit commitments

Allowances for loan losses in total amount of CZK 1,988 million (2010: CZK 3,115 million) include net loss from allowances and provisions for loans losses in amount of CZK 2,449 million (2010: 3,254 million) and net gain from written-off and transferred loans in amount of CZK 461 million (2010: 139 million).

The movement in the Allowances and Provisions was as follows:

(CZKm)	**2011**	2010
Balance at 1 January	(15,877)	(14,871)
Balance of the acquired company	(451)	0
Allowances and Provisions for loan losses:		
Individuals	(1,317)	(1,314)
Corporates /*	(1,132)	(1,940)
Impact of loans written off and transferred	1,721	2,213
Exchange rate differences attributable to provisions	(155)	35
Balance at 31 December	**(17,211)**	(15,877)

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

The balance of provisions as of 31 December 2011 and 2010 comprises:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Allowances for loans to financial institutions (refer to Note 21)	0	0
Allowances for loans to customers (refer to Note 22)	(16,577)	(15,293)
Allowances for other loans to customers (refer to Note 22)	(17)	(15)
Provisions for guarantees and other credit related commitments (refer to Note 34)	(617)	(569)
Total	**(17,211)**	(15,877)

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 5,719 million as at 31 December 2011 (2010: CZK 153 million). During the year ended 31 December 2011, the Group charged a provision of CZK 5,355 million (2010: CZK 0 million) as a reflection of the deteriorated prospects for the full recovery of outstanding amounts due from Greek government bonds held by the Group and release provision of CZK 0 million (2010: CZK 8 million due to a repayment of the nominal value of a security) and the foreign exchange differences from provisions against securities denominated in foreign currencies amounted to CZK 211 million (refer to Note 19).

Provisions for other risk expenses

The balance of '*Provisions for other risk expenses*' of CZK 18 million (2010: a net charge CZK 7 million) principally consists of the charge for provisions of CZK 26 million (2010: CZK 56 million) and the release and use of provisions of CZK 44 million (2010: CZK 283 million) for legal disputes, together with the costs incurred by the Group as a result of the outcome of legal disputes of CZK 0 million (2010: CZK 220 million). Additional information about the provisions for other risk expenses is provided in Note 34.

13 Profit/(loss) attributable to exclusion of companies from consolidation, income from share of associated undertakings

The profit on subsidiaries and associates includes the following:

(CZKm)	**2011**	2010
Gain on the sale of investments in subsidiaries and associates	0	0
Loss from the disposal of investments in subsidiaries and associates	0	(37)
Charge for allowances	0	0
Use of allowances	0	37
Profit attributable to exclusion of companies from consolidation	**0**	**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 is included in *'Loss from the disposal of investments in subsidiaries and associates'*. This loss was fully covered by use of allowance in the amount of CZK 37 million and is included in *'Use of allowances'* (refer to Note 25).

14 Income tax

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

(CZKm)	2011	2010
Tax payable – current year, reported in profit or loss	(1,662)	(2,537)
Tax paid – prior year	21	65
Deferred tax	(78)	(187)
Hedge of a deferred tax asset against foreign currency risk	(19)	(6)
Total income taxes	**(1,738)**	(2,665)
Tax payable - current year, reported in equity	**14**	25
Total tax expense	**(1,724)**	(2,640)

The items explaining the difference between the theoretical and Group's effective tax rate are as follows:

(CZKm)	2011	2010
Profit before tax	**11,456**	16,075
Theoretical tax calculated at a tax rate of 19% (2010: 20%)	2,177	3,054
Tax on pre-tax profit adjustments	(64)	(27)
Non-taxable income	(1,418)	(1,968)
Expenses not deductible for tax purposes	1,095	1,711
Use of tax losses carried forward	0	0
Tax allowance	(3)	(3)
Tax credit	(83)	(93)
Tax on a standalone tax base	0	0
Hedge of a deferred tax asset against foreign currency risk	19	6
Movement in deferred tax	78	187
Tax losses	9	40
Impact of various tax rates of subsidiary undertakings	(33)	(163)
Tax effect of share of profits of associated undertakings	(18)	(14)
Income tax expense	**1,759**	2,730
Prior period tax expense	(21)	(65)
Total income taxes	**1,738**	2,665
Tax payable on securities reported in equity*	(14)	(25)
Total income tax	**1,724**	2,640
Effective tax rate	15,18%	16.58%

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

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

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

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

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

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

Further information about deferred tax is presented in Note 35.

15 Distribution of profits / Allocation of losses

For the year ended 31 December 2011, the Group generated a net profit of CZK 9,475 million. Distribution of profits for the year ended 31 December 2011 will be approved by the general meetings of the Group companies.

Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 160 per share that represents in total amount CZK 6,082 million. The proposal is subject of the Supervisory Board's review and subsequently of the approval of General Shareholders meeting.

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

16 Earnings per share

Earnings per share of CZK 249.97 (2010: CZK 350.41 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 9,475 million (2010: CZK 13,330 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 105,112 (2010: 54,000).

17 Cash and current balances with central banks

Cash and current balances with central banks comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Cash and cash equivalents	7,549	7,052
Current balances with central banks	9,431	6,637
Total cash and current balances with central banks	**16,980**	13,689

Obligatory minimum reserves in the amount of CZK 8,601 million (2010: CZK 4,347 million) are included in 'Current b*alances with central banks'* and they bore the interest. At 31 December 2011 the interest rate was 0.75% (2010: 0.75 %) in the Czech Republic and 1% (2010: 1%) in the Slovak Republic.

18 Financial assets at fair value through profit or loss

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Securities	15,564	23,778
Derivative financial instruments	19,363	10,225
Financial assets at fair value through profit or loss	**34,927**	34,003

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 44.

Trading securities comprise:

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

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

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

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

Trading shares and participation certificates at fair value comprise:

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

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

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

Debt trading securities at fair value comprise:

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

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

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

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

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

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

19 Financial assets available for sale

Financial assets available for sale comprise:

	31 Dec 2011		31 Dec 2010	
(CZKm)	**Fair value**	**Cost***	Fair value	Cost*
Shares and participation certificates	**702**	**62**	702	63
Fixed income debt securities	110,302	110,306	104,679	99,928
Variable yield debt securities	14,971	15,028	11,064	11,299
Total debt securities	**125,273**	**125,334**	115,743	111,227
Total financial assets available for sale	**125,975**	**125,396**	116,445	111,290

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

As at 31 December 2011, the available-for-sale portfolio includes securities at a fair value of CZK 119,226 million (2010: CZK 102,186 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 6,749 million (2010: CZK 14,259 million) that are not publicly traded.

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

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

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

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

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

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

Debt securities available for sale at fair value comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Variable yield debt securities		
- Czech Crowns	13,066	10,077
- Other currencies	1,905	987
Total variable yield debt securities	**14,971**	11,064
Fixed income debt securities		
- Czech Crowns	85,101	80,581
- Other currencies	25,201	24,098
Total fixed income debt securities	**110,302**	104,679
Total debt securities available for sale	**125,273**	115,743

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	78,523	70,594
- Foreign state institutions	25,608	24,940
- Financial institutions in the Czech Republic	16,419	15,510
- Foreign financial institutions	2,847	3,747
- Other entities in the Czech Republic	569	239
- Other foreign entities	1,307	713
Total debt securities available for sale	**125,273**	115,743

Debt securities available for sale issued by foreign state institutions:

(CZKm)	**31 Dec 2011**		31 Dec 2010	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
Italy	7,302	8,234	7,882	7,707
Poland	8,340	7,878	8,204	7,579
Portugal	218	261	0	0
Greece	2,071	7,327	6,249	7,438
Slovakia	5,324	5,425	1,491	1,455
EIB	2,353	2,253	1,114	1,000
Total debt securities	25,608	31,378	24,940	25,179

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

Debt securities available for sale issued by Greece comprise:

(CZKm) **ISIN**	**Fair value**	**Maturity**
GR0128001584	1,423	20. 5. 2013
GR0128002590	337	11. 1. 2014
GR0124026601	172	20. 7. 2015
GR0124029639	139	20. 7. 2017
Total	**2,071**	

Of the debt securities issued by state institutions in the Czech Republic, CZK 67,270 million (2010: CZK 65,225 million) represents securities eligible for refinancing with the Czech National Bank.

During the year ended 31 December 2011, the Group acquired bonds with a nominal value of CZK 18,394 million and EUR 243 million (a total CZK equivalent of CZK 24,321 million). During 2011, the Group sold debt securities in the nominal amount of CZK 3,300 million and USD 2,400 million (a total CZK equivalent of CZK 47,300 million). During 2011, the Group had a proper repayment of debt securities at the maturity in the aggregate nominal amount of CZK 11,041 million and EUR 51 million (a total CZK equivalent of CZK 12,286 million).

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

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

In connection with Pension reform in the Czech Republic (Act 426/2011 and 427/2011) the Group also assessed the part of the portfolio securities held to maturity as untenable and transferred this part of the securities in the total amortised cost of CZK 2,688 million into portfolio of financial assets available for sale. Such transfers do not violate other rules for holding portfolio financial assets held to maturity.

Greece

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

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

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

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

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

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

20 Assets held for sale

As at 31 December 2011, the Group reported assets held for sale at a carrying amount of CZK 138 million (2010: CZK 34 million) mainly comprising equipments which were obtained by taking possession of leasing collateral (as at 31 December 2010 mainly comprising buildings and land owned by the Group which management of the Group decided to sell as part of the plan to optimise the distribution network).

21 Amounts due from banks

Balances due from banks comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Current account with other banks	179	59
Debt securities	13,392	11,309
Loans and advances to banks	10,098	12,073
Advances due from central banks (reverse repo transactions)	59,011	71,008
Term placements with other banks	18,713	17,731
Total	**101,393**	112,180
Allowances for amount due from banks (refer to Note 12)	0	0
Total amounts due from banks	**101,393**	112,180

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

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

Securities acquired as loans and receivables

As of 31 December 2011, the Group maintains in its portfolio bonds at an amortised cost of CZK 10,098 million (2010: CZK 12,073 million) and a nominal value of CZK 10,148 million (2010: CZK 11,880 million), of which CZK 8,033 million represents bonds issued by the parent company Société Générale S. A. (2010: CZK 9,765 million) which the Group acquired under initial offerings and normal market conditions in 2002, 2006 and 2010. The bond with the nominal value of CZK 2,000 million (2010: CZK 4,000 million) is denominated in CZK, bears fixed interest at 4.27 % and will mature in 2012. During 2011, the nominal value of the bond in the amount of CZK 2,000 million (2010: CZK 2,000 million) was partially repaid. The bond with the nominal value of CZK 3,443 million (2010: CZK 3,175 million) is denominated in EUR, bears floating interest and will mature in 2026. During 2011, there was a partial repayment of the nominal value of the bond in the amount of EUR 2 million (an equivalent of CZK 51 million) (2010: EUR 2 million, an equivalent of CZK 51 million). The bond with the nominal value of CZK 2,590 million (2010: CZK 2,590 million) is denominated in CZK, bears fixed interest at 2.84% and will ultimately mature in 2015.The Group additionally carries three issues of securities placed by financial institutions with an aggregate nominal value of CZK 2,115 million in this portfolio (2010: CZK 2,115 million).

