ANNUAL REPORT 2011
Komerční banka, a.s.

PARTNERSHIP MATTERS

Survey of Results 2007–2011

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2011	2010[1]	2009[1]	2008[1]	2007[1]
Financial results					
Net banking income	**32,764**	32,386	32,195	32,927	29,670
of which Net interest income	**22,190**	21,431	21,242	20,474	18,790
of which Net fees and commissions	**7,305**	7,725	7,839	8,119	7,756
Total operating costs	**(13,489)**	(12,666)	(13,521)	(14,024)	(13,629)
Attributable net profit	**9,475**	13,330	11,007	13,161	11,188
Net profit per share (CZK)[2]	**249.97**	351.20	289.99	346.74	294.76
Balance sheet					
Total assets	**754,810**	698,014	695,075	699,083	661,819
Loans to customers, net	**434,386**	384,593	372,303	364,040	304,938
Amounts due to customers	**560,701**	538,051	551,809	554,570	540,229
Total shareholders' equity	**81,850**	76,078	68,792	63,013	50,654
Ratios (%)[3]					
Return on average equity (ROAE)[4]	**12.31**	18.73	17.01	23.61	22.54
Return on average assets (ROAA)[5]	**1.30**	1.91	1.58	1.93	1.78
Net interest margin	**3.30**	3.30	3.29	3.21	3.21
Cost/income ratio	**41.17**	39.11	42.00	42.59	45.94
Capital[6]					
Capital adequacy (%)	**14.61**	15.27	14.08	12.13	10.10
Tier 1 ratio (%)	**13.44**	13.95	12.72	10.77	8.87
Tier 1	**52,692**	49,363	44,677	37,624	33,945
Tier 2	**6,000**	6,000	6,000	6,000	6,008
Total regulatory capital	**55,581**	52,405	47,913	40,776	38,658
Total capital requirements	**30,442**	27,459	27,226	26,884	30,611
Other data					
Number of employees, average	**8,774**	8,619	8,815	8,804	8,534

Credit ratings (as of end of March 2012)	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A2
Fitch	F1	A

1) After reclassification (2010 reclassified according to the methodology of 2011)
2) Net profit attributable to shareholders/average number of outstanding shares
3) According to the Komerční banka methodology
4) Net profit attributable to shareholders/average shareholders' equity excluding minority interest
5) Net profit attributable to shareholders/average assets
6) According to the Czech National Bank methodology based on Basel I for 2007, Basel II since 2008

Unconsolidated data (CZK million)	2011	2010[1]	2009[1]	2008[1]	2007[1]
Financial results					
Net banking income	**28,113**	28,255	28,795	29,073	26,231
of which Net interest income	**17,976**	17,610	17,609	16,842	15,864
of which Net fees and commissions	**7,104**	7,429	7,548	7,794	7,520
Total operating costs	**(12,011)**	(11,427)	(12,064)	(12,553)	(12,307)
Net profit	**7,951**	12,035	10,369	11,795	10,170
Balance sheet					
Total assets	**660,279**	607,106	605,087	610,001	588,692
Loans to customers, net	**372,688**	334,834	321,734	318,534	267,525
Amounts due to customers	**469,799**	441,285	456,758	461,105	453,762
Total shareholders' equity	**72,468**	69,014	62,690	59,016	49,236
Ratios (%)[2]					
Return on average equity (ROAE)[3]	**11.24**	18.28	17.04	21.79	20.78
Return on average assets (ROAA)[4]	**1.25**	1.99	1.71	1.97	1.85
Net interest margin	**3.08**	3.12	3.14	3.08	3.17
Cost/income ratio	**42.72**	40.44	41.90	43.18	46.92
Capital[5]					
Capital adequacy (%)	**15.75**	16.67	15.69	14.19	11.04
Tier 1 ratio (%)	**14.38**	15.19	14.17	12.66	9.78
Tier 1	**49,321**	48,162	44,259	39,471	36,575
Tier 2	**6,000**	6,000	6,000	6,000	6,000
Total regulatory capital	**52,492**	51,243	47,473	42,705	41,287
Total capital requirements	**26,655**	24,594	24,201	24,072	29,921
Other data					
Number of employees, average	**7,855**	7,819	7,958	7,981	7,764
Number of points of sale[6]	**397**	395	398	394	386
Number of clients (thousands)[6]	**1,602**	1,590	1,620	1,629	1,577
Number of ATMs[6]	**693**	677	685	673	661

1) After reclassification (2010 reclassified according to the methodology in 2011). Unconsolidated data in 2007–2009 do not include operations in the Slovak Republic.
2) According to the Komerční banka methodology
3) Net profit/average shareholders' equity
4) Net profit/average assets
5) According to the Czech National Bank methodology based on Basel I for 2007, Basel II since 2008
6) KB in the Czech Republic

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CONTACTS

Komerční banka, a.s.
Na Příkopě 33, 114 07 Prague 1
Telephone: +420 955 559 550
Fax: +420 224 243 020
Email: mojebanka@kb.cz
Internet: www.kb.cz

Contact for shareholders and investors:
Investor Relations
Telephone: +420 955 532 155, 955 532 156, 955 532 734
Fax: +420 224 229 315
Email: investor_relations@kb.cz

FURTHER INFORMATION

Detailed financial and operational information about Komerční banka Group is available in other publications on KB's web pages for shareholders and investors www.kb.cz/en/about-the-bank/investor-relations/index.shtml.

Additional information on corporate social responsibility and ethics at KB is available in the "About the bank" section at www.kb.cz/en/about-the-bank/about-us/basic-information.shtml.

Information about KB's products and services is accessible from the home page www.kb.cz/en.

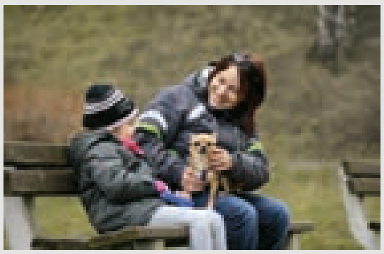
This document contains a number of forward-looking statements relating to the targets and strategies of Komerční banka Group. These statements are based on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be met. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Readers are therefore advised not to rely on this information more than is justified as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

Data marked with $^{+}$ are based on management accounting and they were not audited.

Main Client Segments

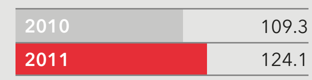
Individuals



KB is the third largest bank the Czech market by number of clients in the individuals segment. It maintains a leading position among active clients, as well as young people and children.

Key data+	2011	2010	%
Number of clients	**1,336,000**	1,321,000	1.2
Volume of loans (CZK billion)	**142.7**	127.9	11.6
Volume of deposits (CZK billion)	**159.9**	153.7	4.1

Mortgages to individuals (CZK billion)+



+13.6%

Small Businesses

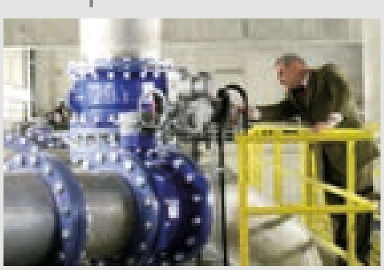
The strategic goal of the small business segment is to develop financing, value-added services and advisory. Customised solutions are offered to groups of clients to meet their financial needs.

Key data+	2011	2010	%
Number of clients	**252,000**	255,000	-1.2
Volume of loans (CZK billion)	**27.8**	25.6	8.2
Volume of deposits (CZK billion)	**111.9**	105.5	6.0

Profi loans (CZK billion)+

+9.6%

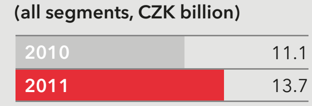
Corporates and Municipalities



As the leading bank for corporations in the Czech Republic, KB provides made-to-measure solutions in financing, asset management, trade finance, hedging and risk management and other services. It does so in long-term partnerships with clients.

Key data+	2011	2010	%
Volume of loans (CZK billion)	**100.8**	93.9	7.4
Volume of deposits (CZK billion)	**126.9**	118.5	7.1

EU financing+ (all segments, CZK billion)



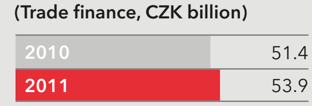
+23.6%

Top Corporations

KB maintains its prominent position among top corporate clients through dedicated relationship managers with an individual approach to clients. They are deployed in five business divisions (4 in the Czech Republic and 1 in Slovakia).

Key data+	2011	2010	%
Volume of loans (CZK billion)	**102.5**	94.5	8.5
Volume of deposits (CZK billion)	**68.8**	57.7	19.1

Sales volume+ (Trade finance, CZK billion)



+5.0%

Statement of the Chairman of the Board of Directors

Dear Shareholders,

We have recently concluded the year 2011, which brought with it a number of uncertainties ensuing from the unsustainability of public budget deficits and the debt crisis across Europe. We likely will continue to cope with the legacy of 2011 for some time to come, and the economic outlook for 2012 remains challenging.

Still, I am mildly optimistic, mainly due to the solid state of the Czech economy and stability of the local banking sector, which in Europe is rather a rarity. The strong capital positions of all the substantial banks in the Czech Republic and the country's responsible bank supervision ensure that local banking is healthy and ready to support the economy, which may anticipate another stress test this year.

Komerční banka's financial results for 2011 have provided further evidence of the Bank's stability and competitiveness. We have succeeded to enlarge our client base while enhancing the portfolio of services we provide and as a result we have been able to accelerate financing of our clients and the Czech economy at large. At the same time, the intrinsic profitability of KB moderately increased and even the reported result remained solid, despite being quite severely impacted by significant and exceptional impairment of Greek bonds. These to me are clear signs that the strategy reviewed in 2010 is on the right course and that our universal banking model provides a solid platform for achieving our business objectives. I am confident we are on track to deliver upon our main undertaking, which is to be the reference bank on the market, to be a bank that stands by its clients in long-term mutually beneficial partnerships, and to be one that continually brings them advantageous and reliable services.

This was directly reflected in KB's winning several prestigious awards. Last year, we were again named Bank of the Year. Owing to the innovative and creative approach of our employees, we were honoured with the title Banking Innovator of the Year for the Lady Card product. Among other innovations we brought to market, one of the most unique is the MojeOdměny (MyRewards) concept by which the Bank rewards its clients for their loyalty and the frequency with which they use KB's banking services. Moreover, ours was one of the first banks on the market successfully to test and introduce a system of payment for products and services using contactless payment cards. There are many more innovations in the lending area to make life easier for individuals and companies while enhancing their communication with our bank. By no means, however, does this complete our effort to introduce new and innovative services and approaches. A crucial challenge for our future will be to continue in anticipating and correctly understanding the trends in clients' wishes, then introducing corresponding solutions into Komerční Banka's standard offer in a timely manner.

To establish ambitious goals already today is clearly necessary for our success and to strengthen our position in a highly competitive market. This is all the more true as we find ourselves in the midst of a debt crisis that has gripped the entire euro zone, the Czech Republic's main trading partner. The public budgets crisis has spawned mistrust in the banking sector's stability, a weakened euro, fiscal limitations, and, consequently, recession in the European economy. At the same time, we have for several months witnessed political turbulence on Middle Eastern markets, thus affecting the prices of commodities, and especially oil.

Not surprisingly, this all has negative effects for our corporate clients, who are forced to optimise their production due to more costly inputs and constrained demand for their products and services. Individual clients also face a tough year ahead, as they must confront deteriorating labour market conditions and rising indirect taxes. Thus, the economic course in 2012 may be uneven. Many scenarios are envisioned – ranging from apocalyptical ones to rather positive economic outlooks. In any circumstances, we stand ready to offer maximum support to our clients, to be their reliable partner and to administer their finances, to communicate with them in an open and comprehensible manner, always offering them options which are the most advantageous and responsive to their needs while carefully considering their financial situations.

Our estimate for economic growth in 2012 is for a very modest but positive rate. Nevertheless, we allow some leeway for possible future corrections. I also would like to point out that the Czech economy has begun 2012 not half badly. The catastrophic scenarios which have been especially presented in the news media have not yet come to reality. I am very pleased to observe that Czech households and firms so far have not given in to the negative mood that has been incited artificially in the financial markets, and this testifies to their common sense.

In closing, I would like to assure you that we will remain fully aware of our role as a responsible and stable Czech bank. Our key mission is to reinforce the mutual relationships and strengthen the trust with our clients even in uncertain or difficult times. Stringently managing liquidity, credit risk and capital adequacy are for Komerční banka standards which we do not intend to change. I would like to thank you, our shareholders, clients and employees, for the support you show us even in very tough economic times. It is only thanks to you and your trust in KB that we are able to realise our ambitious plans.

According to the ancient Chinese calendar, we have entered the Year of the Dragon. It is said this will be a year characterised by great energy, along with momentous events, decisions and opportunities. Let us use its positive energy to overcome the not very favourable economic outlooks and strive together to take advantage of its promising tidings!

HENRI BONNET
Chairman of the Board of Directors

KB's strategy reviewed in 2010 is on the right course and the universal banking model provides Komerční banka a solid platform for achieving its business objectives.

Board of Directors

← **HENRI BONNET**
Chairman of the Board of Directors
and Chief Executive Officer

↑ **JAN JUCHELKA**
Top Corporations

↗ **PETER PALEČKA**
Corporate Secretary

→ **PATRICE TAILLANDIER-THOMAS**
Chief Administrative Officer

↘ **VLADIMÍR JEŘÁBEK**
Distribution

↓ **AURÉLIEN VIRY**
Risk Management

Main Awards and Recognitions of KB Group in 2011

Komerční banka

IR magazine AWARDS 2011 EUROPE

2011 Highly
Commended
Investor Relations

GLOBAL FINANCE:
Safest Bank in Central
and Eastern Europe 2011
1st place

fincentrum
Nejdůvěryhodnější
banka roku
2011

Most Credible
Bank 2011
2nd place

sodexo
Zaměstnavatel roku®
2011

Most Desired
Employer 2011 among
university students
3rd place

fincentrum
Banka roku
2011

Bank of the Year 2011
1st place

webaward 2011

WebAward –
The Bank
Standard of
Excellence

GTR BEST DEALS OF 2010

Best Deal
2010

Effie Award –
communication
campaign for "G2"
student accounts

BANKOVNÍ INOVÁTOR 2011
CENA HOSPODÁŘSKÝCH NOVIN

Banking Innovator 2011
1st place

fincentrum
Banka
bez bariér
2011

Bank Without
Barriers 2011
3rd place

Modrá pyramida stavební spořitelna

Building Society 2011
2nd place

Banking Innovator 2011 – "Moudré spoření" saving account from Modrá pyramida
2nd place

Penzijní fond KB

Best Pension Fund in the Czech Republic

Best Pension Fund in the Czech Republic

Komerční banka and ESSOX

Best Project Management 2011
2nd place

Major Events in 2011

January

With effect from 1 January 2011, the Supervisory Board named Mr Aurélien Viry as a new member of Komerční banka's Board of Directors with responsibility for risk management. He replaces Didier Colin, who took on other responsibilities within Société Générale Group after more than six years on the Bank's Board of Directors.

As from 1 January 2011, a Komerční banka branch was established in Slovakia. This opening was itself preceded by a cross-border merger between Komerční banka and Komerční banka Bratislava, with Komerční banka being the acquiring company.

On 6 January 2011, KB Real Estate, s.r.o. was entered into the Commercial Register as a fully owned subsidiary of the Bank. The company was founded in connection with the acquisition and management of Komerční banka's new office building in Prague.

After a pilot phase in preceding months, the MojeOdměny (MyRewards) programme was launched to thank clients for their loyalty and activity. In a first step, the Bank will return the fee for one withdrawal from one of its ATMs using a KB debit card for each payment made at a merchant using a KB debit or credit card.

February

Komerční banka concluded a third successive contract with the European Investment Bank, the aim of which is to support the financing of small and medium-sized businesses in the Czech Republic. The agreement means KB's business clients with fewer than 250 employees can receive advantageous interest rates on business loans.

World Finance announced the outcome of its regular appraisal as to the best pension funds in more than 30 countries around the world. Penzijní fond Komerční banky was declared winner in the Czech Republic.

March

Two new credit cards – A Card and Lady Card – offered a multitude of such extra services and advantages as discount programmes, insurance, assistance services, extended guarantees, and a contribution to supplemental pension insurance equal to 1% of the sum of non-cash card transactions.

Komerční banka introduced KB Profile Funds, a state-of-the-art means for effectively managing clients' funds through predefined investment strategies corresponding to individual clients' investment preferences and needs.

KB was awarded Global Trade Review's "Best Deal 2010" for its export buyer's credit to finance infrastructure and services in Azerbaijan.

April

At Komerční banka's Annual General Meeting, held 21 April 2011, the shareholders resolved to pay a dividend of CZK 10,263 million, which came to CZK 270 per share and represented 77% of consolidated income for 2010.

The shareholders approved the report of the Board of Directors on the Bank's business activities in 2010, the annual financial statements and proposal for the 2010 profit distribution, as well as remuneration for members of the Board. The General Meeting again agreed with KB's acquiring its own common shares.

The General Meeting also elected Mr Bernardo Sanchez Incera as a member of the Supervisory Board and Mr Jean-Louis Mattei to the Audit Committee.

KB introduced new MůjÚčet (MyAccount) packages for individuals and the Profi account for firms and entrepreneurs, featuring an attractive array of accounts, insurance, cards and other services. As a benefit of the MojeOdměny programme, the price is significantly reduced if a client actively uses additional KB services.

May

SOCIETE GENERALE
Equipment Finance

Komerční banka announced acquisition of 50.1% ownership in SG Equipment Finance Czech Republic s.r.o., a leading provider of financing for industrial machinery and equipment in the Czech Republic and Slovakia. The acquisition will allow broadening the financing offer to KB's clients in the area of leasing and asset-secured loans.

CZK 10,263 million

DIVIDEND IN 2011

In 2011, Komerční banka paid a dividend of CZK 10,263 million and thus CZK 270 per share, which represents 77.0% of KB's consolidated net profit (excluding minority interest) for the year 2010 and a gross dividend yield of 6.87% against the closing share price as of year-end 2010.

June

In Hospodářské noviny's Best Bank 2011 competition, KB was awarded first place in the Banking Innovator category for its Lady Card. Modrá pyramida found success in the same category, placing second with its Moudré spoření savings product. Komerční banka stood second in both the Best Bank and Most Client-Friendly Bank categories.

Komerční banka, in co-operation with IKS KB, introduced a new mutual fund, KB Absolute Return, intended for short-term investments with greater yield potential than term deposits and savings accounts. The two companies also presented the Amundi mutual funds to the Czech market, thus offering a broad range of investment strategies, underlying assets, sectors and regions.

July

Renaud Stern was appointed new CEO of ESSOX, effective as from 1 July 2011. He replaced Thierry Le Marre, who, after four years at ESSOX, took on other responsibilities within Société Générale Group.

For the first time in the Czech Republic, clients could use their mobile phones to make payments in stores. A pilot project for contactless mobile phone payments based on NFC technology was undertaken in co-operation with Komerční banka and other prominent companies.

New payments protection insurance from Komerční pojišťovna, in versions for individuals and entrepreneurs, offered clients certainty of meeting their regular monthly obligations in case of inability to work, disability, accidental death, or loss of employment.

Another credit product brought to market was the MojeAuto loan for acquiring a car with a very simple application procedure and the possibility to obtain discount-priced insurance for the entire repayment period.

August

Komerční banka prepared a new version of its website for the KB branch in Slovakia, which, similarly to the KB website in the Czech Republic, communicates better with users having disabilities.

A new project of the KB – Jistota Foundation, LINET (a leading global manufacturer of hospital beds), and the Association of Hospice Palliative Care Providers provided operators of hospice residences and home hospices significant discounts for adjustable beds.

September

Effective from 1 September 2011, Mr Stéphane Corbet was appointed new Chairman of the Board and CEO of Komerční pojišťovna. He replaced Laurent Dunet, who, after three years at Komerční pojišťovna, took on other responsibilities within Société Générale Group.

Komerční banka entered into co-operation with the National Cluster Association. Through this new partnership, clusters within the association will be able to obtain savings on financial services along with financing advice and assistance.

October

Komerční banka and the Chamber for Commercial Relations with the Commonwealth of Independent States entered into a contract on mutual co-operation for 2012 that focuses on joint support to the clients expanding into markets of the Commonwealth of Independent States.

SG Equipment Finance Czech Republic signed a new contract on support of financing for small and medium-sized businesses from funds of the European Investment Bank, through which clients obtain advantageous interest rates.

The Bank's website was awarded the Bank Standard of Excellence in the WebAward competition organised by the Web Marketing Association.

November

Komerční banka was awarded the prestigious title Bank of the Year 2011 in the contest organised by Fincentrum. Winning for the fourth time in the survey's ten-year history, the bank was recognised for its stability, solidity and innovations.

A study by Global Finance evaluated Komerční banka as the safest bank on the rapidly developing markets of Central and Eastern Europe.

fincentrum
Banka roku
2011

Komerční pojišťovna significantly extended the protection provided by Merlin payment cards insurance. The improved Merlin insures against the consequences of misuse of a client's payment cards issued by KB and other banks. The protection now applies also against loss or theft of personal belongings and cash collected using the card.

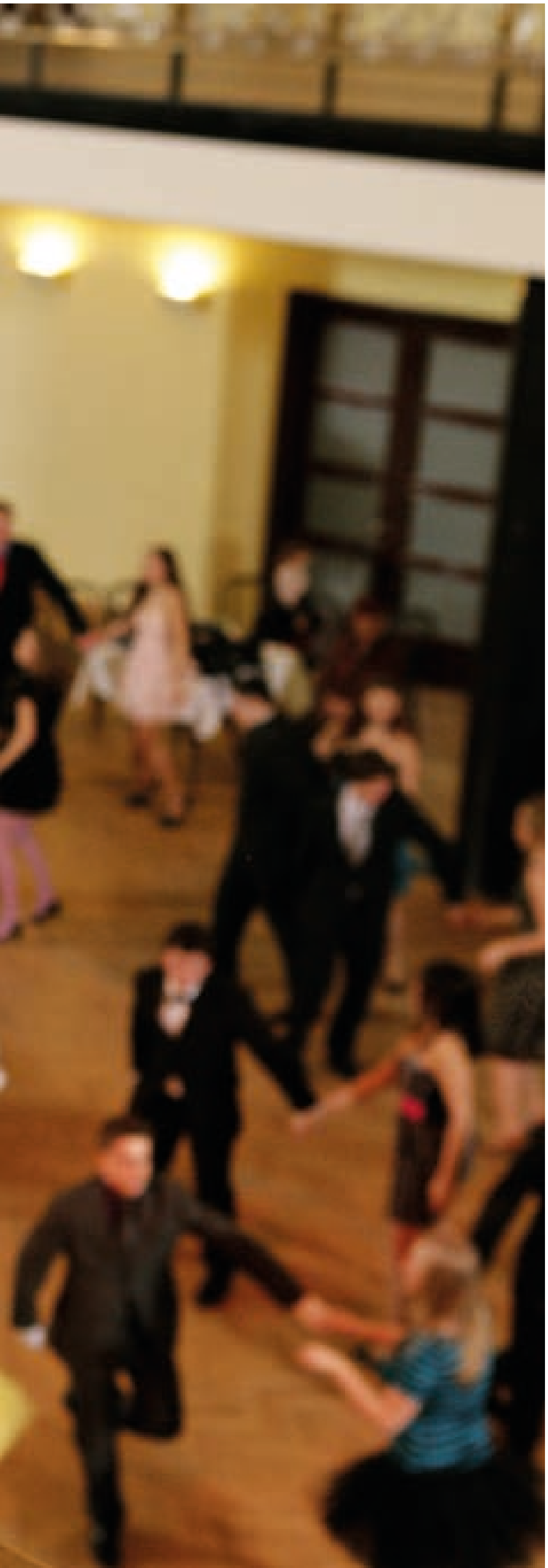
December

Komerční banka concluded a fourth successive contract with the European Investment Bank, the aim of which is to support the financing of small and medium-sized businesses in the Czech Republic. The agreement means KB's business clients with fewer than 250 employees can receive advantageous interest rates on business loans.

Jakub Vavruška

DANCE SCHOOL OWNER

Vavruška®
Taneční škola



VAVRUŠKA Dance School

Jakub Vavruška established his dance school in 2003. Today, it is one of the leading dance schools in Prague, offering both classical dance courses for secondary school students as well as modern courses for university students and adults. Vavruška Dance School uses three historic halls in the centre of Prague and two in Pilsen, conducting dance lessons every night of the week. One of these is the ballroom of Slovanský dům, reconstructed in 2000, where dance courses have been held since the time of the First Republic.