22 Loans and advances to customers

Loans and advances to customers comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Bonds	461	0
Loans to customers	447,963	397,168
Bills of exchange	439	398
Forfaits	1,650	2,168
Other amounts due from customers	467	167
Total gross loans and advances to customers	**450,980**	399,901
Allowances for loans to Individuals	(5,892)	(5,202)
Allowances for loans to Corporates /*	(10,685)	(10,091)
Allowances for other amounts due from customers	(17)	(15)
Total Allowances for loans (refer to Note 12)	**(16,594)**	(15,308)
Total loans and advances to customers, net	**434,386**	384,593

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

As at 31 December 2011 loans and advances to customers include interest due of CZK 1,487 million (2010: CZK 1,346 million), of which CZK 896 million (2010: CZK 802 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as at 31 December 2011 in the amount of CZK 289 million (2010: CZK 187 million) are collateralised by securities with fair values of CZK 193 million (2010: CZK 212 million).

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

(CZKm)	**Gross receivable**	**Collateral applied**	**Net exposure**	**Allowances**	**Carrying value**	**Allowances**
Standard	409,703	181,845	227,858	0	409,703	0%
Watch	14,633	4,907	9,726	(1,001)	13,632	10%
Substandard	4,837	2,490	2,347	(946)	3,891	40%
Doubtful	4,239	1,587	2,652	(1,631)	2,608	62%
Loss	16,640	1,059	15,581	(12,999)	3,641	83%
Total	**450,052**	**191,888**	**258,164**	**(16,577)**	**433,475**	

The loan portfolio of the Group as of 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	360,880	178,064	182,816	0	360,880	0%
Watch	13,043	5,401	7,642	(1,009)	12,034	13%
Substandard	7,976	4,065	3,911	(1,779)	6,197	45%
Doubtful	3,326	860	2,466	(1,522)	1,804	62%
Loss	14,509	745	13,764	(10,983)	3,526	80%
Total	399,734	189,135	210,599	(15,293)	384,441	

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Food industry and agriculture	16,085	12,686
Mining and extraction	2,112	731
Chemical and pharmaceutical industry	6,068	5,051
Metallurgy	10,064	6,621
Automotive industry	2,486	2,588
Manufacturing of other machinery	7,712	5,306
Manufacturing of electrical and electronic equipment	3,070	3,216
Other processing industry	9,164	7,222
Power plants, gas plants and waterworks	22,566	17,832
Construction industry	11,829	11,479
Retail	11,689	10,937
Wholesale	26,745	29,770
Accommodation and catering	1,168	1,017
Transportation, telecommunication and warehouses	15,761	9,378
Banking and insurance industry	21,743	23,710
Real estate	26,938	22,414
Public administration	32,399	26,648
Other industries	20,821	18,245
Individuals	201,632	184,883
Loans to customers	**450,052**	399,734

The majority of loans (90%) were provided to entities on the territory of the Czech Republic.

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

	31 Dec 2011			31 Dec 2010		
(CZKm)	**Total client loan collateral***	**Discounted client loan collateral value****	**Applied client loan collateral value*****	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***
Guarantees of state and governmental institutions	10,368	3,433	3,415	10,703	8,699	6,777
Bank guarantee	16,528	13,779	13,160	23,053	21,836	18,998
Guaranteed deposits	7,981	7,979	7,704	7,453	7,451	7,116
Issued debentures in pledge	4	3	3	219	219	0
Pledge of real estate	319,707	192,021	139,877	297,691	177,208	126,439
Pledge of movable assets	20,862	3,439	3,353	14,044	2,967	2,850
Guarantee by legal entity	20,911	13,802	13,145	23,176	14,886	12,229
Guarantee by individual (natural person)	6,394	690	648	7,663	832	785
Pledge of receivables	32,782	376	79	37,647	3,666	9,719
Insurance of credit risk	10,928	10,381	10,381	9,581	9,101	4,058
Other	2,095	129	123	3,710	373	164
Total nominal value of collateral	**448,560**	**246,032**	**191,888**	434,940	247,238	189,135

Note:

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

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

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

Pledges on industrial real-estate represent 10 % of total pledges on real estate (2010: 11 %).

Debt securities designated as loans and receivables

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

Loans and advances to customers – restructured

CZKm	**31 Dec 2011**	31 Dec 2010
Individuals	950	734
Corporates /*	5,915	5,535
Total	**6,865**	6,269

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

Leasing

Within the Group, ESSOX and SGEF engages in providing lease services. Assets leased under lease arrangements at ESSOX primarily include used passenger and utility vehicles with an average lease instalment period of 76 months (2010: 76 months), technology with an average lease instalment period of 42 months (2010: 42 months). At SGEF leased assets primarily include trucks, tractors and buses with an average lease instalment period of 60 months, agricultural vehicles and machines with an average lease instalment period of 54 months, machine technology, with an average lease instalment period of 60 months and high-tech finance, with an average lease instalment period of 40 months

Loans and advances to customers - leasing

(CZKm)	**31 Dec 2011**	31 Dec 2010
Due less than 1 year	4,851	414
Due from 1 to 5 years	6,799	114
Due over 5 years	682	1
Total	**12,332**	529

Future interest (the difference between the gross and net leasing investment) on lease contracts

(CZKm)	**31 Dec 2011**	31 Dec 2010
Due less than 1 year	527	12
Due from 1 to 5 years	646	11
Due over 5 years	88	0
Total	**1,261**	23

As of 31 December 2011 the provisions recognised against uncollectible lease receivables amount to CZK 825 million (2010: CZK 363 million).

Trade finance losses

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

23 Financial assets held to maturity

Investments held to maturity comprise:

	31 Dec 2011		31 Dec 2010	
(CZKm)	**Carrying value**	**Cost***	Carrying value	Cost*
Fixed income debt securities	3,359	3,259	6,712	6,523
Total investments held to maturity	**3,359**	**3,259**	6,712	6,523

Note:/ Amortised acquisition cost*

As at 31 December 2011, investments held to maturity include bonds of CZK 3,359 million (2010: CZK 6,712 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Fixed income debt securities		
- Czech Crowns	3,175	5,758
- Other currencies	184	954
Total fixed income debt securities	**3,359**	6,712
Total debt securities held to maturity	**3,359**	6,712

Investments held to maturity, allocated by issuer, comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Debt securities held to maturity issued by:		
- State institutions in the Czech Republic	3,175	5,758
- Foreign state institutions	184	954
Total debt securities held to maturity	**3,359**	6,712

Debt securities held to maturity issued by foreign state institutions:

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

Note: / Amortised acquisition cost.*

Of the debt securities issued by state institutions in the Czech Republic, CZK 3,175 million (2010: CZK 5,757 million) represents securities eligible for refinancing central banks.

In the year ended 31 December 2011, the Group acquired debt securities with the total nominal amount of CZK 200 million (2010: EUR 250 million), and there were no redemption at maturity (2010: EUR 11 million, i.e. CZK 277 million).

As at 31 December 2011 the Bank transferred debt securities in the total amortized cost EUR 23 million and USD 10 million (a total CZK equivalent of CZK 783 million) from portfolio financial assets held to maturity into portfolio financial assets available for sale due to the change of their holding intention. Intention to change the tenure occurred in connection with a significant deterioration of issuer's creditworthiness. Such reclassification does not trigger the "tainting rules" (refer to Note 19).

In connection with Pension reform in the Czech Republic (Act 426/2011 and 427/2011) the Group also assessed the part of the portfolio securities held to maturity as untenable and transferred this part of the securities in the total amortized cost of CZK 2,688 million into portfolio of financial assets available for sale. Such transfers do not violate other rules for holding portfolio financial assets held to maturity.

24 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Prepayments and accrued income	502	683
Settlement balances	262	264
Receivables from securities trading	37	87
Other assets	2,457	2,361
Total prepayments, accrued income and other assets	**3,258**	3,395

In the year ended 31 December 2011, '*Other assets*' included receivables of CZK 934 million (2010: CZK 970 million) from the state budget including contributions to construction savings scheme and pension insurance policy holders and also advances and receivables for other debtors.

25 Investments in associates

Investments in associates comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Investments in associated undertakings	766	674
Total investments in subsidiaries and associates	**766**	674

(CZKm)		**31 Dec 2011**		31 Dec 2010	
Associates		**Net book value**	**Share of net assets**	Net book value	Share of net assets
Komerční pojišťovna, a. s.	49.00	482	766	482	674
CBCB - Czech Banking Credit Bureau, a. s.*	20.00	0	0	0	0
Total associates		**482**	**766**	482	674
Investments in associates		**482**	**766**	482	674

Note:/ The cost and net book value of CBCB - Czech Banking Credit Bureau, a.s. is CZK 240 thousand.*

(CZKm)	**31 Dec 2011**			
Associates	**Assets**	**Liabilities**	**Net operating income**	**Profit**
Komerční pojišťovna, a. s.	26,791	25,227	451	166
CBCB - Czech Banking Credit Bureau, a. s.	28	23	117	5

(CZKm)	31 Dec 2010			
Associates	Assets	Liabilities	Net operating income	Profit
Komerční pojišťovna, a. s.	22,148	20,774	442	153
CBCB - Czech Banking Credit Bureau, a. s.	28	23	114	4

Additional information about the Group's equity investments is presented in Notes 1 and 2.

26 Intangible assets

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

(CZKm)	Internally generated assets	Software	Other intangible assets	Acquisition of assets	Total
Cost					
31 December 2010	7,394	2,128	98	497	10,117
Balance of acquired company	0	24	0	0	24
Additions	778	168	22	1,168	2,136
Disposals/Transfers	(55)	(105)	(8)	(966)	(1,134)
Exchange rate difference	0	1	0	0	1
31 December 2011	**8,117**	**2,216**	**112**	**699**	**11,144**
Accumulated amortisation and provisions					
31 December 2010	4,909	1,388	64	0	6,361
Balance of acquired company	0	19	0	0	19
Additions	842	223	18	0	1,083
Disposals	(55)	(105)	(8)	0	(168)
Impairment charge	0	0	0	0	0
Exchange rate difference	0	1	0	0	1
31 December 2011	**5,696**	**1,526**	**74**	**0**	**7,296**
Net book value					
31 December 2010	2,485	740	34	497	3,756
31 December 2011	**2,421**	**690**	**38**	**699**	**3,848**

During the year ended 31 December 2011, the Group invested CZK 142 million (2010: CZK 157 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 2011 are as follows:

(CZKm)	Land	Buildings	Fixtures, fittings and equipment	Acquisition of assets	Total
Cost					
31 December 2010	295	10,915	5,363	188	16,761
Balance of acquired company	0	3	18	0	21
Reallocation from / to assets held for sale	0	23	1	0	24
Additions	5	307	226	717	1,255
Disposals/Transfers	(13)	(250)	(323)	(541)	(1,127)
Exchange rate difference	0	0	2	0	2
31 December 2011	**287**	**10,998**	**5,287**	**364**	**16,936**
Accumulated depreciation and provisions					
31 December 2010	0	5,330	4,359	0	9,689
Balance of acquired company	0	2	13	0	15
Reallocation of accumulated depreciation of assets held for sale	0	10	0	0	10
Additions	0	340	343	0	683
Disposals	0	(205)	(315)	0	(520)
Impairment charge	0	123	1	0	124
Exchange rate difference	0	0	1	0	1
31 December 2011	**0**	**5,600**	**4,402**	**0**	**10,002**
Net book value					
31 December 2010	295	5,585	1,004	188	7,072
31 December 2011	**287**	**5,398**	**885**	**364**	**6,934**

As of 31 December 2011, the Group recognised provisions against tangible assets of CZK 16 million (2010: CZK 17 million). These provisions primarily included provisions charged in respect of leasehold improvements.

28 Goodwill

Goodwill by companies as at 31 December 2011 is as follows:

(CZKm)	2011	2010
Modrá pyramida stavební spořitelna, a. s.	3,388	3,388
ESSOX s.r.o.	163	163
SG Equipment Finance Czech republic s.r.o.	201	-
Total Goodwill	**3,752**	3 551

29 Financial liabilities at fair value through profit or loss

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

(CZKm)	31 Dec 2011	31 Dec 2010
Sold securities	4,686	2,608
Derivative financial instruments	19,375	11,065
Financial liabilities at fair value through profit or loss	**24,061**	13,673

For detailed information of financial derivative instruments included in the portfolio for trading, refer to Note 44.

30 Amounts due to banks

Amounts due to banks comprise:

(CZKm)	31 Dec 2011	31 Dec 2010
Current accounts	2,516	3,086
Other amounts due to banks	34,938	25,988
Total amounts due to banks	**37,454**	29,074

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 1,818 million (2010: CZK 0 million). At the end of 2011 the Bank did not receive any repos from banks.

31 Amounts due to customers

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

(CZKm)	31 Dec 2011	31 Dec 2010
Current accounts	319,440	300,472
Savings accounts	137,001	106,186
Term deposits	58,196	80,318
Depository bills of exchange	10,071	15,803
Loans received from customers	0	2,369
Other payables to customers	35,993	32,903
Total amounts due to customers	**560,701**	538,051

The fair value of securities and treasury bills serving as collateral for received repurchase loans from clients amounted to CZK 0 million (2010: CZK 2,363 million). At the end of 2011 the Group did not receive any repos from customers.

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

(CZKm)	31 Dec 2011	31 Dec 2010
Private companies	184,385	172,664
Other financial institutions, non-banking entities	9,185	10,723
Insurance companies	4,625	9,368
Public administration	1,395	2,002
Individuals	257,533	248,667
Individuals - entrepreneurs	24,538	24,258
Government agencies	60,355	54,585
Other	10,733	10,210
Non-residents	7,952	5,574
Total amounts due to customers	**560,701**	538,051

32 Securities issued

Securities issued comprise bonds of CZK 0 million (2010: CZK 538 million) and mortgage bonds of CZK 18,338 million (2010: CZK 16,893 million). Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
In less than one year	0	0
In one to five years	12,399	12,635
In five to ten years	0	1,188
In ten to twenty years	0	0
Over twenty years	5,939	3,608
Total debt securities	**18,338**	17,431

During the year ended 31 December 2011, the Group repurchased the mortgage bonds with the aggregate nominal volume of CZK 708 million and EUR 26 million (a total CZK equivalent of CZK 1,326 million), refer to the following table.
The debt securities detailed above include the following bonds and notes issued by the Group:

Name	**Interest rate**	**Currency**	**Issue date**	**Maturity date**	**31 Dec 2011 (CZKm)**	31 Dec 2010 (CZKm)
Mortgage bonds of Komerční banka, a. s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10 % value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	2,306	2,478
Mortgage bonds of Komerční banka, a. s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,093	10,157
Mortgage bonds of Komerční banka, a. s., CZ0002000854	3.74%	EUR	1 Sep 2006	1 Sep 2016	0	650
Mortgage bonds of Komerční banka, a. s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	5,939	3,608
Bonds of Komerční banka, a. s., CZ0003701427	4.22%	CZK	18 Dec 2007	1 Dec 2017	0	538
Total debts					**18,338**	17,431

Note: Six-month PRIBOR was 145 basis points as at 31 December 2011 (2010: 156 basis points).
Three-month PRIBID was 78 basis points as at 31 December 2011 (2010: 85 basis points).
The value of the interest rate swaps CZK sale average for ten years as at 31 December 2011 was 219 basis points (2010 - 319 basis points).

33 Accruals and other liabilities

Accruals and other liabilities comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Settlement balances and outstanding items	70	5
Payables from securities trading and issues of securities	1,433	1,412
Payables from payment transactions	6,844	3,036
Other liabilities	4,071	3,601
Accruals and deferred income	230	191
Total accruals and other liabilities	**12,648**	8,245

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

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

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

34 Provisions

Provisions comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Provisions for contracted commitments (refer to Notes 9 and 10)	441	457
Provisions for other credit commitments (refer to Note 12)	617	569
Provision for restructuring (refer to Notes 9 and 10)	9	30
Total provisions	**1,067**	1,056

In 2011, the Group 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 release and use for the provision reflecting the expenses incurred in 2011. 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 and retirement bonuses.

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Provision for off balance sheet commitments	502	461
Provision for undrawn loan facilities	115	108
Total	**617**	569

Movements in the provisions for contracted commitments are as follows:

(CZKm)	1 January 2011	Additions	Disposals	Accrual	Foreign exchange difference	**31 Dec 2011**
Provisions for retirement bonuses	103	10	(22)	5	0	96
Provisions for loyalty and jubilee bonuses	2	0	0	0	0	2
Other provisions for contracted commitments	352	53	(66)	0	4	343
Provisions for restructuring	30	0	(21)	0	0	9
Total	**487**	**63**	**(109)**	**5**	**4**	**450**

35 Deferred income taxes

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 asset is as follows

(CZKm)	**31 Dec 2011**	31 Dec 2010
Banking provisions and allowances	0	0
Provisions for non-banking receivables	23	12
Allowances for assets	0	0
Non-banking provisions	1	0
Difference between accounting and tax net book value of assets	(8)	0
Leases	(4)	0
Revaluation of hedging derivatives - equity impact (refer to Note 42)	5	0
Revaluation of financial assets available-for-sale - equity impact (refer to Note 43)	0	0
Other temporary differences	3	0
Net deferred tax asset	**20**	12

Deferred tax liability is as follows

(CZKm)	31 Dec 2011	31 Dec 2010
Banking provisions and allowances	271	259
Provisions for non-banking receivables	91	14
Allowances for assets	4	4
Non-banking provisions	86	51
Difference between accounting and tax net book value of assets	(382)	(382)
Leases	(490)	(8)
Revaluation of hedging derivatives - equity impact (refer to Note 42)	(2,294)	(920)
Revaluation of financial assets available-for-sale - equity impact (refer to Note 43)	(298)	(210)
Other temporary differences	(85)	105
Net deferred tax liability	**(3,097)**	(1,086)

Net deferred tax liability recognised in the financial statements:

(CZKm)	31 Dec 2011	31 Dec 2010
Balance at the beginning of the period	**(1,074)**	(756)
Balance of acquired company	(376)	0
Movement in net deferred tax liability - profit and loss impact (refer to Note 14)	(78)	(187)
Movement in net deferred tax liability - equity impact (refer to Note 42 and 43)	(1,549)	(131)
Balance at the end of the period	**(3,077)**	(1,074)

The changes in tax rates had no significant impact on the deferred tax in 2011.

36 Subordinated debt

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

37 Share capital

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

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

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

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

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

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

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

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

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

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

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

Capital Management

The Group 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 Group 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 Group'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 Group. This analysis principally leads to adjustments of the level of the Group's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.

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

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

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

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

As part of the first pillar of Basel II, the Group 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 Group 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 Group 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 Group analyses impacts of stress testing on all risks over a specific time period. For stress testing purposes, the Group 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 Group is exposed and thus mutually integrates the impact of individual risks. The Group regularly prepares the Information on the Internally Determined Capital System and submits it to the Czech National Bank.

The Group 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 Group met all of regulatory imposed capital requirements.

Regulatory capital

(CZKm)	**31 Dec 2011**	31 Dec 2010
Tier 1 capital	52,692	49,363
Tier 2 capital	6,000	6,000
Deductible items of Tier 1 and Tier 2	(3,111)	(2,958)
Total Regulatory capital	**55,581**	52,405

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

(CZKm)	**31 Dec 2011**	31 Dec 2010	**Change in the year**
Cash and balances with central banks	16,980	13,062	3,918
Amounts due from banks – current accounts	179	59	120
Amounts due to central banks	(1)	(1)	0
Amounts due to banks - current accounts	(2,516)	(3,086)	570
Total	**14,642**	10,034	**4,608**

39 Acquisition of subsidiary

The Bank has acquired 50.1% ownership interest in SG Equipment Finance Czech Republic s.r.o. (SGEF) for 1 800 MCZK as at May 4th, 2011.