Vavruška Dance School has continued this celebrated history and given new life to the tradition of prestigious dance courses in this magnificent secessionist setting.

Macroeconomic Development in 2011

The year 2011 will be known as that when the European debt crisis escalated. In addition to such peripheral countries as Greece, Ireland and Portugal, systemically important countries such as Italy and Spain also started to encounter debt problems at the governmental level. The crisis in the European government bond markets began negatively to influence the health of the European financial sector and consequently also economic growth in the euro zone, the Czech Republic's main trading partner. The Czech economy was technically in recession during the second half of 2011.

Especially due to the excellent state of the German economy, which recorded its best macroeconomic performance since the reunification in 1990, the Czech economy also had a successful start to 2011, as reflected in growth not only of exports and industrial output but of the economy as a whole. The second half of the year, however, was negatively influenced by impacts from the European debt crisis on demand for Czech exports. For 2011 in its entirety, the Czech economy, as measured by real GDP, expanded by 1.7% after growing 2.7% in the previous year. In the year's second half, however, quarter-to-quarter declines were already seen.

The Czech economy was driven almost exclusively by foreign demand during 2011. Inasmuch as net exports' contribution to economic growth exceeded 3 percentage points, that of domestic demand was negative. The surplus on the foreign trade balance (according to cross-border statistics) for 2011 exceeded CZK 190 billion, which represented year-on-year improvement of more than CZK 70 billion and was the historically best such figure ever. This was mainly attributable to exports of machinery and vehicles. Total exports increased by 13.2% in comparison to 2010, while imports were 10.9% higher. Especially due to improved foreign trade in goods and services, the 2011 deficit on the current account narrowed to −2.1% of GDP from −3.1% of GDP in the previous year. The deficit was more than offset by surpluses on the capital account and especially the financial account so that not even last year did the Czech Republic suffer an external imbalance.

From the viewpoint of gross added value creation, manufacturing was among the most successful areas of the economy. The automotive segment fared especially well, as did the closely related plastics manufacturing and engineering. These were mainly pro-cyclical industries, dependent on foreign demand. While manufacturing output was 6.9% higher in real terms than in 2010, the services sector was on another track and as a whole recorded a 1.5% real decrease. An inauspicious situation continued for a third year in construction, where output fell by 3.1% in 2011 and was therefore down by 10% relative to the booming year 2008. This was due to both companies' lower investment activity and, more especially, fiscal consolidation as reflected in a curbing of large, publicly funded infrastructure projects.

Even though the Czech economy's state debt is among the lowest in Europe (in 2011, rising to just above 40% of GDP), its dynamics and especially the debt situation in certain other European countries necessitate fiscal consolidation. This was accomplished both on the spending and revenues sides. In 2011, the government operated with a CZK 142.8 billion deficit, which was an improvement of approximately CZK 14 billion in comparison with 2010. The budget had originally been approved with a deficit of CZK 135 billion. According to the ESA methodology, which reflects also payments from EU funds that have not yet actually been made, however, the deficit reached CZK 124.2 billion. The Ministry of Finance estimated the overall public finance deficit at 3.7% of GDP in 2011 after being 4.8% in 2010. The government had originally anticipated a deficit at about 4.6% of GDP.

Economic growth of less than 2% is insufficient for creating new jobs. An improving trend had been still apparent in 2011's first half, although industry (in which sector employment increased by 3.0% in 2011) had been the only sector contributing to this trend. The trend ended in the second half of the year. According to labour office statistics, the unemployment rate reached 8.6% at end-2011. It had been 9.6% a year earlier.

The domestic fiscal consolidation, sluggish labour market, and only minimal growth in real wages prompted Czech households to be cautious about spending. Real household consumption thus even decreased year on year by 0.5%. Although retail sales as a whole recorded decent 1.9% growth in real terms; that result was markedly influenced by the automotive segment which itself includes also corporate demand for new cars. Adjusted for the automotive sector, the gain in retails sales was only a minimal 0.4%. This figure takes in both sales growth in 2011's first half and a drop in the second half.

Weak consumer demand was reflected also in inflation. Headline CPI inflation reached 1.9% in 2011 and thus was just under the Czech National Bank's 2% target. It remained below this level for most of 2011 and only climbed above 2% in the final months of the year. These later gains, however, were caused exclusively by factors outside the central bank's control. Food retailers began in advance to include into their prices the hike in the lower VAT rate from 10% to 14% (effective from the start of 2012). Furthermore, prices in the residential sector were influenced by deregulation of rents and especially by more expensive energy, including gas. Finally, fuel prices also comprised a significantly pro-inflationary item. After adjusting for these factors, the inflationary pressures in the economy were actually minimal. Due to modest inflation expectations, it should be no surprise that the central bank kept its key 2-week repo rate at the historically low 0.75%. The low-rates environment and absence of speculative capital in the economy were reflected in stability of the CZK/EUR exchange rate between ca 24.00 and 24.60 CZK/EUR during the first half of the year. In the second half of 2011, the crown weakened as much as to ca 26.00 CZK/EUR to reflect the weakening domestic and foreign economic activity.

Komerční banka Share Price

TRADING IN KOMERČNÍ BANKA SHARES

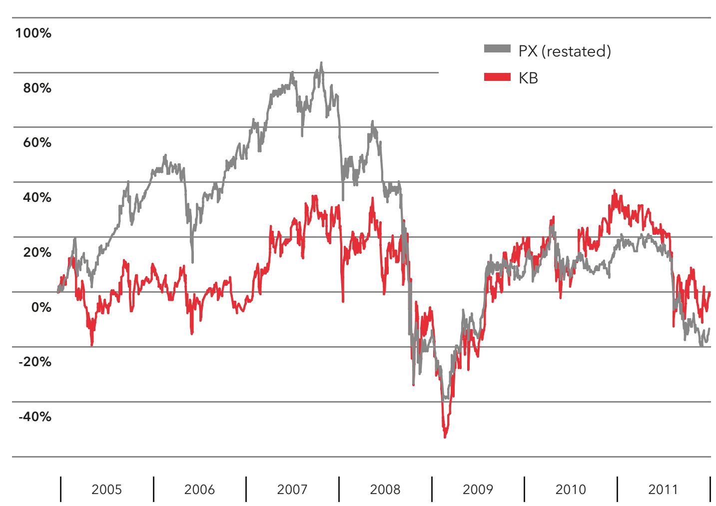
Komerční banka shares trade under ISIN CZ0008019106 on markets in the Czech Republic organised by the Prague Stock Exchange and RM-SYSTÉM Czech Stock Exchange. KB shares rank among the most liquid issues on the Prague Stock Exchange's Main Market. Global depositary receipts (GDRs) representing shares of Komerční banka in the ratio 3:1 are traded on the London Stock Exchange.

SHARE PRICE DEVELOPMENT

In 2011, KB's share price was driven especially by uncertainty in the markets regarding the outlook for the European economy and strong reactions to news about the fiscal problems of some countries in the euro zone. At CZK 4,510, the Bank's share price already had reached its 2011 high by 17 January. The price did not fluctuate greatly in the first half of 2011 but was on a slightly decreasing trend as KB's solid results, reported in February and May, and relatively good news for the Czech economy partly offset unfavourable news from the world (earthquakes in Japan, signs of possible slowdown in the US and China, but especially new information on Greece's deteriorating ability to manage its public debt). In early August, a plan to replace Greek bonds held by private investors was rejected as a solution for Greece's fiscal problems. Fears were increasing that the debt crisis would spread to other euro area countries. Moreover, Standard & Poor's downgraded its credit rating of the US. Investors' negative perceptions brought significant decline in stock prices, and in particular those of financial institutions. KB was no exception. Its share price reached the lowest level for the year on 10 August at CZK 2,900. Through the rest of 2011, the price mainly reflected information on developments in the debt situation of peripheral euro area countries, estimates as to the direct and indirect consequences of this crisis on the banking sector, and measures taken by European institutions, most notably the European Banking Authority and European Central Bank. KB's share price moved in a relatively wide range of CZK 2,900–3,610, with a slightly rising trend. New information in the markets was also quite variable. Relatively good data on the real economies of the Czech Republic and of Germany (the country's main trading partner) alternated with fear as to the possible impacts of government austerity measures on household and business consumption, limitations on standard sources of liquidity for European banks, and implications for economic growth of heightened capital adequacy requirements for European banks.

DEVELOPMENT OF KB SHARE PRICE IN 2011 (% CHANGE)

DEVELOPMENT OF KB SHARE PRICE VS. PX INDEX DURING 2005–2011 (% CHANGE)



Komerční banka's share price closed 2011 at CZK 3,330, lower by 24.9% compared to the end of 2010. The gross dividend of CZK 270 per share represents a dividend yield of 6.1% at the closing price for 2010, and thus the total return before tax from holding KB shares in 2011 was −18.8%. During the same period, the PX index declined by 25.6%. The Dow Jones Stoxx Eastern Europe 300 Banks Index, of which KB is a constituent, decreased by 41.8% in 2011 and was down by 40.0% after conversion to the Czech currency.

Information on Komerční banka Shares	2011	2010	2009	2008	2007
Number of shares issued[1]	**38,009,852**	38,009,852	38,009,852	38,009,852	38,009,852
Number of outstanding shares at the end of period	**37,771,180**	37,955,852	37,955,852	37,955,852	37,955,852
Market capitalisation (CZK billion)	**126.6**	168.6	149.3	112.9	166.1
EPS (CZK)[2]	**250.0**	351.2	290.0	346.7	294.8
BVPS (CZK)[3]	**2,089.9**	1,970.2	1,780.3	1,630.3	1,306.7
Share price (CZK)					
maximum	**4,510**	4,583	4,000	4,475	4,509
minimum	**2,900**	3,250	1,545	2,185	3,119
closing price at the end of period	**3,330**	4,435	3,929	2,970	4,371

1) Nominal value per share CZK 500
2) Earnings attributable to shareholders per average number of outstanding shares (IFRS consolidated)
3) Shareholders' equity excluding minority equity per average number of outstanding shares (IFRS consolidated)

DIVIDEND PAYMENT

In April 2011, the Annual General Meeting (AGM) approved a dividend payment for 2010 of CZK 270 per share before tax, which amounted to 77% of consolidated net profit. The dividend was payable on 23 May 2011.

	2010	2009	2008	2007	2006
Dividend (CZK)[1]	**270.0**	170.0	180.0	180.0	150.0
Payout ratio (%)[2]	**77.0**	58.7	52.0	61.2	61.9

1) Dividend per share before tax. The statutory tax rate applicable in the Czech Republic is 15%.
2) Dividend / earnings per share attributable to shareholders (IFRS consolidated)

Profile of Komerční banka

Komerční banka, a.s., (hereinafter also "KB" or the "Bank") is the parent company of KB Group (hereinafter also the "Group") and is a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services – such as pension fund and building society schemes, leasing, factoring, consumer lending and insurance – accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients.

CLIENTS AND DISTRIBUTION NETWORK OF KB GROUP IN 2011

As of the end of the year, KB Group was serving 2.6 million clients on a consolidated basis. Standalone KB recorded 1,602,000 clients (+0.8% year on year), of which 1,336,000 were individuals. The remaining 266,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 649,000 customers, and the number of pension insurance participants at Penzijní fond reached 508,000. ESSOX's services were being used by 288,000 active clients.

Komerční banka's clients had at their disposal 398 banking branches (including one in Bratislava), 693 ATMs, and full-featured direct banking channels supported by two call centres. The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,061,000 at the end of the year and corresponds to 66.2% of all clients. Modrá pyramida's customers had at their disposal 229 points of sale and 1,298 advisors. Consumer financing from ESSOX was available through the network of 2,900 merchants. SG Equipment Finance was providing its leasing services through nine branches, of which two are in Slovakia, but also through KB's network.

HISTORY

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception, as well as within the RM-System. Global depository receipts (GDRs) representing KB shares have been traded on the London Stock Exchange since 1995. In 2001, the state's 60% holding in Komerční banka was purchased by Société Générale.

Following privatisation, KB began significantly to develop its activities for individual customers and entrepreneurs while continuing to build on its traditionally strong position in the enterprises and municipalities market. In developing its retail activities, KB purchased in 2006 the remaining 60% of shares in Modrá pyramida it did not already own. Thereby, Komerční banka attained full control over the Czech Republic's third largest building society. Another important step in extending the offer of financial solutions to our clients was the acquisition in May 2011 of a 50.1% stake in SG Equipment Finance Czech Republic, s.r.o. (hereinafter "SGEF"), a leading provider of asset-backed financing in the Czech Republic. Through a branch, it also is active in the Slovak Republic.

SOCIÉTÉ GÉNÉRALE GROUP

Komerční banka has been an important part of Société Générale Group's international retail banking since October 2001. Société Générale Group is one of the largest European financial services groups. Based on a diversified universal banking model, the SG Group combines its solid financial position with a strategy for sustainable growth. It aims to be the reference institution for relationship banking, recognised on its markets, close to its clients, and chosen for the quality and commitment of its teams.

Its 157,000 employees are based in 85 countries and work with more than 33 million clients throughout the world on a daily basis. Société Générale Group's teams offer advice and services to individual, corporate and institutional customers in three core businesses:
- Retail banking in France through the Société Générale branch network, Credit du Nord and Boursorama;
- International retail banking, with a presence in Central and Eastern Europe and Russia, the Mediterranean basin, Sub-Saharan Africa, Asia and the French Overseas Territories;
- Corporate and investment banking, with global expertise in investment banking, financing and global markets.

Société Générale is also a significant player in specialised financing and insurance, private banking, asset management and securities services. SG Group is included in the international socially responsible investment indices FTSE4good and ASPI.

Structure of Komerční banka and Société Générale Financial Groups in the Czech Republic and Slovakia

Société Générale

Komerční banka, a. s.

KB Financial Group

Modrá pyramida stavební spořitelna, a.s.
100%

Penzijní fond Komerční banky, a. s.
100%

Factoring KB, a.s.
100%

SG Equipment Finance Czech Republic s.r.o.
50.1%

ESSOX s.r.o.
50.93%

Komerční pojišťovna, a.s.
49%

KB Real Estate, s.r.o.
100%

Protos, uzavřený investiční fond, a.s.
100%

Bastion European Investments S.A.
99.98%

Other ownership interests

CBCB - Czech Banking Credit Bureau, a.s.
20%

Českomoravská záruční a rozvojová banka, a.s.
13%

Companies of SG Group in the Czech Republic and Slovakia

ESSOX SK s.r.o.

ALD Automotive s.r.o.

SOGEPROM Česká republika s.r.o.

PEMA PRAHA spol. s r.o.

Companies co-operating with the KB and SG groups

Investiční kapitálová společnost KB, a.s.

Econocom Czech Republic, s.r.o.

Main Companies of KB Group

SUBSIDIARIES/ ASSOCIATED COMPANIES	KB SHARE	PROFILE	SELECTED PERFORMANCE INDICATOR			
KB Penzijní fond	100%	Penzijní fond Komerční banky is one of the largest and most notable pension funds on the Czech market. By its strategy, PF KB is among the more conservative funds and puts a strong emphasis on stability.	Number of clients	2010: 501,000	2011: 508,000	+1.3%
Modrá pyramida stavební spořitelna	100%	In addition to the traditional building savings and loans, Modrá pyramida focuses on providing comprehensive financial advice.	Volume of loans (CZK billion)	2010: 49.7	2011: 51.4	+3.4%
ESSOX	50.93%	ESSOX is a leading provider of consumer finance in the areas of car and consumer goods. It also offers revolving credit (cards), cash and general-purpose loans.	Volume of loans (CZK billion)	2010: 9.7	2011: 9.6	-0.6%
KB Factoring	100%	Factoring KB deals with the purchase, administration, collection and financing of receivables.	Factoring turnover (CZK billion)+	2010: 12.0	2011: 16.1	+33.7%
SOCIETE GENERALE Equipment Finance	50.1%	Société Générale Equipment Finance is a leading provider of asset-backed financing in the Czech Republic, and through its organisational unit it is also active in the Slovak Republic.	Volume of loans as of end of 2011			CZK 20.4 billion
KB Pojišťovna	49%	Komerční pojišťovna is a universal insurance company focused primarily on services in the life insurance area. It is one of the leading providers in the Czech Republic within this field.	Volume of technical reserves in life insurance (CZK billion)+	2010: 19.2	2011: 23.9	+24.4%

Jan Světlík

CHAIRMAN OF THE BOARD OF DIRECTORS AND GENERAL MANAGER

“KB played an especially important role in re-privatising the Group in 2003, and Komerční banka continues to co operate closely with it to this day. KB’s financial services include, among others, electronic banking, payment cards, financing, trade finance products, and investment banking.”

VÍTKOVICE MACHINERY GROUP

VÍTKOVICE MACHINERY GROUP

The VÍTKOVICE MACHINERY GROUP engineering holding has a strong position in selected segments of engineering production and in supplying large and complex investment projects. The Group includes approximately 30 companies in the Czech Republic and abroad, with about 8,500 employees. The VÍTKOVICE brand celebrated its 180th birthday in December 2008.

The main manufacturing programmes include production of so-called bulk products, such as crankshafts, forgings, castings, gearboxes, steel cylinders, LPG vessels and firefighting equipment. The Group is also strong in the fields of power engineering, metallurgical processes, industrial furnaces and industrial buildings systems.

VÍTKOVICE is an important exporter, too. The Group exports mainly to EU countries, but it also participates in many prestigious projects around the world.

Report of the Board of Directors on the Bank's and Group's Business Activities and State of Their Assets

VISION AND MISSION

Long-term Mutually Beneficial Relationships with Clients and other Stakeholders
Komerční banka is a universal bank based on a multi-channel model. KB offers its clients a comprehensive range of financial products and services. Through constant innovations, the Bank endeavours to meet its customers' evolving needs and tailor its offer to suit specific clients.

To Create Value for Clients, Shareholders and Employees
KB focuses on continuously developing its business activities while prudently managing the related risks. Co-operation with other members of KB Group, with companies from SG Group, and with other, independent partners allows the Bank to provide highly sophisticated products and gives it a flexibility that is indispensable in a constantly changing environment. The excellent know-how and experience of the Group's employees ensure that the products portfolio is fully competitive. At the same time, Komerční banka is aware of the responsibilities stemming from its position as a leading Czech financial institution.

STRATEGIC ASSUMPTIONS

An assumption that the main trends in the Czech Republic's society, economy and banking system will continue over the long term to converge towards those levels seen in Western European countries remains a cornerstone of Komerční banka's strategy. KB is confident that over time this convergence will manifest itself in relatively faster growth in economic output accompanied by gradual change and advancement in business and consumer attitudes and demands. The Bank expects financial intermediation to grow in importance, driven by increasing consumer wealth and sophistication with respect to requirements for financial services. It is anticipated that banking clientele from both corporate and retail segments will become more demanding, and thus it will be necessary to offer the various client segments more differentiated services corresponding to their distinct needs.

Since the Czech Republic is already closely integrated into the EU and the euro zone is the country's main trading partner, the Czech economy's performance during 2012 will largely be determined by developments in the common currency area, as discussed elsewhere in this annual report. Consequently, demand for financing and services from KB may decelerate to below the potential trend. Nevertheless, the Czech Republic's structurally sound financial system and healthy, if not low, level of leverage among consumers and businesses provides room for continued growth in lending and financial services over the medium-term horizon. In the consumer segments, the main potential has been identified for growth of mortgages, consumer lending, as well as alternative savings and investment products. Among businesses, the penetration of credit products is especially low in the small and medium-size business sector, while the escalating sophistication of clients should support demand for such products as hedging and trade finance instruments.

KB's leading performance and substantial financial strength are attributable to its enviable customer base of corporations, municipalities, small businesses and demanding individual clients. The quality of services and products delivered to its customer groups must correspond to their high expectations.

In the increasingly competitive Czech market, the healthy conditions of which have recently attracted additional new entrants, Komerční banka aims constantly to reinforce its position as the reference bank. Initiatives aiming to differentiate the Bank in terms of client and employee satisfaction, efficiency of processes and exploitation of synergies have been undertaken and advanced since 2010 beneath the umbrella of the Ambition 2015 transformation programme.

Ambition 2015

During 2011, Komerční banka continued in implementing its Ambition 2015 programme, which had been defined and launched in the middle of 2010 with the objective to become the reference bank in the Czech market. KB views the notion of reference bank to entail more than just being the most respected bank in the market. It also means being the first bank of choice for clients contemplating any financial need and the first employer of choice for existing and highly qualified potential employees.

KB's successful universal-banking business model has proven itself through the years by its success in delivering growing value to our clients and shareholders. Not only has the Bank set goals to retain its leading position and maintain its performance, KB also aims to press forward to further build its market shares and boost its overall performance. The programme is called Ambition 2015 precisely in recognition of the fact that achieving its goals will not be easy in an increasingly competitive and difficult market characterised by emerging new entrants.

The Ambition 2015 programme builds on the following pillars:

1 **Clients** who are always in the first position and at the centre of our focus. Komerční banka wants its clients to be successful and satisfied, because only then will they be loyal to the Bank as well as recommend its products and services to others.

2 **Employees** because the Bank can achieve its objectives and have satisfied clients only with the most-talented and best-motivated employees.

3 **Efficiency** KB will never cease in its efforts to boost operating efficiency in order to improve service levels and deliver higher value to its clients and shareholders.

4 **Synergies** the goal is to maximise revenue and cost synergies and thereby deliver to clients – most effectively – the best of both KB Group and SG Group.

During 2011, the Bank focused on further developing the advisory approach and sales skills of its relationship managers, as well as on processes to continuously measure and improve clients' satisfaction. It developed new current account packages and innovative lending products for individual and small business clients which leverage synergies within KB Group. It continued, too, in improving direct banking channels. Moreover, Komerční banka focused on simplifying and automating processes in risk management and back office areas, including to implement cash centres in Prague and Pilsen.

Throughout 2012, KB will maintain a rapid pace in delivering innovations and improvements. Further enhancements in advisory will be underpinned by continuous training of the sales force and launching of advanced advisory tools. A major improvement will be achieved in electronic banking channels by providing clients with the most state-of-the-art solution for convenient remote banking. Moreover, additional projects directed to enhancing operational efficiency and streamlining processes will be pursued.

STRATEGY

KB is developing a universal-banking model wherein its investment banking activities are primarily focused on servicing clients; trading on the Bank's own account is a complementary activity and is restricted by rather conservative limits. Komerční banka strives to build long-term, mutually beneficial relationships with its clients, allowing it to precisely identify dynamic changes in clients' needs and expectations and constantly adapt its services offering according to this knowledge. KB's strategy is based on superior client knowledge and level of services as well as operational efficiency and prudent risk management.

Operations
KB runs on an efficient operating model founded upon conservative cost management wherein expenditures planning is closely tied to the expected development of revenues. The Group aims to derive additional efficiencies primarily from further synergies within KB Group and with Société Générale Group, streamlining processes, and exploiting technological advances. The Bank is pursuing a suite of initiatives directed to achieving such efficiencies.

Effective risk management is a necessary condition for the Bank's long-term development. KB has decided to conservatively manage the interest rate and liquidity risks in its Structural Book while excluding speculation on short-term fluctuations in market conditions. Credit risk procedures and limits are prudently determined. Risks accepted into the Market Book are confined by strict trading limits that are regularly reviewed. All risk management processes, techniques and limits are continuously evaluated and improved.

KB's long-term soundness and flexibility are assured by maintaining solid capital strength and a strong liquidity position. Capital and liquidity are foundations for reinforcing KB's standing in the lending market and allowing the Bank potentially to take advantage of selected and attractive acquisition opportunities, should these present themselves in future.

Client services

As its main base for building mutual relationships, KB is constructing a branch network wherein a dedicated relationship manager is appointed to assist each client. At the same time, clients are given access to a full range of distribution channels meeting their needs for efficiency, security and comfort. The service model assigned to each client is tailored according to proper client segmentation.

Since high-quality advisory is seen as KB's strong competitive advantage, continuous investments are directed into improving the competence of relationship managers and equipping them with the necessary information tools. In parallel, focused investments are made into upgrading direct channels and carrying out improvements in the branch network. The overriding aim is to provide clients with smooth access to KB Group's products and services.

The Group's strategy in the retail segment continues to recognise and target potential in lending. Its ambition is to outperform market growth in the areas of consumer loans, mortgages, and lending to small business clients. KB aims to achieve profitable growth in the volume of assets under management, especially by developing a value-adding advisory approach to clients that focuses on comprehensive solutions to their financial needs. Modrá pyramida's platform is being diversified in order to embrace selling a wider range of KB Group products and complement other KB distribution networks. Reflecting the anticipated implementation of pension reform in the Czech Republic, the Group is also developing an all-inclusive solution for clients' pension savings.