Income Statement of acquired company:

(CZKM)	1 Jan 2011 until acquisition date	Since acquistion date until 31 Dec 2011
Interest and similar income	356	716
Interest and similar expense	(144)	(297)
Dividend income	0	0
Net interest income and similar income	**212**	**419**
Net fee and commission income	9	19
Net profit on financial operations	(26)	56
Other income	3	(2)
Net operating income	**198**	**492**
Personnel expenses	(40)	(83)
General administrative expenses	(27)	(52)
Depreciation, impairment and disposal of assets	(2)	(3)
Total operating expenses	**(69)**	**(138)**
Profit before allowances/provision for a loan and investment losses, other risk and income taxes	**129**	**354**
Allowances for loan losses	(54)	(53)
Allowances for impairment of securities	0	0
Provisions for other risk expenses	0	0
Cost of risk	**(54)**	**(53)**
Profit before income taxes	**75**	**301**
Income taxes	(15)	(36)
Net profit for the period	**60**	**265**

Initial carrying amounts of acquired company and its revaluation to fair value at the date of business acquisition:

(CZKM)	Initial carrying amounts	Fair value adjustment	Total
ASSETS			
Cash and current balances with central banks	0	0	0
Financial asset at fair value through profit or loss	0	0	0
Positive fair value of hedging financial derivative transactions	1	0	1
Assets held for sale	108	0	108
Amounts due from banks	1,267	(15)	1,252
Loans and advances to customers	18,272	563	18,835
Investments held - to - maturity	0	0	0
Income tax receivables	23	0	23
Prepayments, accrued income and other assets	441	0	441
Intangible fixed assets	6	0	6
Property, plant and equipment	5	0	5
Total assets	**20,123**	**548**	**20,671**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial liabilities at fair value through profit or loss	0	0	0
Amounts due to banks	16,403	61	16,464
Current tax liabilities	131	0	131
Deferred tax liability	376	93	469
Accruals and other liabilities	414	0	414
Provisions	0	0	0
Total liabilities	**17,324**	**154**	**17,478**
Share capital	146	0	146
Share premium and reserves	2,652	394	3,047
Total shareholders' equity	**2,798**	**394**	**3,193**

Loans and advances to customers in the amount of CZK 18,272 million are comprised by CZK 18,723 million loans net of provisions and CZK 451 million of provisions.

The net assets of acquired company:

(CZKm)	30 April 2011
Total acquired assets	20,671
Total acquired liabilities	17,478
Total net assets of acquired companies	**3,193**
Acquired 50.1 % of net assets of a company	1,599
Goodwill	201
Total paid for a 50.1 % investment	**1,800**
Total paid in cash	**1,800**
Cash flow from acquisition	
Payment for acquired company	(1,800)
Cash of acquired company at the acquisition/disposal date	0
Net cash flow from acquisition	**(1 800)**

Additional information is presented in Note 2.

40 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as at 31 December 2011. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 175 million (2010: CZK 193 million) for these legal disputes, refer to Note 34. The Group has also recorded an accrual of CZK 147 million (2010: CZK 147 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2011 the Group assessed lawsuits filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group 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 Group makes provisions against these instruments on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2011, the Group had capital commitments of CZK 1,740 million (2010: CZK 267 million) in respect of current capital investment projects. CZK 1,249 million is associated with the project of the new building for headquarters of the Group which will be implemented during 2012.

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable undertakings by the Group on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The Group 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 Group which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. The Group 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 Group recognises a provision for irrevocable commitments as and when required (according to a customer's solvency).

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

Financial commitments and contingencies comprise:

(CZKm)	**31 Dec 2011**	31 Dec 2010
Non-payment guarantees incl. commitments to issued non-payment guarantees	37,544	36,686
Payment guarantees including commitments to issued payment guarantees	10,863	10,692
Received bills of exchange/acceptances and endorsements of bills of exchange	23	49
Committed facilities and unutilised overdrafts	18,453	19,941
Undrawn credit commitments	46,712	41,795
Unutilised overdrafts and approved overdraft loans	33,657	32,413
Unutilised discount facilities	0	0
Unutilised limits under Framework agreements to provide financial services	11,042	11,596
Open customer/import letters of credit uncovered	554	882
Stand-by letters of credit uncovered	673	444
Confirmed supplier/export letters of credit	252	12
Total contingent revocable and irrevocable commitments	**159,773**	154,510

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 Group issued the guarantee and taking into account the collateral obtained. As of 31 December 2011, the Group recorded provisions for these risks amounting to CZK 617 million (2010: CZK 569 million) – refer to Note 34.

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

(CZKm)	**31 Dec 2011**	31 Dec 2010
Food industry and agriculture	8,625	6,921
Mining and extraction	1,043	363
Chemical and pharmaceutical industry	2,387	3,138
Metallurgy	4,868	4,678
Automotive industry	699	701
Manufacturing of other machinery	9,011	11,409
Manufacturing of electrical and electronic equipment	1,672	1,825
Other processing industry	4,643	4,364
Power plants, gas plants and waterworks	15,496	13,209
Construction industry	34,804	35,928
Retail	4,131	5,833
Wholesale	12,713	12,345
Accommodation and catering	591	674
Transportation, telecommunication and warehouses	7,566	6,489
Banking and insurance industry	6,472	7,512
Real estate	3,490	2,104
Public administration	12,426	10,489
Other industries	14,306	11,322
Individuals	14,830	15,206
Contingent liabilities	**159,773**	154,510

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

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

(CZKm)	31 Dec 2011 Total commitments and contingencies collateral*	31 Dec 2011 Discounted commitments and contingencies collateral value**	31 Dec 2011 Applied commitments and contingencies collateral value***	31 Dec 2010 Total commitments and contingencies collateral*	31 Dec 2010 Discounted commitments and contingencies collateral value**	31 Dec 2010 Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	42	38	38	2,385	1,905	1,905
Bank guarantee	2,111	2,016	1,726	1,121	1,087	938
Guaranteed deposits	2,177	2,136	1,965	2,054	2,039	1,914
Issued debentures in pledge	0	0	0	204	204	165
Pledge of real estate	7,708	4,242	3,449	7,705	4,205	3,089
Pledge of movable assets	116	7	7	110	7	7
Guarantee by legal entity	5,841	4,007	3,870	6,555	4,290	4,270
Guarantee by individual (natural person)	20	1	1	7	0	0
Pledge of receivables	2,135	0	0	5,963	730	636
Insurance of credit risk	4,882	4,638	4,636	2,742	2,605	985
Other	3	3	3	355	282	281
Total nominal value of collateral	**25,035**	**17,088**	**15,695**	29,201	17,354	14,190

Note:

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

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

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

41 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2011, the Group was controlled by Société Générale which owns 60.35 % of the Bank's issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits and 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

As of 31 December 2011, the Group had deposits of CZK 790 million (2010: 443 million) to the associate, Komerční pojišťovna, a.s.. Positive fair value of financial derivatives of associate, Komerční pojišťovna, a.s. to the Group amounted to 462 million (2010: CZK 264 million) and a negative fair value amounted to CZK 57 million (2010: CZK 78 million). Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 345 million (2010: CZK 257 million) and interest expense on financial derivatives amounted to CZK 291 million (2010: CZK 205 million). Income of the Group arising from the intermediation CZK 261 million (2010: CZK 256 million). Other amounts due, amounts owed, income and expenses with the Group were immaterial in 2011 and 2010.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

Company (CZKm)	**31 Dec 2011**	31 Dec 2010
ALD Automotive Czech Republic, s. s r. o.	2,621	2,224
ESSOX SK s.r.o.	199	2
Succursale Newedge UK	10	0
SG Equipment Finance Czech Republic s.r.o.*	-/*	5,980
SG Express bank	2	13
Rosbank	101	0
SG Bruxelles	23	0
SG Private Banking /Suisse/ S.A.	5	7
SG Vostok	0	31
SGA Société Générale Acceptance	3,300	0
SGBT Luxemburg	0	26
Société Générale Paris	21,976	15,858
SG Algerie	2	2
BRD Romania	136	10
SG Orbeo	378	127
Total	**28,753**	24,280

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

Principal balances owed to the Société Générale Group entities include:

Company (CZKm)	**31 Dec 2011**	31 Dec 2010
ALD Automotive Czech Republic, s. s r. o.	1	13
SG Consumer Finance d.o.o.	5	4
SG Cyprus LTD	533	31
SG Equipment Finance Czech Republic s.r.o.*	-/*	1,198
BRD Romania	2	0
ESSOX SK s.r.o.	130	0
SG New York	2	6
SG Private Banking /Suisse/ S.A.	39	71
SG Amsterdam	28	0
SGBT Luxemburg	4,618	648
Société Générale Paris	23,131	28,575
SG London	23	25
SG Vostok	0	5
Société Générale Warsaw	1	15
Splitska Banka	2	0
Credit du Nord	4	4
SG Orbeo	0	169
SG Frankfurt	0	28
Inter Europe Conseil	8	286
Total	**28,527**	31,078

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

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, and debt securities acquired under initial offerings not designated for trading (refer to Note 21), issued bonds and subordinated debt (refer to Note 36).

As of 31 December 2011, the Group also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 180,741 million (2010: CZK 148,764 million) and CZK 191,020 million (2010: CZK 181,426 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2011 and 2010, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2011, the Group realised total income of CZK 23,717 million (2010: CZK 22,478 million) and total expenses of CZK 26,486 million (2010: CZK 21,229 million) with the Société Générale Group. Income includes interest income from debt securities issued by Société Générale Paris (refer also to Note 21), income from interbank deposits, fees from transactions with securities, interest income on hedging derivatives and a gain on trading derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

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

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

(CZKm)	**Year ended 31 Dec 2011**	Year ended 31 Dec 2010
Remuneration to the Board of Directors members*	45	50
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	60	70
Total	**110**	**125**

Note:

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

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

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

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

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

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

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

42 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 2011**	Year ended 31 Dec 2010
Cash flow hedge fair value at 1 January	4,828	2,940
Deferred tax asset/(liability) at 1 January	(920)	(558)
Balance at 1 January	**3,908**	2,382
Movements during the year		
Gains/losses from changes in fair value	9,193	3,503
Deferred income tax	(1,744)	(670)
	7,449	2,833
Transferred to interest income/expense	(1,972)	(1,615)
Deferred income tax	375	308
	(1,597)	(1,307)
Cash flow hedge fair value at 31 December	12,049	4,828
Deferred tax asset/(liability) at 31 December	(2,289)	(920)
Balance at 31 December	**9,760**	3,908

43 Movements in the revaluation of available-for-sale financial assets in the statement of changes in equity

(CZKm)	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Reserve from fair-value revaluation at 1 January	2,438	3,897
Deferred tax asset/(liability)/income tax liability at 1 January	(231)	(485)
Balance at 1 January	**2,207**	3,412
Movements during the year		
Gains/(losses) from changes in fair value	(1,525)	(1,423)
Deferred tax/income tax liability	233	248
	(1,292)	(1,175)
(Gains)/losses from the sale	(189)	(36)
Deferred tax/income tax liability	9	6
	(180)	(30)
(Gains)/losses from the impairment	1,663	0
Deferred tax/income tax liability	(316)	0
	1,347	0
Reserve from fair-value revaluation at 31 December	2,387	2,438
Deferred tax asset/(liability)/income tax liability/income tax liability at 31 December	(305)	(231)
Balance at 31 December	**2,082**	2,207

Unrealised gains and losses from Available-for-sale financial assets recognised in equity of pension funds in the amount of CZK 511 million as at 31 December 2011 (31 December 2010 CZK 290 million) were included within Available-for-sale reserve. When an available-for-sale financial asset is disposed the gain or loss on the disposal is posted to the income statement. In accordance with the Czech law 85% of the total pension fund profit for the year is distributed to pension plan holders.