▶ Go to box "Pension reform" page 29

▶ Go to box "Transformation of Modrá pyramida" page 28

In the corporate segment, KB aims to reinforce its position as the reference bank for businesses as well as its strategic partnerships with clients while augmenting the Group's shares in overall financing drawn by that clientele and in servicing their financial needs. Attention is devoted to optimising processes in corporate client service, including by aligning objectives and incentives across all companies of the Group and setting up dedicated knowledge centres. The subsidiaries' services offer is being more closely integrated with KB's distribution platform, including the services of Factoring KB and, following the acquisition of 50.1% ownership in May 2011, of SGEF. Restructuring activities in Slovakia into a branch was completed in 2011, and KB's Bratislava-based unit will focus on exploiting the potential in Slovakia's corporate segment.

MAIN CHALLENGES AND RISKS FOR THE BANK AND GROUP IN 2012 AND EXPECTED DEVELOPMENTS IN THE FINANCIAL SITUATION

Komerční banka is well capitalized and has ample liquidity to sustain its ongoing commitment to advance its business activities in the Czech Republic, finance its clients, and build long-term partnerships with them.

The Group's financial and business performance in 2012 will be affected by the Czech Republic's macroeconomic environment, which will itself be influenced by the euro zone's ability to cope with the challenge of rebalancing member countries' economies in a way that does not imperil their longer-term growth and potential. The appetites of clients – both consumers as well as businesses – to take up new loans will be limited in this uncertain environment. The European banking system must deal simultaneously with the impacts of economic slowdown (and possibly even recession) in several EU countries, heightened and stricter requirements from regulators, as well as effects from investors' diminished confidence in the outlook for the industry. Naturally, none of this will be supportive for Czech banks either.

Under KB's baseline scenario, the Czech economy will grow at a moderate pace that can be measured in tens of basis points. Measures taken in the euro zone, including by the ECB, are expected gradually to help stabilise financial markets. In aggregate, the financial position of Czech businesses and households is satisfactory, their indebtedness being low by international comparison. Clients and the banking system are not overexposed to currency risks. The findings of the Czech National Bank's stress tests demonstrate that the Czech banking sector is able to withstand possible adverse developments in the domestic and international economies, as well as financial turmoil. Banks' exposure to their foreign parent companies is scrupulously restricted by the CNB's limits.

Within the system, the position of Komerční banka is very strong. Credit granting standards have been calibrated in order to assure the Bank's satisfactory performance even in the declining phase of the business cycle. KB's hedging policy substantially mitigates the impact of interest rate fluctuations. KB's funding is independent of the financial markets, especially because of its broad and stable base of client deposits. Placements of free liquidity are confined by strict limits and mostly directed to operations with the CNB and Czech government bonds.

Management expects that KB's loan portfolio will continue to grow in 2012, unless there will be marked deterioration in the macroeconomic environment and which might weaken client demand for loans. Mortgages should remain the main contributor to that portfolio's expansion. The rate of growth in deposits is expected to moderate, leading to a marginal rise in the ratio of loans to deposits while still providing a significant liquidity buffer. As a result of the expected modest growth of business volumes, lingering low interest rate environment, and substantial competitive pressures, KB expects to achieve flat to marginally rising revenues and with correspondingly higher operating costs. Cost of risk from lending will increase from the low base of 2011, affected by write-backs on some exposures.

KB has been regularly stress testing its banking book and market book exposures, and the results always have been well above internationally or locally required minimums. A potential scenario of moderate economic recession in 2012 would comprise slower growth or moderate decline in business volumes and revenues along with increase in risk costs. In the short term, the Group would mitigate the impacts of such a scenario primarily by reducing operating expenses. The KB Group's business model has proven its robustness, and operations of the Group should remain profitable.

As of the beginning of 2012, the main regulatory risks are seen in connection with the contemplated regulatory changes affecting the business models of European banks, and primarily the EU requirements on banks' capital adequacy and liquidity, along with a possibility for an EU-level introduction of a financial transaction tax and banking tax. Specifically in the Czech Republic, the main expected regulatory risks are linked to

- implementation of the pension reform, including transformation of the existing supplementary (third-pillar) pension funds and introduction of new pension funds in the Czech pension system's second pillar to be effective from 2013; and
- restructuring of the system of building societies, including potential decrease in government subsidies for savings in the system and potentially additional limitation on the way in which the government subsidy may be utilised by clients. (A decrease in the government subsidy already has been enacted for 2012 and was upheld by the Constitutional Court.)

Komerční banka stands ready to meet the new regulatory requirements on capital and liquidity as formulated in the Basel III framework, regardless of the manner in which the state debt problems of Europe's peripheral countries will be resolved. Financial stability ratios confirm KB Group's strong position. Management expects the Bank's operations will generate sufficient profit to cover the Group's capital needs ensuing from the growing loan portfolio as well as to pay dividends, even if the macroeconomic situation becomes worse than anticipated at the beginning of 2012.

CLIENT SERVICES

Clients and the Group's Service Network

As of the end of 2011, KB Group was serving 2.6 million clients on a consolidated basis. Standalone KB recorded 1,602,000 clients (+0.8% year on year), of which 1,336,000 were individuals. The remaining 266,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 649,000 customers, and the number of pension insurance participants at Penzijní fond reached 508,000. ESSOX's services were being used by 288,000 active clients.

The number of KB's clients using at least one direct banking channel (such as internet or telephone banking) reached 1,061,000 at the end of the year and corresponds to 66.2% of all clients. Customers held 1,660,000 active payment cards, of which 216,000 were credit cards. The number of active credit cards issued by ESSOX reached 157,000.

Komerční banka's branch network is its primary place for building relationships with clients. It is complemented by the continually evolving modern forms of service through direct banking channels and the distribution capacities of the subsidiaries (in particular Modrá pyramida). For selected products, the network of business partners is also important. Strategically significant in this regard is co-operation with Česká pojišťovna, which includes mutual selling of property insurance at KB branches and of mortgages in Česká pojišťovna's distribution network. The services and products of other KB Group companies are available in their own distribution networks, the Komerční banka branch network, and in some cases via the business partners.

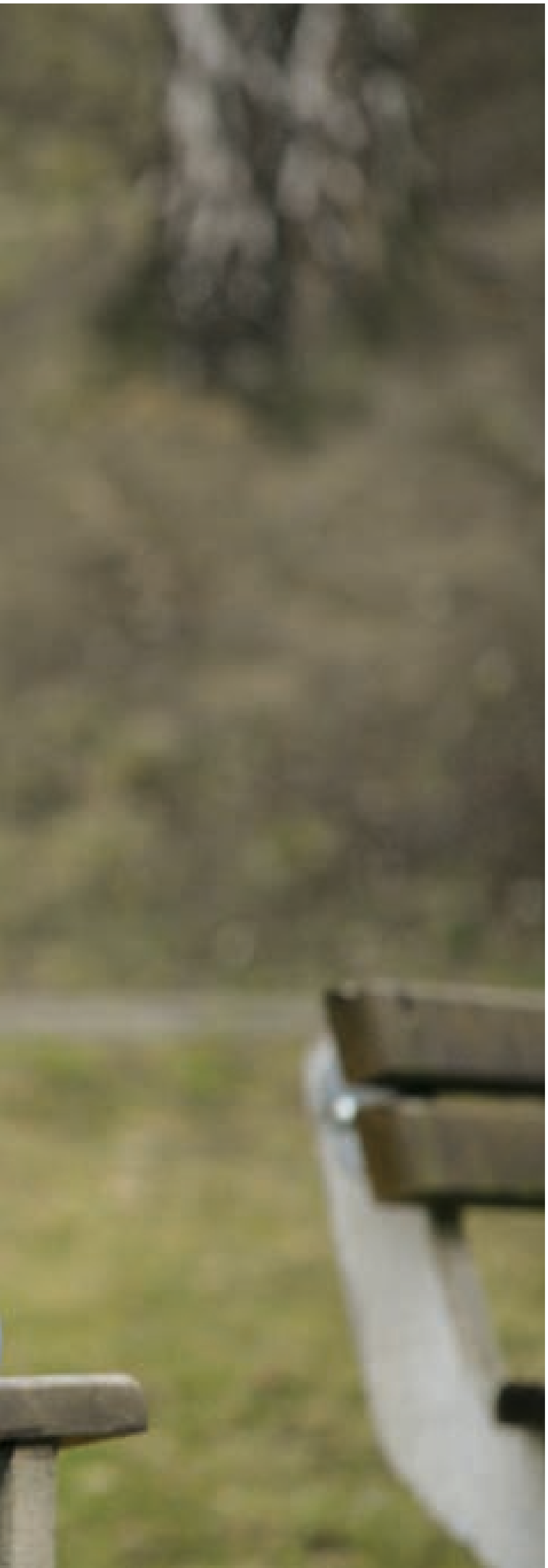
At the end of 2011, Komerční banka's clients had at their disposal 398 banking branches (including one in Bratislava, 693 ATMs, plus full-service direct banking supported by two call centres. KB opened two new branches in 2011. Fifteen branches underwent a major refurbishment during the year, while another three were relocated. Twenty business centres specialise in serving corporate clients and municipalities, while four divisions in the Czech Republic and one in Slovakia have been created to serve top corporates. Modrá pyramida's customers were served by 229 points of sale and 1,298 advisors, and consumer financing from ESSOX was offered in a network of 2,900 merchants. SG Equipment Finance was providing its leasing services through nine branches, of which two are in Slovakia, but also through KB's network.

KB is developing the "know your client" concept that requires banking advisors to be truly acquainted with their clients' needs. Each of KB's clients has a dedicated banking advisor at the Bank. This advisor is personally responsible for the portfolio of clients entrusted to him or her, for the business results, and for building the client relationships.

Michaela Pěničková

KOMERČNÍ BANKA CLIENT

It could be said that Michaela Pěničková has formed a truly strong connection in her life with Komerční banka through its products. A current account provides for her basic transactions, such as payments for rent, electricity and internet service.



Anything can happen in life

Michaela opened a savings account to have a place to keep her funds that she did not currently need but to which she wanted instant access if a need arose.

With a consumer loan, she was also able to cover part of the cost of a car. Michaela took out a mortgage when she decided to acquire a place of her own. Thus, she was able to move from public housing to her own 3+1 apartment just outside Prague. She then arranged investment life insurance to cover all life's unexpected events, as well as to save money.

And payment card insurance? Michaela established that after she had lost her card twice.

In order efficiently to fine-tune the service model to the needs of closely defined customer groups, Komerční banka is developing a system of detailed segmentation. The highest level segments in the Bank are the following:
- Individuals,
- Small Businesses (the indicative criterion being annual turnover up to CZK 60 million),
- Medium Enterprises and Municipalities (annual turnover up to CZK 1.5 billion), and
- Top Corporates (annual turnover exceeding CZK 1.5 billion).

A set of sub-segments within these segments is elaborated, but the essential objectives remaining valid for all groups are to
- ensure a long-term personal approach to each client,
- offer a palette of key products corresponding to actual needs,
- satisfy the clients' rigorous demands, and
- provide individual financial advisory through active service.

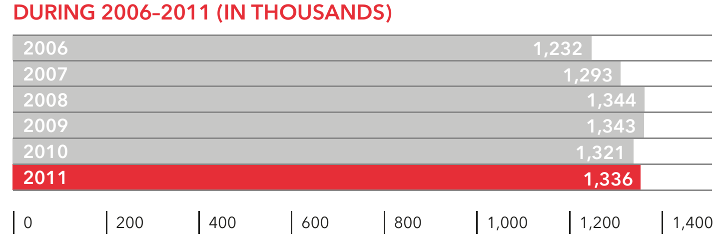
Individuals

Komerční banka strengthened its position as the third largest bank on the Czech market in the Individuals segment. The total number of clients exceeded 1,336,000, which represents a year-on-year gain of 1.2%, while more than 132,000 new clients selected KB to be their bank during the year. KB continues to maintain its leading position for the children and youth segment with over 381,000 accounts. In accordance with strategy, there was an increase in the proportion of active clients intensively using KB's services.

Among other ways, the Bank's position as the market's reference financial institution was confirmed by its 2011 victory in the main category of the 10th annual Bank of the Year competition. In the product area, Hospodářské noviny recognised KB with its Banking Innovator 2011 award for its Lady Card while Modrá pyramida placed second in that category with its Moudré spoření savings product.

Komerční banka recorded excellent results for most credit products. KB reinforced its market share for individual mortgages, as their volume grew by 13.6% to CZK 123.6 billion in 2011.