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

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

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

a) Ratings for business clients and municipalities

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

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

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Group. 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 Group (behavioural rating). In 2010, the Group 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 Group.

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

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

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

b) Ratings for Banks and Sovereign

For banks and other financial institutions the Group 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 Group 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 Group 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 Group.

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 Group. The behavioural rating of clients is concurrently used for regular updates of the probability of default of all client exposures reported in accordance with the BASEL II requirements.

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

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

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

d) Internal register of negative information

During 2011 the Group worked on implementation of new internal registry of negative information. The new register will integrate the maximum quantity of available Group'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 Group from risky entities

e) Credit bureaus

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

f) Credit fraud prevention

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

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

Credit risk concentration

Concentration of credit risk is the risk of such excess losses related to credit transactions, which in particularly difficult circumstances could jeopardize the financial stability of the Group. The Group's credit concentration risk is actively managed in the overall credit risk management using standard tools (evaluation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Group 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 Group complies with regulatory limits set in respect of concentration risk. Refer to Note 22 and 40 for quantitative information about credit risk concentration.

The Group's maximum credit exposure as of 31 December 2011:

	Total exposure			Applied collateral		
(CZKm)	Statement of Financial Position	Off-balance sheet*	Total credit exposure	Statement of Financial Position	Off-balance sheet*	Total collateral
Balances with central banks	**9,431**	**x**	**9,431**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**34,927**	**x**	**34,927**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**18,802**	**x**	**18,802**	**0**	**x**	**0**
Financial assets available for sale	**125,975**	**x**	**125,975**	**0**	**x**	**0**
Amounts due from banks	**101,393**	**5,931**	**107,324**	**59,319**	**28**	**59,347**
Loans and advances to customers	**450,519**	**153,842**	**604,361**	**191,592**	**15,667**	**207,259**
Corporates**	251,982	139,263	**391,245**	58,297	14,486	**72,783**
Of which: top corporate clients	88,954	77,076	**166,030**	28,878	6,259	**35,137**
Individuals	198,070	14,579	**212,649**	133,295	1,181	**134,476**
Of which: mortgage loans	123,553	4,730	**128,283**	100,460	1,028	**101,488**
consumer loans	22,344	202	**22,546**	2,906	22	**2,928**
construction savings scheme loans	47,361	2,203	**49,564**	30,256	128	**30,384**
Other amounts due from customers	467	x	**467**	0	x	**0**
Financial assets held to maturity	**3,359**	**x**	**3,359**	**0**	**x**	**0**
Total	**744,406**	**159,773**	**904,179**	**250,911**	**15,695**	**266,606**

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 Group's maximum credit exposure as of 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	6,637	x	6,637	0	x	0
Financial assets at fair value through profit or loss	34,003	x	34,003	0	x	0
Positive fair value of hedging financial derivatives	11,854	x	11,854	0	x	0
Financial assets available for sale	116,445	x	116,445	0	x	0
Amounts due from banks	112,180	4,954	117,134	71,468	0	71,468
Loans and advances to customers	399,901	149,556	549,457	189,135	14,190	203,325
Corporates**	216,600	134,931	351,531	69,506	13,174	82,680
Of which: top corporate clients	77,069	71,900	148,969	40,734	6,443	47,177
Individuals	183,134	14,625	197,759	119,629	1,016	120,645
Of which: mortgage loans	108,773	3,582	112,355	88,451	786	89,237
consumer loans	22,288	169	22,457	2,635	14	2,649
constructions savings scheme loans	47,951	3,156	51,107	28,874	210	29,084
Other amounts due from customers	167	0	167	0	X	0
Financial assets held to maturity	6,712	x	6,712	0	X	0
Total	687,732	154,510	842,242	260,603	14,190	274,793

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.

Classification of receivables

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

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

Characteristics of receivables that are not categorised

Pursuant to the Regulation issued by the Czech National Bank, the Group 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 Group and after due consideration of all available information, including the estimated value of collateral and expected duration of the recovery process.

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

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

	31 Dec 2011		31 Dec 2010	
CZKm	**Individually**	**Statistical model**	Individually	Statistical model
Corporates*	24,317	2,827	23,115	3,304
Individuals	8,848	4,357	7,762	4,673
Total	**33,165**	**7,184**	30,877	7,977

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

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

(CZKm)	Loans before due date	Past due loans, not impaired 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
Standard	**101,119**	0	0	0	0	0	**0**	**101,119**
Watch	**266**	0	0	0	0	0	**0**	**266**
Total	**101,385**	0	0	0	0	0	**0**	**101,385**
Customers								
Standard	**402,820**	6,706	97	25	13	42	**6,883**	**409,703**
Watch	**12,012**	8	37	14	0	0	**59**	**12,071**
Total	**414,832**	6,714	134	39	13	42	**6,942**	**421,774**

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

(CZKm)	Loans before due date	Past due loans, not impaired 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
Standard	111,513	0	0	0	0	0	0	111,513
Watch	652	0	0	0	0	0	0	652
Total	112,165	0	0	0	0	0	0	112,165
Customes								
Standard	354,725	5,803	296	3	6	47	6,155	360,880
Watch	10,294	191	223	77	0	0	491	10,785
Total	365,019	5,994	519	80	6	47	6,646	371,665

The amount of the used collateral in respect of past due loans not impaired was CZK 6,639 million (2010: CZK 7,416 million).

Loan collateral

The amount of the recognised value of collateral is set based on the Group'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 Group, 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 Group uses independent valuations performed or supervised by a dedicated specialised department.

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

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

Real estate collateral valuation

Activities relating to the valuation of real estate obtained as collateral for commercial and retail loans are independent from the Group'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 2011, together with the principal activity involving real estate valuation, the Group 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 Group monitors both the residential real estate market and the commercial real estate market. The integral part of the monitoring is the revaluation of selected real estate depending on the Basel II requirements. As a result of the statistical monitoring of market prices of residential real estate, residential real estate values were discounted in masse by appropriate discount factor (only in selected regions with a significant decline in prices of residential property over the valuation originally made)), which took place in the last quarter of 2011. In line with this activity, a regular annual process of updating discount factor values which are used to update the values of residential real estates was set up.

Recovery of amounts due from borrowers

As a result of the negative economic development and thus worsened the financial situation of enterprises and retail clients Group 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 Group continues improving the efficiency and process of the recovery. These efforts also involve the intensified and enhanced use of external recovery capacities which cover approximately 18 % of the total portfolio of exposures in recovery and 82 % of the total number of clients in recovery. During 2011, the Group continued regular monthly sales of groups of uncollateralized retail receivables to selected investors, so the maximum achievable recovery rate is obtained. The main emphasis is on further automation of recovery process, including the replacement of existing applications of recovery by the new ones.

The Group 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 Group plays an active role in the insolvency process, the position of secured creditors, creditor s' committee member or representative of creditors, both in bankruptcy proceeding, or even part of the reorganization, which are used by the Group depending on the debtor's circumstances and attitudes of other creditors.

Credit risk hedging instruments

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

Credit risk of financial derivatives

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

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

The Group put limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients, which could arise due to movements in market prices. On a daily basis, the Group monitors its compliance with all limits and if exceeding the Group 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 Group's financial operations

For market risk management purposes, the Group 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 Group'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 Group

Products that are traded by the Group 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 Group 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 Group 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 Group 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 Group uses the Value-at-Risk concept (hereafter only "VaR").

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

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

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

In addition, the Group 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 Group 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 Group monitors its compliance with all limits and if exceeding the Group 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 Group 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 Group 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 % confidence level from the initial value. EaR is set using stochastic simulations of random scenarios of interest rate developments and a change in interest income relative to the initial value is established for each scenario. The calculation of EaR for net interest income involves a stress-testing approach to the interest rate risk within the Structural Book.

The indicator of the Group's sensitivity to a change in market interest rates is measured upon assumption of an instant, one-off and adverse parallel shift of the market yield curve of 1 % p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates occurred. As at 31 December 2011, the interest rate risk sensitivity was in CZK 6 million, in EUR -24 million, in USD 35 million and in other currencies CZK -21 million (2010: CZK -418 million) upon hypothetical assumption of a change in market interest rates of 1 %. The Group is limited by this indicator and the level of the limit is determined to be approximately 2 % of capital.