KB (BANK) – NUMBER OF CLIENTS IN INDIVIDUALS SEGMENT DURING 2006–2011 (IN THOUSANDS)



Selected products in the Individuals segment+

KB (Bank)	2011	2010	Change
Number of mortgages	**101,200**	89,900	12.6%
Volume of mortgages (CZK billion)	**123.6**	108.8	13.6%
Number of consumer loans	**206,800**	219,000	(5.5%)
Volume of consumer loans and overdraft loans (CZK billion)	**14.8**	14.7	0.6%
Volume of credit card loans (CZK billion)	**2.6**	2.6	(1.5%)
Volume of deposits (CZK billion)	**159.9**	153.7	4.1%
Number of active credit cards	**163,200**	168,700	(3.3%)

KB's mortgage is the most comprehensive on the market. Among other advantages, it allows a client to obtain a general purpose loan as part of the mortgage for up to CZK 400,000, and repayment can be postponed by as long as 12 months. In case of a difficult financial situation, monthly instalments can be reduced by as much as 50% or repayment can be postponed for up to 3 months. Then again, a client can choose to make a special extra payment. In consumer financing, KB offered its MojeAuto loan with an advantageous interest rate and economically priced insurance for the entire repayment period. Clients also responded positively to the advantages offered by the new Lady Card and A Card credit cards.

In the area of everyday banking, KB successfully launched the new MůjÚčet package onto the market as part of the MojeOdměny programme. KB has prepared programmes to accommodate the particular needs of specific client groups, including students, graduates, families and seniors.

MojeOdměny

Komerční banka developed substantially the unique fee policy concept known as MojeOdměny (MyRewards). Without their needing to register, clients are automatically rewarded for their activity in the form of fee rebates or discounts and contributions to supplementary pension insurance. The value of these rewards for 2011 totalled nearly CZK 200 million.

Within the MojeOdměny programme, the new MůjÚčet (MyAccount) day-to-day banking package for individuals was introduced during 2011. It brings an entirely new business logic to the Czech market by offering all the basic banking services for an attractive price. If given conditions in the areas of, for example, volumes of deposits, transactions and/or loan activity are met, the client obtains rewards returning up to 50% of fees every month. A sister product for the Small Business segment is the Profi Account, a package containing all the products necessary for a firm's payment operations: a Czech crown current account with monthly statements, payment card, internet and telephone banking, plus 10 incoming or outgoing payments. Moreover, it is possible to purchase additional services ranging from paper statements, additional payment cards and insurance to advantageous payment packages. Thus the entrepreneur can set up the account according to his or her own needs and continuously fine-tune as those needs change with the business. Additional rewards can be obtained by, for example, beginning entrepreneurs.

The MojeOdměny concept also is tied in to the latest innovation in credit cards – the Lady Card and A Card. In addition to the standard functions, these cards, issued on the MasterCard World platform, offer a range of extra services and benefits, such as discounts, insurance and assistance programmes, and contributions to the supplementary pension insurance in KB's Penzijní fond. The Lady Card, with parameters especially tailored to women's preferences, was awarded first place in the "Banking Innovator 2011" category in a competition organised by Hospodářské noviny.

Other innovations presented in the Individuals segment during 2011 include pilot testing of contactless payments by mobile phone based upon NFC communications technology, and, in the investments area, new Profile Funds and the Absolute Yield Fund that is the first of its kind on the market. The Bank launched the first version of an information application for smartphone users known as Mobilní banka 2, improved the graphics of transmitted account statements, and broadened the functions of its internet banking. KB's website earned recognition in the Web Marketing Association's WebAward competition, winning in the bank category the Bank Standard of Excellence prize.

KB regards innovating its services to be an important means for acquiring new clients, and in 2012 the Bank will again introduce a number of improvements and innovations. Komerční banka continues to see potential in developing sales co-operation with KB Group and SG Group member companies, as well as with other partners. Developing a comprehensive offer of pension savings within the Group is regarded as fundamentally important, and so during 2012 intensive co-operation will continue among KB, Penzijní fond KB, Komerční pojišťovna and other members of the Group.

Private Banking

KB offers Private Banking services to clients with financial assets exceeding CZK 20 million in Prague, Brno and Ostrava. Clients with assets in excess of CZK 8 million can benefit from selected Private Banking products, including investment services in KB's 20 regional branches.

Again in 2011, KB's Private Banking registered double-digit growth both in the number of clients and the volume of assets under management. The Bank thus confirmed its strong position on the Czech market for prestigious banking services and investment solutions for very wealthy clients. The prerequisites for further successful development of KB's Private Banking are created especially by internal synergies established within the Bank, the current opportunities that have been identified on the local market and benefits of co-operation with the Société Générale Private Banking Expert Centres in the area of investment solutions and analytical support.

In connection with the discontinuation of services from the Prague branch of Commerzbank AG in the segments of private banking and services for individuals, Komerční banka created a comprehensive business offer for those clients, which was accepted positively.

Conservative products continued during 2011 to dominate the interest of investors, and especially initial offerings of high-quality corporate bonds, investment and barrier certificates, as well as deposits. A subscription opportunity for a guaranteed savings insurance policy offered in co-operation with Komerční pojišťovna recorded solid results.

The offer of products and services to clients in 2012 will reflect both the current turbulence on capital markets and heightened risk aversion among some clients. Market conditions demand innovations in the areas of portfolio management, long-term diversification of clients' assets, and development of new investment solutions utilising proven open architecture.

Transformation of Modrá pyramida

For building savings companies, 2011 was characterised by government austerity measures. Among other things, legislative changes reduced state support for building savings and the taxation of income on savings became effective. With the news media also long drawing attention to this area, client interest in new contracts and in loans from building savings diminished.

In this complicated situation, Modrá pyramida succeeded in explaining to its clients that building savings is still a beneficial product and thus encouraged their loyalty. Modrá pyramida managed to grow the volume of its deposits and thus achieve a solid financial result.

Nevertheless, 2011 was crucial for Modrá pyramida also from the viewpoint of changing its business model. Even as financing for residential purposes remains its main focus, Modrá pyramida newly presents itself as a company providing comprehensive financial advisory with a wide range of products and service on a professional level.

The objective is to make maximum use of the business potential in Modrá pyramida's distribution network, flexibility, and client relationships to effectively complement the Komerční banka branches. Modrá pyramida will simultaneously continue to support its brand and progressively build its importance as a distribution channel within Komerční banka Group.

To fulfil this strategy, Modrá pyramida has elaborated a precise approach that includes both a plan for developing its own network of financial advisors and a plan for developing a range of additional products, especially from KB Group. The offer has been broadened by insurance, banking services, consumer finance and Komerční banka's mortgages. In ensuing steps, it is envisioned that long-term savings and investment products will be introduced.

Modrá pyramida
stavební spořitelna

Pension reform

The Parliament of the Czech Republic approved a pension reform which will become effective from 1 January 2013. The reform will be the largest change in the pension scheme area since the introduction of supplemental pension savings in 1994. Main aims of the pension reform are to better align pension insurance payments with retirees' past contributions in accordance with a ruling of the Constitutional Court and create a system sustainable over the long-term in the context of demographic development.

Under the reform, the current pension system will be expanded to three pillars consisting of the state system, individual savings and supplemental pension savings. Individual savings comprise the new pillar in the system. This will be financed by three percentage points from the existing payments of mandatory social insurance and a further two percentage points paid by the employee. Any employee over 18 years of age will be able to join an individual savings pillar, but his or her decision will be irreversible (so-called opt-out). By joining, his or her claim from the state system will be proportionally decreased.

Moreover, the current pension funds will be transformed into pension companies, with the assets of the pension fund distributed among the pension company and pension funds.

This new structure will bring more transparency to the system and still greater protection for the clients' assets.

KB Penzijní fond is a fully owned subsidiary of KB established in 1994. It serves 508,000 clients and manages CZK 30.4 billion worth of clients' assets. KB Penzijní fond will be transformed into a pension company which will provide both individual pension savings as well as supplemental pension savings.

Preparations for the pension reform are ongoing not only at KB Penzijní fond but across the entire KB Financial Group, which will continue to provide its clients with comprehensive solutions to meet their financial needs in the area of long-term savings and pension reserves. Pension savings is just one of several components within a comprehensive financial solution which will offer customers the proper balance between returns, risk and liquidity.

PENZIJNÍ FOND KB ATTENDED TO

508,000 clients

Small Businesses

Komerční banka has long held a leading position on the small businesses market, in which at the end of 2011 it served more than 252,000 clients.

Most activities in 2011 were directed to fulfilling the strategic objective of building its position as reference bank. Important product innovations, education for banking advisors and optimisation of sales processes helped to stabilise the number of clients from mid-2011. Client deposits at KB grew year on year by 6.0% (from CZK 105.5 billion to CZK 111.9 billion) in this segment. The Bank also fared well in financing, as the volume of loans to entrepreneurs increased year on year by 8.2% (from CZK 25.6 billion to CZK 27.8 billion).+

Selected products in the Small business segment+

KB (Bank)	2011	2010	Change
Volume of drawn loans, credit card receivables, overdraft loans (CZK billion)	**27.8**	25.6	8.2%
Number of loans	**133,400**	139,700	(4.5%)
Volume of deposits (CZK billion)	**111.9**	105.5	6.0%

The main new product – and the most visible on the market – is the new Profi Account for entrepreneurs, which took the place of the packages heretofore offered by the Bank. The Profi Account made the offer in everyday banking services for entrepreneurs substantially simpler and more transparent. In combination with the MojeOdměny concept, the Profi Account also introduced advantageous offers for start-up companies as well as housing co-operatives and owners associations.

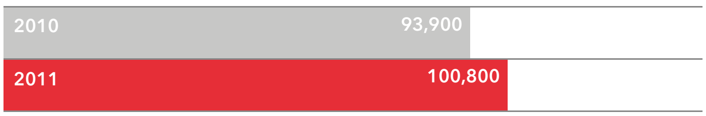
▶ Go to box "MojeOdměny" page 27

During the year, the Profi Bonus savings account also gained in popularity. This account pays an attractive interest rate while providing immediate liquidity for the funds.

Financing remains a priority in the Small Businesses segment. For entrepreneurs, it is crucial to receive their loans quickly and easily. The main product for financing business is the Profi loan, which saw significant modifications in 2011 even as the Bank simplified the process of providing it. Profi loans for up to CZK 10 million can now be provided with repayment over as long as 7 years. Existing KB clients may obtain loans of up to CZK 2 million without providing security and without documenting income.

In collaboration with Factoring KB, the Bank's branch network provides ProfiFactoring, a product for financing and managing trade receivables, and, in co-operation with SGEF, financial leasing of machinery and equipment is provided through the ProfiLeasing product.

LOANS TO CORPORATES AND MUNICIPALITIES (CZK MILLION)+



+7.4%

DEPOSITS OF CORPORATES AND MUNICIPALITIES (CZK MILLION)+

+7.1%

Conferences and seminars for clients

KB regularly passes its knowledge along to clients by conducting conferences and seminars. In 2011, Komerční banka prepared a number of consulting and advisory events for clients. It also became a general partner in several republic-wide and regional professional conferences focused, for example, on support of exporters, financing options for enterprises or using alternative energy sources. Co-operation with the government agency CzechTrade already has become a tradition. KB entered into closer co-operation with, for example, the Association of General Practitioners, and it again enjoyed successful participation at the International Engineering Fair in Brno.

Another way of transferring useful information to clients is through Export Journal, a magazine especially for exporters. It presents sector overviews, practical opinions of respected experts in exporting, as well as Komerční banka's products and services.

export journal

During 2012, the Bank's focus in the Small Businesses segment will be on enhancing quality of service and advisory, optimising parameters of products used by clients, and endeavouring to ensure clients make wide use of the advantages of the existing innovations.

Enterprises and Municipalities
Market research shows that nearly 50% of medium-size and large companies in the Czech Republic are Komerční banka's clients. This leading market position represents for KB an enduring commitment. That commitment will continue, and the Bank has resolutely undertaken to further develop its activities in the corporate clients segment. In 2011, the total volume of loans provided in the Enterprises and Municipalities segment increased year on year by 7.4% to CZK 100.8 billion. Deposits grew by 7.1% to CZK 126.9 billion.+

To provide the required level of client care, KB and its qualified banking advisors also are supported by teams of specifically focused specialists. The number of these specialties is gradually expanding based on the positive experience of both clients and the Bank. Specialist teams are created, too, for individual economic and business sectors, such as health care, agriculture, real estate entrepreneurs and public administration.