In order to hedge against interest rate risk within the Structural Book, the Group 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 Group 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 Group also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

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

Financial derivative instruments designated as held for trading:

	31 Dec 2011		31 Dec 2010		**31 Dec 2011**		31 Dec 2010	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Interest rate instruments								
Interest rate swaps	416,530	416,530	334,422	334,422	9,820	9,794	5,432	5,465
Interest rate forwards and futures*	85,931	85,931	116,280	116,280	15	17	32	41
Interest rate options	22,512	22,512	48,395	48,395	535	535	473	473
Total interest rate instruments	**524,973**	**524,973**	499,097	499,097	**10,370**	**10,346**	5,937	5,979
Foreign currency instruments								
Currency swaps	136,795	137,007	102,176	102,840	1,955	2,191	580	1,186
Cross currency swaps	31,380	31,539	26,965	26,831	750	787	703	477
Currency forwards	28,000	27,957	31,352	31,907	718	560	164	665
Purchased options	25,754	25,715	19,882	19,814	1,030	0	633	0
Sold options	25,717	25,757	19,814	19,882	0	1,030	0	633
Total currency instruments	**247,646**	**247,975**	200,189	201,274	**4,453**	**4,568**	2,080	2,961
Other instruments								
Futures on debt securities*	0	0	100	100	0	0	0	0
Forwards on debt securities	0	0	26	26	0	0	0	0
Forwards on emission allowances	7,457	7,417	12,481	12,437	3,606	3,540	1,916	1,839
Commodity forwards	1,035	1,035	1,055	1,055	36	35	55	54
Commodity swaps	13,953	13,953	8,300	8,300	896	884	223	218
Purchased commodity options	11	11	128	128	2	0	14	0
Sold commodity options	11	11	128	128	0	2	0	14
Total other instruments	**22,467**	**22,427**	22,218	22,174	**4,540**	**4,461**	2,208	2,125
Total	**795,086**	**795,375**	**721,504**	**722,546**	**19,363**	**19,375**	10,225	11,065

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

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

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	79,702	230,579	106,249	416,530
Interest rate forwards and futures*	85,647	284	0	85,931
Interest rate options	0	1,113	21,399	22,512
Total interest rate instruments	**165,349**	**231,976**	**127,648**	**524,973**
Foreign currency instruments				
Currency swaps	134,599	1,972	224	136,795
Cross currency swaps	4,311	16,165	10,904	31,380
Currency forwards	25,235	2,518	247	28,000
Purchased options	20,725	5,029	0	25,754
Sold options	20,685	5,032	0	25,717
Total currency instruments	**205,555**	**30,716**	**11,375**	**247,646**
Other instruments				
Futures on debt securities	0	0	0	0
Forwards on debt securities	0	0	0	0
Forwards on emission allowances	7,447	10	0	7,457
Commodity forwards	1,035	0	0	1,035
Commodity swaps	8,428	5,525	0	13,953
Purchased commodity options	11	0	0	11
Sold commodity options	11	0	0	11
Total other instruments	**16,932**	**5,535**	**0**	**22,467**
Total	**387,836**	**268,227**	**139,023**	**795,086**

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

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

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	70,436	191,910	72,076	334,422
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	208,402	218,619	72,076	499,097
Foreign currency instruments				
Currency swaps	96,620	5,255	301	102,176
Cross currency swaps	2,060	13,944	10,961	26,965
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	36,898	11,599	200,189
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	369,483	268,346	83,675	721,504

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

Financial derivative instruments designated as hedging:

	31 Dec 2011		31 Dec 2010		**31 Dec 2011**		31 Dec 2010	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Cross currency swaps for cash flows hedging	31,385	29,615	30,024	26,960	114	1,162	731	456
Cross currency swaps for fair value hedging	3,584	6,570	348	3,022	1	320	80	43
Currency swaps for fair value hedging	200	209	0	0	0	8	0	0
Currency forwards for fair value hedging	0	0	206	203	0	0	0	4
Interest rate swaps for cash flow hedging	350,841	350,841	320,774	320,775	18,687	6,168	11,013	5,958
Interest rate swaps for fair value hedging	11,821	11,821	11,286	11,286	0	1,887	30	763
Total	**397,831**	**399,056**	362,638	362,246	**18,802**	**9,545**	11,854	7,224

Remaining maturity of derivatives designated as hedging 31 December 2011:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	418	27,147	3,820	31,385
Cross currency swaps for fair value hedging	0	1,653	1,931	3,584
Currency swaps for fair value hedging	200	0	0	200
Interest rate swaps for cash flow hedging	49,537	178,408	122,896	350,841
Interest rate swaps for fair value hedging	0	386	11,435	11,821
Total	**50,155**	**207,594**	**140,082**	**397,831**

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	12,854	2,077	30,024
Cross currency swaps for fair value hedging	0	348	0	348
Currency swaps for fair value hedging	206	0	0	206
Interest rate swaps for cash flow hedging	52,414	153,753	114,607	320,774
Interest rate swaps for fair value hedging	0	461	10,825	11,286
Total	67,713	167,416	127,509	362,638

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

	31 Dec 2011			31 Dec 2010		
(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	Up to 1 year	1 to 5 years	Over 5 years
Cash inflows	2,495	4,633	823	2,113	3,378	561
Cash outflows	(3,172)	(10,090)	(5,194)	(2,726)	(8,931)	(5,219)
Net cashflow	**(677)**	**(5,457)**	**(4,371)**	(613)	(5,553)	(4,658)

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

During 2011, the Group recorded the following hedges:

(i) Interest rate risk hedge:

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

(ii) Foreign exchange risk hedge:

a. In selected material cases, the Group hedges the future cash flows of firm commitments arising from the Group's contractual obligations (e.g., contractual payments to third parties in a foreign currency) or receivables of the Group, the hedging instrument includes foreign currency assets (e.g., securities) or foreign currency liabilities (client deposits), respectively ; and
b. The Group 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 Group 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 Group uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group'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 Group'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	8,609	0	0	0	8,371	16,980
Financial assets at fair value through profit or loss	3,356	5,715	4,642	1,851	19,363	34,927
Positive fair values of hedging financial derivatives	0	0	0	1	18,801	18,802
Financial assets available for sale	1,560	14,867	43,730	65,120	698	125,975
Assets held for sale	0	0	0	0	138	138
Amounts due from banks	90,287	3,402	4,942	1,567	1,195	101,393
Loans and advances to customers	185,648	66,695	151,414	23,630	6,999	434,386
Financial assets held to maturity	0	1	1,496	1,862	0	3,359
Current tax assets	0	29	0	0	243	272
Deferred tax assets	0	0	0	0	20	20
Prepayments, accrued income and other assets	0	777	0	0	2,481	3,258
Investments in associates	0	0	0	0	766	766
Intangible assets	0	0	0	0	3,848	3,848
Tangible assets	0	0	0	0	6,934	6,934
Goodwill	0	0	0	0	3,752	3,752
Total assets	**289,460**	**91,486**	**206,224**	**94,031**	**73,609**	**754,810**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	4,686	0	0	0	19,375	24,061
Negative fair values of hedging financial derivatives	0	82	132	145	9,186	9,545
Amounts due to banks	30,333	970	0	0	6,151	37,454
Amounts due to customers	84,588	20,846	32,133	2,755	420,379	560,701
Securities issued	2,295	2	10,094	5,947	0	18,338
Current tax liabilities	0	0	0	0	46	46
Deferred tax liabilities	0	0	0	0	3,097	3,097
Accruals and other liabilities	581	0	0	0	12,067	12,648
Provisions	0	0	0	0	1,067	1,067
Subordinated debt	6,002	0	0	0	0	6,002
Total liabilities	**128,486**	**21,900**	**42,359**	**8,847**	**471,368**	**672,960**
On balance sheet interest rate sensitivity gap at 31 December 2011	**160,974**	**69,586**	**163,865**	**85,184**	**(397,759)**	**81,850**
Derivatives*	339,412	244,086	208,970	161,516	0	953,984
Total off balance sheet assets	**339,412**	**244,086**	**208,970**	**161,516**	**0**	**953,984**
Derivatives*	403,950	238,441	233,465	79,503	0	955,359
Undrawn portion of loans**	(5,009)	(263)	4,700	572	0	0
Undrawn portion of revolving loans**	(254)	254	0	0	0	0
Total off balance sheet liabilities	**398,687**	**238,432**	**238,165**	**80,075**	**0**	**955,359**
Net off balance sheet interest rate sensitivity gap at 31 December 2011	**(59,275)**	**5,654**	**(29,195)**	**81,441**	**0**	**(1,375)**
Cumulative interest rate sensitivity gap at 31 December 2011	**101,699**	**176,939**	**311,609**	**478,234**	**80,475**	**x**

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

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	4,974	0	0	0	8,715	13,689
Financial assets at fair value through profit or loss	3,262	15,615	2,837	2,064	10,225	34,003
Positive fair values of hedging financial derivative transactions	0	0	0	0	11,854	11,854
Financial assets available for sale	1,764	13,607	45,834	54,539	701	116,445
Assets held for sale	0	0	0	0	34	34
Amounts due from banks	97,864	7,285	6,461	570	0	112,180
Loans and advances to customers	157,443	57,903	121,903	47,344	0	384,593
Investments held to maturity	10	6	938	5,758	0	6,712
Income taxes receivable	0	0	0	0	44	44
Deferred tax assets	0	0	0	0	12	12
Prepayments, accrued income and other assets	0	814	0	0	2,581	3,395
Investments in associates	0	0	0	0	674	674
Intangible assets	0	0	0	0	3,756	3,756
Tangible assets	0	0	0	0	7,072	7,072
Goodwill	0	0	0	0	3,551	3,551
Total assets	**265,317**	**95,230**	**177,973**	**110,275**	**49,219**	**698,014**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	2,608	0	0	0	11,065	13,673
Negative fair values of hedging financial derivative transactions	51	43	56	135	6,939	7,224
Amounts due to banks	28,619	455	0	0	0	29,074
Amounts due to customers	117,033	15,683	22,349	12,684	370,302	538,051
Securities issued	3,005	0	10,164	4,262	0	17,431
Income tax	0	0	0	0	94	94
Deferred tax liability	0	0	0	0	1,086	1,086
Accruals and other liabilities	525	96	0	0	7,624	8,245
Provisions	0	0	0	0	1,056	1,056
Subordinated debt	6,001	0	0	0	0	6,001
Total liabilities	**157,843**	**16,277**	**32,569**	**17,081**	**398,166**	**621,936**
On balance sheet interest rate sensitivity gap at 31 December 2010	**107,474**	**78,953**	**145,404**	**93,194**	**(348,947)**	**76,078**
Derivatives*	338,666	237,708	169,083	143,036	0	888,494
Total off balance sheet assets	**338,666**	**237,708**	**169,083**	**143,036**	**0**	**888,494**
Derivatives*	388,169	245,148	198,327	56,326	0	887,971
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**	**244,350**	**202,591**	**57,149**	**0**	**887,971**
Net off balance sheet interest rate sensitivity gap at 31 December 2010	**(45,214)**	**(6,642)**	**(33,507)**	**85,887**	**0**	**523**
Cumulative interest rate sensitivity gap at 31 December 2010	**62,260**	**134,570**	**246,467**	**425,548**	**76,601**	**x**

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

*/** Undrawn loans and revolving loans are reported on a net basis, that is, the Group 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 of 31 December 2011 and 2010:

	2011			2010		
	CZK	**USD**	**EUR**	CZK	USD	EUR
Assets						
Cash and balances with central banks	0.40 %	x	x	0.25%	x	x
Treasury bills	1.08 %	x	x	1.23%	x	x
Amounts due from banks	0.97 %	1.04 %	1.37 %	1.01%	0.52%	1.13%
Loans and advances to customers	4.06 %	2.38 %	3.29 %	4.35%	1.11%	3.46%
Interest earning securities	3.62 %	4.16 %	4.02 %	3.21%	4.28%	3.34%
Total assets	2.95 %	2.20 %	2.79 %	3.02%	1.84%	2.87%
Total interest earning assets	3.40 %	2.36 %	3.02 %	3.44%	1.93%	3.10%
Liabilities						
Amounts due to central banks and banks	0.27 %	1.23 %	1.64 %	0.27%	0.38%	2.01%
Amounts due to customers	0.43 %	0.10 %	0.30 %	0.37%	0.13%	0.18%
Debt securities	2.63 %	x	0.00 %	2.96%	x	3.76%
Subordinated debt	1.32 %	x	x	1.38%	x	x
Total liabilities	0.55 %	0.15 %	0.60 %	0.53%	0.20%	0.49%
Total interest bearing liabilities	0.46 %	0.16 %	0.65 %	0.48%	0.21%	0.53%
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	2.34 %	1.92 %	2.20 %	2.52%	2.28%	1.99%
Undrawn portion of loans	3.04 %	2.30 %	3.70 %	3.16%	1.36%	2.44%
Undrawn portion of revolving loans	6.21 %	x	1.30 %	6.48%	x	2.19%
Total off balance sheet assets	2.63 %	2.01 %	2.19 %	2.75%	2.28%	2.01%
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	2.05 %	1.89 %	2.38 %	2.23%	2.56%	2.23%
Undrawn portion of loans	3.04 %	2.30 %	3.70 %	3.16%	1.36%	2.44%
Undrawn portion of revolving loans	6.21 %	x	1.30 %	6.48%	x	2.19%
Total off balance sheet liabilities	2.37 %	1.99 %	2.36 %	2.49%	2.55%	2,24%

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

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

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

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

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

(CZKm)	31 Dec 2011 Fixed interest rate	Floating interest rate	No interest	Total	31 Dec 2010 Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and balances with central banks	0	8,608	8,372	**16,980**	0	4,973	8,716	13,689
Financial assets at fair value through profit or loss	13,935	1,622	19,370	**34,927**	20,271	3,507	10,225	34,003
Positive fair values of hedging financial derivatives	1	0	18,801	**18,802**	0	0	11,854	11,854
Financial assets available for sale	106,712	18,214	1,049	**125,975**	104,239	11,139	1,067	116,445
Amounts due from banks	9,967	91,342	84	**101,393**	10,411	101,695	74	112,180
Loans and advances to customer	277,357	154,796	2,233	**434,386**	248,186	134,350	2,057	384,593
Financial assets held to maturity	3,249	0	110	**3,359**	6,540	0	172	6,712
Liabilities								
Amounts due to central banks	1	0	0	**1**	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	24,061	**24,061**	0	0	13,673	13,673
Negative fair values of hedging financial derivatives	0	0	9,545	**9,545**	0	0	7,224	7,224
Amounts due to banks	13,034	24,061	359	**37,454**	3,175	25,737	162	29,074
Amounts due to customers	65,700	456,772	38,229	**560,701**	70,580	434,354	33,117	538,051
Securities issued	13,253	5,085	0	**18,338**	1,282	16,149	0	17,431
Subordinated debt	6,002	0	0	**6,002**	0	6,001	0	6,001

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

/ This item principally includes client deposits where the Group 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 Group 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 Group wide level, with the Market Book also having a stand-alone limit. The Group 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 Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group' experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group 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 Group is managed as stipulated above (especially not based on the undiscounted cash flows).

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	9,096	0	0	0	0	7,884	**16,980**
Financial assets at fair value through profit or loss	107	2,794	5,753	4,846	2,054	19,373	**34,927**
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,802	**18,802**
Financial assets available for sale	47	1,684	13,631	49,723	63,300	(2,410)	**125,975**
Assets held for sale	0	28	95	0	0	15	**138**
Amounts due from banks	47,738	38,734	3,436	5,624	2,418	3,443	**101,393**
Loans and advances to customers	4,119	35,112	66,918	121,345	185,748	21,144	**434,386**
Financial assets held to maturity	0	0	1	1,496	1,862	0	**3,359**
Current tax assets	0	0	267	0	0	5	**272**
Deferred tax assets	0	0	0	0	0	20	**20**
Prepayments, accrued income and other assets	47	418	865	0	0	1,928	**3,258**
Investments in associates	0	0	0	0	0	766	**766**
Intangible assets	0	0	0	0	0	3,848	**3,848**
Tangible assets	0	0	0	0	0	6,934	**6,934**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	61,154	78,770	90,966	183,034	255,382	85,504	**754,810**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss	4,686	0	0	0	0	19,375	**24,061**
Negative fair values of hedging financial derivatives	8	0	8	206	146	9,177	**9,545**
Amounts due to banks	19,777	2,231	2,492	7,608	5,346	0	**37,454**
Amounts due to customers	417,566	53,546	23,802	32,875	1,844	31,068	**560,701**
Securities issued	0	0	96	12,577	5,665	0	**18,338**
Current tax liabilities	0	0	17	0	0	29	**46**
Deferred tax liabilities	0	81	147	245	0	2,624	**3,097**
Accruals and other liabilities	10,265	1,486	53	0	0	844	**12,648**
Provisions	10	82	212	275	3	485	**1,067**
Subordinated debt	0	6,002	0	0	0	0	**6,002**
Equity	0	0	0	0	0	81,850	**81,850**
Total liabilities	**452,313**	**63,428**	**26,827**	**53,786**	**13,004**	**145,452**	**754,810**
Statement of Financial Position liquidity gap at 31 December 2011	**(391,159)**	**15,342**	**64,139**	**129,248**	**242,378**	**(59,948)**	**0**
Off balance sheet assets*	30,618	110,662	67,187	61,865	16,584	0	**286,916**
Off balance sheet liabilities*	35,179	135,216	140,067	99,639	21,761	16,261	**448,123**
Net off balance sheet liquidity gap at 31 December 2011	**(4,561)**	**(24,554)**	**(72,880)**	**(37,774)**	**(5,177)**	**(16,261)**	**(161,207)**

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	9,759	0	0	0	0	3,930	**13,689**
Financial assets at fair value through profit or loss	990	1,709	12,604	6,314	2,160	10,226	**34,003**
Positive fair values of hedging financial derivative transactions	0	0	0	0	0	11,854	**11,854**
Financial assets available for sale	44	1,864	13,478	46,450	52,998	1,611	**116,445**
Assets held for sale	0	0	25	0	0	9	**34**
Amounts due from banks	38,083	60,259	3,978	6,886	1,280	1,694	**112,180**
Loans and advances to customers	1,791	35,149	60,512	99,063	165,696	22,382	**384,593**
Investments held to maturity	0	10	6	938	5,758		**6,712**
Income taxes receivable	0	0	35	0	0	9	**44**
Deferred tax assets	0	0	0	0	0	12	**12**
Prepayments, accrued income and other assets	352	152	814	0	0	2,077	**3,395**
Investments in associates	0	0	0	0	0	674	**674**
Intangible assets	0	0	0	0	0	3,756	**3,756**
Tangible assets	0	0	0	0	0	7,072	**7,072**
Goodwill	0	0	0	0	0	3,551	**3,551**
Total assets	**51,019**	**99,143**	**91,452**	**159,651**	**227,892**	**68,857**	**698,014**
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	11,065	**13,673**
Negative fair values of hedging financial derivative transactions	0	0	4	99	136	6,985	**7,224**
Amounts due to banks	22,509	1,789	230	733	3,813	0	**29,074**
Amounts due to customers	387,760	66,392	16,594	24,145	13,836	29,324	**538,051**
Securities issued	0	3	99	12,549	4,780	0	**17,431**
Income tax	0	0	94	0	0	0	**94**
Deferred tax liability	0	0	0	0	0	1,086	**1,086**
Accruals and other liabilities	6,753	1,032	96	0	0	364	**8,245**
Provisions	6	53	174	161	128	534	**1,056**
Subordinated debt	0	1	0	0	6,000	0	**6,001**
Equity	0	0	0	0	0	76,078	**76,078**
Total liabilities	**419,637**	**69,270**	**17,291**	**37,687**	**28,693**	**125,436**	**698,014**
Statement of Financial Position liquidity gap at 31 December 2010	**(368,618)**	**29,873**	**74,161**	**121,964**	**199,199**	**(56,579)**	**0**
Off balance sheet assets*	23,215	72,491	72,063	50,099	13,675	0	**230,273**
Off balance sheet liabilities*	29,071	98,294	142,203	83,641	15,812	16,454	**385,475**
Net off balance sheet liquidity gap at 31 December 2010	**(5,856)**	**(25,803)**	**(70,140)**	**(33,542)**	**(2,137)**	**(16,454)**	**(153,932)**

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

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	4,686	0	0	0	0	0	**4,686**
Amounts due to banks	19,789	2,396	2,886	8,346	5,448	(343)	**38,522**
Amounts due to customers	417,659	54,034	24,228	36,517	3,435	3, 068	**566,941**
Securities issued	4	81	1,279	16,707	7,992	0	**26,063**
Current tax assets	0	0	17	0	0	29	**46**
Deferred tax liabilities	0	82	163	245	0	2,624	**3,114**
Accruals and other liabilities	10,265	1,487	53	0	0	842	**12,647**
Provisions	10	82	212	276	3	484	**1,067**
Subordinated debt	7	6,002	0	0	0	0	**6,009**
Total non-derivative financial liabilities	**452,421**	**64,164**	**28,838**	**62,091**	**16,878**	**34,704**	**659,096**
Other loans commitment granted	2,472	16,622	55,971	18,149	1,687	22,898	**117,799**
Guarantee commitments granted	2,075	7,999	16,834	18,520	3,183	71	**48,682**
Total contingent liabilities	**4,547**	**24,621**	**72,805**	**36,669**	**4,870**	**22,969**	**166,481**

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss (except derivatives)	2,608	0	0	0	0	0	2,608
Amounts due to banks	21,063	3,332	342	976	3,857	(141)	29,429
Amounts due to customers	387,881	66,738	16,872	27,431	17,202	29,324	545,448
Securities issued	2	94	1,238	16,911	7,544	0	25,789
Current tax liabilities	0	0	94	0	0	0	94
Deferred tax liabilities	0	0	0	0	0	1,086	1,086
Accruals and other liabilities	6,753	1,032	96	0	0	364	8,245
Provisions	6	53	174	161	128	537	1,059
Subordinated debt	7	1	0	77	6,000	0	6,085
Total non-derivative financial liabilities	418,321	71,250	18,816	45,556	34,731	31,170	619,844
Other loans commitment granted	2,412	16,218	54,645	17,832	1,687	16,190	108,984
Guarantee commitments granted	2,075	7,999	16,736	18,520	3,183	71	48,584
Total contingent liabilities	4,487	24,217	71,381	36,352	4,870	16,261	157,568

(F) Foreign exchange position

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

(CZKm)	Czech crowns	Euros	US dollars	Other currencies	Total
Assets					
Cash and current balances with central banks	15,219	1,258	259	244	**16,980**
Financial assets at fair value through profit or loss	31,408	2,050	144	1,325	**34,927**
Positive fair values of hedging financial derivatives	17,655	814	333	0	**18,802**
Financial assets available for sale	98,869	23,335	3,771	0	**125,975**
Assets held for sale	138	0	0	0	**138**
Amounts due from banks	82,289	14,842	3,850	412	**101,393**
Loans and advances to customers	373,769	55,216	5,192	209	**434,386**
Financial assets held to maturity	3,175	184	0	0	**3,359**
Current tax assets	272	0	0	0	**272**
Deferred tax assets	14	6	0	0	**20**
Prepayments, accrued income and other assets	3,057	189	12	0	**3,258**
Investments in associates	766	0	0	0	**766**
Intangible assets	3,848	0	0	0	**3,848**
Tangible assets	6,926	8	0	0	**6,934**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**641,157**	**97,902**	**13,561**	**2,190**	**754,810**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	22,199	1,707	148	7	**24,061**
Negative fair values of hedging financial derivatives	7,649	1,720	176	0	**9,545**
Amounts due to banks	17,756	17,250	2,409	39	**37,454**
Amounts due to customers	510,963	40,430	6,963	2,345	**560,701**
Securities issued	18,338	0	0	0	**18,338**
Current tax liabilities	46	0	0	0	**46**
Deferred tax liabilities	3,097	0	0	0	**3,097**
Accruals and other liabilities	11,037	1,356	177	78	**12,648**
Provisions	723	290	44	10	**1,067**
Subordinated debt	6,002	0	0	0	**6,002**
Equity	81,469	381	0	0	**81,850**
Total liabilities	**679,280**	**63,134**	**9,917**	**2,479**	**754,810**
Net FX position at 31 December 2011	**(38,123)**	**34,768**	**3,644**	**(289)**	**0**
Off-balance sheet assets*	881,208	243 915	66,505	4,150	1,195,778
Off-balance sheet liabilities*	841,559	281 009	70,406	3,802	1,196,776
Net off balance sheet FX position at 31 December 2011	**39,649**	**(37,094)**	**(3,901)**	**348**	(998)
Total net FX position at 31 December 2011	**1,526**	**(2,326)**	**(257)**	**59**	(998)

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

(CZKm)	Czech crowns	Euros	US dollars	Other currencies	Total
Assets					
Cash and current balances with central banks	11,456	1,787	202	244	**13,689**
Financial assets at fair value through profit or loss	29,048	4,043	23	889	**34,003**
Positive fair values of hedging financial derivative transactions	11,229	486	139	0	**11,854**
Financial assets available for sale	91,361	21,636	3,448	0	**116,445**
Assets held for sale	34	0	0	0	**34**
Amounts due from banks	95,900	11,782	4,098	400	**112,180**
Loans and advances to customers	340,146	42,927	1,295	225	**384,593**
Investments held to maturity	5,758	762	192	0	**6,712**
Income taxes receivable	44	0	0	0	**44**
Deferred tax assets	12	0	0	0	**12**
Prepayments, accrued income and other assets	3,238	144	13	0	**3,395**
Investments in associates	674	0	0	0	**674**
Intangible assets	3,756	0	0	0	**3,756**
Tangible assets	7,061	11	0	0	**7,072**
Goodwill	3,551	0	0	0	**3,551**
Total assets	**603,268**	**83,578**	**9,410**	**1,758**	**698,014**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	12,494	1,086	42	51	**13,673**
Negative fair values of hedging financial derivative transactions	5,776	1,228	220	0	**7,224**
Amounts due to banks	18,769	7,513	2,769	23	**29,074**
Amounts due to customers	490,062	40,594	6,236	1,159	**538,051**
Securities issued	16,782	649	0	0	**17,431**
Income tax	94	0	0	0	**94**
Deferred tax liability	1,085	1	0	0	**1,086**
Accruals and other liabilities	7,315	781	123	26	**8,245**
Provisions	705	300	44	7	**1,056**
Subordinated debt	6,001	0	0	0	**6,001**
Equity	76,252	(175)	0	1	**76,078**
Total liabilities	**635,336**	**51,977**	**9,434**	**1,267**	**698,014**
Net FX position at 31 December 2010	**(32,068)**	**31,601**	**(24)**	**491**	**0**
Off-balance sheet assets*	823,484	226,335	35,525	3,059	**1,088,403**
Off-balance sheet liabilities*	790,516	259,116	35,925	3,495	**1,089,052**
Net off balance sheet FX position at 31 December 2010	**32,968**	**(32,781)**	**(400)**	**(436)**	**(649)**
Total net FX position at 31 December 2010	**900**	**(1,180)**	**(424)**	**55**	**(649)**

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 Group 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 2011, the Group focused in particular on efficient interconnection of individual tools.

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

(I) *Estimated fair value of assets and liabilities of the Group*

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 Group'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 Group'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. For products where is no contractual maturity (e. g. deposit from building savings and deposits from pension schemes) the Group applies the principle of equality of carrying and fair value. 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 Group 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 Group's balance sheet at their fair value:

	31 Dec 2011		31 Dec 2010	
(CZKm)	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	16,980	16,980	13,689	13,689
Amounts due from banks	101,393	101,814	112,180	112,440
Loans and advances to customers	434,386	444,111	384,593	394,584
Financial assets held to maturity	3,359	3,462	6,712	6,943
Financial liabilities				
Amounts due to central banks and banks	37,455	38,429	29,075	29,362
Amounts due to customers	560,701	560,741	538,051	538,093
Securities issued	18,338	20,487	17,431	18,440
Subordinated debt	6,002	6,003	6,001	6,003

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

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

(CZKm)	31 Dec 2011	Level 1	Level 2	Level 3	31 Dec 2010	Level 1	Level 2	Level3
Financial assets								
Financial assets at fair value through profit or loss								
- Shares and participation certificates	7	7	0	0	1	1	0	0
- Debt securities	15,557	8,746	6,811	0	23,777	7,172	16,605	0
- Derivatives	19,363	3,606	15,757	0	10,225	1,916	8,309	0
Financial assets at fair value through profit or loss	**34,927**	**12,359**	**22,568**	**0**	34,003	9,089	24,914	0
Positive fair value of hedging financial derivatives	**18,802**	**0**	**18,802**	**0**	11,854	0	11,854	0
Financial assets available for sale								
- Shares and participation certificates	702	0	0	702	702	0	0	702
- Debt securities	125,273	91,871	31,331	2,071	115,743	79,373	36,370	0
Financial assets available for sale	**125,975**	**91,871**	**31,331**	**2,773**	116,445	79,373	36,370	702
Financial assets at fair value	**179,704**	**104,230**	**72,701**	**2,773**	162,303	88,462	73,139	702
Financial liabilities								
Financial liabilities at fair value through profit or loss								
- Sold securities	4,686	4,686	0	0	2,608	2,608	0	0
- Derivatives	19,375	3,540	15,835	0	11,065	1,840	9,225	0
Financial liabilities at fair value through profit or loss	**24,061**	**8,226**	**15,835**	**0**	13,673	4,448	9,225	0
Negative fair value of hedging financial derivatives	**9,545**	**0**	**9,545**	**0**	7,224	0	7,224	0
Financial liabilities at fair value	**33,606**	**8,226**	**25,380**	**0**	20,897	4,448	16,449	0

Financial assets at fair value – Level 3:

(mil. Kč)	**Year ended 31 Dec 2011** **Financial assets available for sale**	**Total**	Year ended 31 Dec 2010 Financial assets available for sale	Total
Balance at 1 January	**702**	**702**	702	702
Comprehensive income / (loss)			0	0
- in the statement of comprehensive income	(4,909)	(4,909)	0	0
- in other comprehensive income	1,663	1,663	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	(44)	(44)	0	0
Transfer from Level 3	5,361	5,361	0	0
Balance at 31 December	**2,773**	**2,773**	702	702

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

Debt securities
At the end of June 2011 the Group transferred the Greek government bonds held in the portfolio of Financial assets available for sale into Level 3 fair value hierarchy (refer to Note 19). The fair value of the bonds at the transfer date was CZK 5,361 million (2010: CZK 0 million). At the same time the Group decided to record the impairment and the actual loss from revaluation of these bonds was reclassified from "Other comprehensive income" into "Income statement" in the amount of CZK 1,663 million (2010: CZK 0 million).

45 Assets under management

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

46 Pension reform

In connect with Pension reform in the Czech Republic (Act 426/2011 and 427/2011) the Penzijní fond Komerční banky, a. s., shall be transformed into a Pension Company which is providing supplementary pension savings with at least two mandatory pension savings funds. Transformation and licensing will be executed in 2012, and the pension companies will start operations on 1 January 2013.

The current pension fund assets will be split among newly created pension company and the mandatory Transformed Fund, which will keep conditions for current clients (guarantee of positive return, state subsidy, tax allowance) and will be closed for new participants. The law stipulates strict requirements on the capital and defines strict balance sheet split rules. Participants' liabilities and pension fund investment assets with revaluation differences will be transferred to the Transformation Fund. The value of transferred assets must be at least equal to the value of participants liabilities (amounted to CZK 30,998 million; out of total PFKB balance sheet as of Dec 2011 amounted to CZK 32,603 million).

47 Post balance sheet events

In December 2011, the Group announced the intention to repay prematurely the subordinated debt (refer to Note 36). The prematurely repayment of subordinated debt was subject to proceeding and approval including the Czech National Bank as the regulator. Due to a positive result of these negotiations and a capital position of the Group, the subordinated debt was repaid as at 27th January 2012.

Greece - PSI (PSI – Private Sector Involvement) agreement

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

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

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