EU POINT

Professional service in relation to drawing support from European Union resources is also provided by regional KB EU Point specialists, who consulted on more than 1,000 subsidy projects during 2011. In comparison to past years, they were more involved with projects in advanced implementation phase, the so-called project sustainability period. As projects are gradually realised, clients also increase their drawing of loans. The overall loan amount drawn for pre-financing and co-financing of subsidised projects again grew in comparison to the previous year.

European Investment Bank Group

KB also extended entrepreneurs' access to loans with advantageous conditions in co-operation with the European Investment Bank (EIB). Small and medium-size entrepreneurs can obtain loans at a reduced interest rate to finance development projects under the EIB programme.

Clients in the municipalities and public sector segment in 2011 often expected Komerční banka to assist and share experience in dealing with situations resulting from diminished tax revenues in relation to the macroeconomic slowdown. The Bank therefore continued to deepen its expert services by providing advice in the areas of interpreting the Public Procurement Act, optimising debt service for public budgets, efficient structures for financing development projects, and possibilities for safely earning interest on cash reserves. Since the end of 2011, Komerční banka also has been offering these expert services to small and medium-size municipalities via its network of regional EU Point specialists.

Development of product lines has pursued the objective of Ambition 2015 to reinforce the Bank's reference position in the market. Among the innovations has been, for example, an investment loan secured by leasable real estate. Access to banking services was facilitated by implementing the new direct banking technical platform of the Multicash international multi-bank system, via which clients can manage their accounts maintained in various banks both in the Czech Republic and abroad.

In the payment terminals area, a new development was to accept payment cards in foreign currencies. Early in 2012, retailers will thus be able to accept payments in euro, US dollars, British pounds and Russian roubles. The service can be provided both at payment terminals in brick-and-mortar stores and in e-shop environments.

KB has a strong position in financing renewable energy sources, and in 2011 these were especially projects using energy from biogas. This related especially to projects implemented by farmers, for whom biogas represents both a realistic, sensible alternative and a new business opportunity.

Renewable energy sources

The people at Komerční banka are fully aware of the influence the Bank's activities have on the environment within which it operates, and therefore appropriate measures have been adopted. By supporting commercial projects for producing energy from renewable sources and that use modern, environmentally friendly technologies, KB actively contributes to improving the environment. One important such area is energy production from biogas. Energy efficiency is one of the key parameters the Bank monitors when assessing new biogas plant projects. This orientation shows great promise for the future, because the potential especially of newly developed and related technologies has yet to be fully exploited.

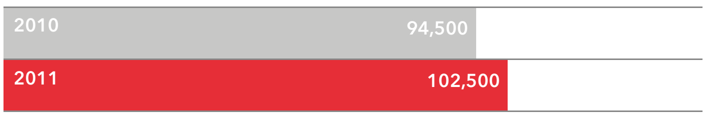
International Desk

Even as KB's International Desk comprises a support team for foreign customers in the Czech Republic, it also serves Czech companies expanding abroad. A large part of this clientele consists of Société Générale Group's international clients. When operating in several countries, clients can encounter different rules. Therefore, the International Desk acts as a unifying element to intermediate communication between the client and the other subsidiaries or branches of SG. This maximises the extent of similarity in business conditions across all countries. At the same time, Société Générale Group's presence in many countries, along with the assistance of the International Desk, will facilitate KB's clients in establishing and developing co-operation with a bank in a given country.

Chinese yuan

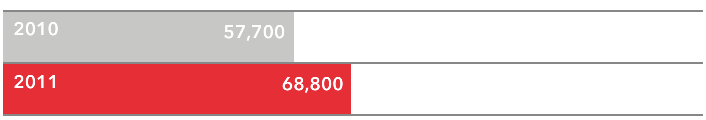
In 2011, KB extended its exchange rates list to include the Chinese yuan (CNY – currency ISO code), even though this is not a freely convertible currency. KB clients can thus open a current account in yuan and execute payments directly in the Chinese currency by means of internet banking or paper carrier. An account maintained in CNY is especially suitable for firms having a balanced trade with the People's Republic of China, for internationalised companies in the PRC, and for firms regularly purchasing goods from China.

LOANS TO TOP CORPORATIONS (CZK MILLION)+



+8.5%

DEPOSITS OF TOP CORPORATIONS (CZK MILLION)+



+19.1%

Trade finance and export financing

Komerční banka assists its clients in their domestic and foreign business activities with its wide range of documentary payment products and direct debits, bank guarantees, forfaiting and factoring of receivables, as well as export financing. Trade finance was a successful area in 2011. Despite a decreasing trend in the number and volume of public contracts and stagnation in construction, the volumes of bank guarantees issued were increasing. Also growing were the volumes of export letters of credit processed. The Bank recorded higher income year on year in both export financing and bank guarantees. The overall income in trade and export financing rose by 10% year on year. Very popular in the trade finance area is the TF Online application for electronic communication between the Bank and client. The number of that application's users grew by more than 40% from the previous year.

NUMBER OF TF ONLINE PLATFORM USERS INCREASED BY

+40%

Top Corporates

The Bank applies a specific model of client service in the segment consisting of large corporations, financial institutions and public sector companies. Its basic elements are an individualised approach in providing custom tailored services and solutions reflecting the specifics of the individual sectors. Komerční banka provides individual solutions to meet the clients' requirements via specialised banking advisors concentrated in five business divisions (four in the Czech Republic and one in Slovakia). A banking advisor for top corporates not only deals with the clients' wishes, he or she also introduces innovative solutions and timely proposals to optimally meet the clients' financial needs. Utilising this business model, KB succeeded during the past year to reconfirm its strong position in the Czech Republic's top corporates segment.

Its stable position enabled KB during 2011 to maintain market share in the lending area. Despite ups and downs in the market, Komerční banka significantly grew the volumes of loans provided and deposits acquired in the second half of the year. The Bank was able to participate in new investment incentives implemented in the Czech Republic as well as in acquisition financing.

On 1 January 2011 a new branch of KB was registered in the Slovak Commercial Register under the name "Komerční banka, a.s, pobočka zahraničnej banky", following upon the merger of KB with its subsidiary Komerční banka Bratislava, a.s. A new business division was thereby created in Slovakia, which, just as are the Czech divisions, is specialised on large corporates and the public sector. The model and structure of client service in Slovakia is identical to the business model in the Czech Republic.

The offer of services in ratings advisory and in issuing both Eurobonds and non-public bonds was successful. In co-operation with SGCIB, KB advised České dráhy (Czech Railways) in entering the international bond market, which included a Eurobonds issue. The Bank has long been providing this type of advisory to ČEZ and the Ministry of Finance of the Czech Republic. KB also participated in the entire process of preparing the issue of State Savings Bonds of the Czech Republic, and it was one of the banks appointed for their distribution.

Investment Banking
During the first half of 2011, both global and Czech economies were undergoing a process of modest recovery. The Czech crown's exchange rate vis-à-vis the euro moved in a narrow and stable band but did not embark on a convergence-related appreciation trend. In August 2011, however, the situation changed due to growing market pressure on several European countries suffering from high indebtedness and/or low growth potential. As the euro area debt crisis escalated, the elevated uncertainty soon hit also the markets of Central Europe. Despite a credit rating upgrade for the Czech Republic, the crown was unable to remain in its long-term band and depreciated to levels last seen in mid-2010. Reflecting the risk aversion in the bond markets, yields on government bonds rose again and there were problems of low demand for longer-maturity instruments. In the second half of 2011, economists began downgrading their growth outlooks. Mainly due to the threat of external demand constraints, the Czech Republic's economy is expected to remain flat or slip into a mild recession during 2012.

The heightened risk aversion also affected Czech equities. While the Prague Stock Exchange's PX Index remained steady in the first half of 2011, by the year's end it had fallen by nearly 25% for the full year. Real estate developer ECM suffered the biggest share-price losses, and trading in its stock was terminated indefinitely. On the other hand, the tobacco company Phillip Morris CZ recorded solid share-price gains.

Market conditions for the client business were difficult in the beginning of the year. Volatility in the main currency pair (EUR/CZK) remained unusually low, and uncertainty as to future prospects for exports led clients to be quite conservative about hedging transactions. The situation improved no sooner than in the second half, when volatility and the associated earnings returned to normal levels. Due to a focus on products with higher value added, earnings in this domain slightly exceeded those from the previous year.

Because of the continuing trend of declining market interest rates, the clients tended to remain cautious, too, in respect of hedging those rates. While the volume of hedging transactions nevertheless exceeded levels from the previous year, this came at the cost of substantially reduced margins in comparison to those of 2010.

Volumes and profits from deposit products maintained a distinctively downward course, as a part of the volume moved to standard banking products and another part to competitors, who, mainly due to their poorer liquidity positions, were willing to pay above-market rates.

The Debt Capital Markets team successfully executed 28 loan financings and 4 bond financings in 2011. This track record solidified KB's leading role in the Czech market for structured financing, acquisition financing, syndicated loans and primary bond issues. The deals list includes a number of transactions where KB took on the roles of sole underwriter, mandated lead arranger, facility agent, or club co-ordinator. The Komerční banka team has been leveraging the Group expertise of Société Générale in several areas, such as real estate and acquisition financing.

KB's Corporate Finance team experienced a very difficult year, as the downward trend in the Czech M&A market continued during 2011. The total value of market transactions dropped by 35% to approximately EUR 1.3 billion in comparison with 2010. Acting either on a standalone basis or jointly with Société Générale, the Corporate Finance team acted as financial advisor on four significant transactions. A substantial turnaround cannot be expected in 2012, as the M&A market's potential is limited by the uncertain economic environment in Europe.

Business Synergies within KB Group
Developing business synergies is among the Group's strategic priorities, and this is the focus, too, of the Ambition 2015 transformation programme. The target is to make maximum use of the Group's client, product, knowledge, operating and service foundations for efficient cross-selling and in preparing new products for broad distribution. Mutual co-operation leads to optimising the business model and risk management, eliminating duplicate functions, boosting efficiency in the approval process and optimising costs.

In the corporate segment, the Group strengthened its comprehensive advisory. Following upon the acquisition of SGEF in May 2011, the Bank included leasing and asset-backed financing into its standard product range. In autumn, this offer was extended to include leasing for entrepreneurs and real estate leasing. By combining procedures for leasing and loan financing, the processes for asset-backed financing were made more efficient. The Group also fully utilises SGEF's unique know-how in such specific areas as agriculture and health care. By amending the conditions for co-operation, the Bank's network was made more accessible for receivables purchase, administration and financing in co-operation with Factoring KB. Similarly, the potential is improving for collaboration with companies of the SG Group in managing and leasing vehicle fleets (ALD Automotive s.r.o.) and short-term vehicle fleet lease (PEMA).

Extensive co-operation continued to develop in retail banking, the results of which in 2011 could be seen in introducing new insurance from Komerční pojišťovna for the KB Lady Card and A Card credit cards, risk life insurance with the products of ESSOX, and a new version of the Merlin payment cards insurance product. In autumn, Komerční banka introduced a new car loan to the market, MojeAuto, stemming from the know-how of ESSOX. Modrá Pyramida broadened its product line to include Komerční pojišťovna's Vital Invest savings product, and in autumn Modrá pyramida's network began selling the MojeAuto loan and KB mortgages.

Direct banking
Direct banking instruments are an indispensable part of modern banking. KB is striving to preserve its position at the top of the market for functionality, security and client comfort. KB's direct banking concept even facilitates interaction between the client and his or her banking advisor, as clients can easily book a meeting at the branch through internet banking according to the current availability of their banking advisors.

The number of KB clients using at least one direct banking channel grew by 5.8% to more than 1,061,000 clients. The year 2011 brought especially development in the internet area, as the number of clients rose by 16% and thus MojeBanka internet banking is already serving some 841,000 clients. The internet was increasingly used for direct sale of products. For example, more than 10% of all consumer loans within KB were sold without a visit to the branch.

Komerční banka invested substantially during 2011 in developing its direct channels. Of those applications already available during the year, the clients greatly appreciated the possibility to administer and change the settings of their payment cards, create their own menus of favourites, and work even more simply with security certificates. Moreover, the Mobilní banka 2 application for tablets and smartphones was introduced with several introductory functions.

For 2012, Komerční banka is preparing an entirely new internet banking system. A new version of the Mobilní banka application will become available and provide access to one's accounts and the possibility to perform active operations. The merging of several client lines under a single telephone number will simplify access to information. KB ATMs will get new personalisation functions, and several ATMs taking deposits will be installed.

Payment products and operations
The trend toward growing use of payment cards for retail transactions continued in 2011. The number of retail transactions executed by KB payment cards increased by almost 24%, while the volume of those transactions rose by 17%. The number of KB cards in issue during 2011 remained at the same level as in 2010, and the number and volume of ATM transactions grew by just approximately 2%. The fastest growing area was card payments on the internet. The number of KB card payments to internet retailers increased year on year by more than 60%.

As of 31 December 2011, KB recorded 1.66 million active payment cards in its portfolio, most of which (1.45 million) were debit cards. During 2011, the Bank extended its network of retailers accepting credit cards. At the end of the year, the Bank was accepting cards at more than 21,500 points of sale and for in excess of 13,000 retailers, which represents a gain of 8.5%.

Komerční banka carried out a pilot project during 2011 in making payments by mobile phone based on NFC technology, with 200 of its clients participating. The companies Globus, Telefónica O2, VISA and Citibank were partners in this project.

In domestic non-cash transactions, KB improved its clients' conditions for submitting payment orders to the Bank. For priority payments routed to other banks in the Czech Republic via the Clearing Centre of the Czech National Bank, KB extended for its clients the deadline for submitting an order for processing from 12:00 up to 13:00 and for batch orders submitted via direct banking it extended the deadline for their receipt until 18:00. KB also improved its clients' conditions for direct debit orders, reducing the period for submitting a batch direct debt order from two days before the payment date to just one day.

The fourth building of KB headquarters

During 2011, KB's headquarters operations in Prague were spread across 14 office buildings, six of which were owned by the Bank. A decision was taken to centralise its activities into four buildings with the aim to provide employees with a working environment corresponding to modern requirements while optimising the portfolio of buildings and its maintenance costs. Business-support activities will be concentrated into a new building under construction, which will provide office space totalling almost 17,000 square meters. Located in Prague's Stodůlky District, it is easily accessible by public transport.

The construction work, which had begun in autumn 2010, progressed according to timetable in 2011. The move to the new building is envisioned for the second half of 2012.

Within foreign payment operations, KB recorded 5.1% growth year on year in the number of payments and a 2.5% year-on-year increase in the volume of processed payments. In the past year, KB expanded the exchange rate list to include the Chinese yuan. Moreover, KB extended the deadlines for presenting foreign payment orders. Euro-denominated payments within the European Economic Area can be sent via internet banking until 17:00 with payment being made on the same day. Also for the benefit of clients, a check as to the correctness of the input parameters before a payment can be sent as a lower-cost euro payment was added to the foreign payments form in internet banking.

In the area of cash payment operations, Komerční banka boosted the number of branches from which cash is sent for processing at centralised offices in Prague and for the first time also in Pilsen. The number of these Cash Centres will be increasing in 2012, which will allow the branches to use more of their capacity for sales activities and optimise cash processing.

The volume of cash deposits carried out via bank teller was CZK 380.7 billion (a 0.1% increase versus 2010), while the total volume of cash withdrawals via the tellers and ATMs reached CZK 345.2 billion (a gain of 9.7%). The total number of cash withdrawals in 2011 came to 29.1 million, representing a 0.7% rise year on year. ATM withdrawals accounted for 90.7% of the total number of cash withdrawals in KB.

COMMENTS ON THE IFRS CONSOLIDATED FINANCIAL RESULTS

KB Group confirmed its sound liquidity as the loans-to-deposits ratio reached 77.5% and its robust capital position with capital adequacy at 14.6%.

PROFIT AND LOSS STATEMENT

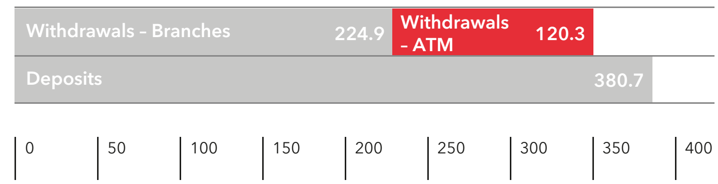
Net Interest Income

Net interest income, the largest component of total revenues, rose by 3.5% to CZK 22,190 million, driven by rising volumes of loans and deposits. The growth was limited by persistently low market interest rates. An increase in the statutory contribution to the Deposit Insurance Fund affected the result negatively, as well.

Standalone KB's share in the consolidated net interest income was 81%. Within KB Group, net interest income grew fastest at Factoring KB (by 11.8%) and followed by Modrá Pyramida (+6.3%) and ESSOX (5.9%).

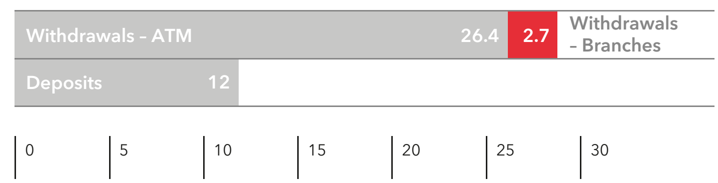
The average net interest margin remained unchanged at 3.3%.

VOLUME OF CASH TRANSACTIONS IN 2011



volume in CZK billion

NUMBER OF CASH TRANSACTIONS IN 2011



number in million

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 9,475 million for 2011 under International Financial Reporting Standards (IFRS). This is a 28.9% decrease in comparison with 2010. The modest growth in revenues was offset by the growth in operational costs and by overall cost of risk – despite improvement in the quality of the lending portfolio – due to a charge on Greek government bonds held in KB.

Emil Žižka

CHAIRMAN OF THE BOARD

"Our company has used services and products from KB since its establishment. The first included standard payment operations and term deposit accounts. Later, we established payment and non-payment bank guarantees and in 2005 we concluded general agreements for other products."

LITOSTROJPOWER
ČKD Blansko Engineering, a.s.

ČKD Blansko Engineering, a.s.

ČKD Blansko Engineering, a.s. is an engineering contractor focused especially on turnkey delivery of specialised technical machinery for hydropower plants and pumping stations, including water turbines of all types and sizes, pumping turbines and pumps, as well as project and design preparation, hydraulic design, testing, installation, and on-site guarantee measurements. Not only does it supply new equipment on a turnkey basis, but it also provides reconstruction, modernisation and general repairs for existing machinery. One of the company's important investments has been the construction of a new hydraulic laboratory, completed in 2011. To finance this demanding project, in addition to its own funds and a grant from European funds the firm also used an investment loan from KB, which had offered the most advantageous conditions.

Net Fees and Commissions
Net income from fees and commissions declined by 5.4% to CZK 7,305 million, affected by lower average prices, higher commissions paid to third parties for intermediating mortgages, and acceleration of recognition of deferred expenses at Penzijní fond KB following enactment by the Parliament of the Czech Republic of the pension system reform and an exceptional item at Penzijní fond KB. Fees from cross-selling declined, as well, due to an unfavourable environment for selling mutual funds in 2011.

Net Profit From Financial Operations
Net gains from financial operations improved by 0.7% to CZK 3,158 million. In the year's second half, KB registered moderate improvement in client demand for hedging of currency and interest rate risks. The Bank's focus on hedging products with higher value added also contributed to the growth in revenues. Furthermore, profit from the sale of bonds realized by Penzijní fond KB also in relation to pension reform positively affected the result.

Other Income
Other income grew by 16.8% to CZK 111 million. In 2011, other income primarily comprised revenues from intermediation and property rental.

Net Banking Income
Net banking income for 2011 rose by 1.2% from 2010 to reach CZK 32,764 million. The increase was mainly driven by net interest income.

Operating Costs
For Komerční banka, 2011 was a year of investing into future growth. The Bank significantly boosted spending directed to further advancing the professional competences of its staff, developing direct banking channels, as well as improving the Bank's infrastructure and processes. Along with the acquisition of SGEF, these efforts contributed to a 6.5% increase in operating costs year on year to CZK 13,489 million. Moreover, the comparative base from 2010 had been affected by a positive one-off item under staff costs and a positive result from the sale of several buildings. Personnel costs grew by 7.4% to CZK 6,526 million, due to a 1.8% rise in the average number of employees, slight increase in remuneration and year-on-year growth that was significantly influenced by one-off items related to releasing reserves for bonuses and for social insurance that had positively impacted the 2010 result. Administrative costs grew by 3.8% to CZK 5,154 million, as higher costs were recorded in relation to sales of banking products and to property maintenance. Depreciation, impairment and disposal of fixed assets rose by 11.4% to CZK 1,809 million due to investments to improve direct banking channels and software, and also because in 2010 the Bank had booked in this line a positive result of CZK 71 million from sale of unused buildings while in 2011 the result was negative CZK 43 million.

Gross Operating Income
Gross operating income dropped in 2011 by 2.3% to CZK 19,275 million.

Cost of Risk
Net creation of provisions for loan losses reflected the positive trend in development of the loan portfolio quality, thus declining by 36.2% to CZK 1,988 million. The number of new defaults has been gradually decreasing, especially in corporate segments. However, improvement in the retail segment was less pronounced, due to deteriorated recovery performance in mortgages. In several individual cases, Komerční banka released provisions upon receiving repayments exceeding the uncovered part of the exposure. However, improvement in the retail segment was less pronounced, due to deteriorated recovery performance in mortgages.

Total cost of risk nevertheless increased considerably – by 136.3% to CZK 7,325 million – due to a CZK 5,355 million write-down in the value of Greek government bonds held in the banking book of Komerční banka. KB decided to value these bonds as of 31 December 2011 based on a conservative analysis of the Greek government's credit risk which incorporates assumptions on the terms and conditions, such as interest rate, maturity and nominal haircut, then under negotiation as to the involvement of private investors in restructuring the Greek government debt. The Bank wrote down the value of those bonds by a total 75% of their nominal value. The book value of the bonds after write-downs was at the relatively low and manageable level of CZK 2,071 million. The total cost of risk in relative terms increased to 175 basis points in 2011. Cost of risk of lending decreased to 48 basis points from 80 basis points in 2010.

Share of Profit of Pension Scheme Beneficiaries
The share of profit of pension scheme beneficiaries declined to CZK 575 million from CZK 620 million in the previous year. This line represents an amount for which participants in PF KB pension schemes are eligible under Czech regulations (85% of the pension fund's net profit), unless the General Meeting of the fund decides on the distribution of a higher proportion among participants.

Profit before Taxes
Consolidated profit before income taxes declined by 28.7% year on year to CZK 11,456 million.

Income Taxes
Income taxes declined by 34.8% to CZK 1,738 million.

Net Profit
KB Group's consolidated net profit for 2011 came to CZK 9,718 million, which was 27.5% less than in the previous year. Of this, CZK 243 million was profit attributable to holders of minority stakes in KB's subsidiaries; the profit attributable to the Bank's shareholders amounted to CZK 9,475 million (down 28.9% year on year).

Other Comprehensive Income, Net of Tax
Other comprehensive income, which derives from hedging of cash flows, hedging of currency risk for foreign net investments, and profits and losses from financial assets available for sale, net of tax, reached CZK 5,735 million in comparison with CZK 320 million in 2010.

Comprehensive Income for the Period
The Group's comprehensive income for 2011 amounted to CZK 15,453 million, higher by 12.5% year on year.

BALANCE SHEET

The volume of KB Group's total assets as of 31 December 2011 increased 8.1% relative to the end of 2010 to CZK 754.8 billion.

ASSETS

Amounts Due from Banks
Amounts due from banks declined by 9.6% to CZK 101.4 billion. The largest component of this item is represented by loans provided to central banks as part of reverse repo operations, which diminished by 16.9% to CZK 59.0 billion.

Financial Assets at Fair Value through Profit or Loss
Financial assets at fair value through profit or loss increased by 2.7% to CZK 34.9 billion. The portfolio comprises proprietary trading positions of the Group.

Loans and Advances to Customers
Total net loans and advances expanded by 12.9% to CZK 434.4 billion. The gross amount of client loans and advances grew by 12.6% to CZK 450.1 billion. Standalone KB had an 83% share in the loan portfolio. Modrá pyramida had a share of 11% in the consolidated portfolio.

Of the total amount of loans, credits to individual clients comprised 45%, increasing by 8.8% from the year earlier. Year-on-year growth in the volume of mortgages to individuals reached 13.6%, bringing the total to CZK 123.6 billion. New sales of mortgages in 2011 increased by 41.0% in comparison with the previous year. At building society Modrá pyramida, the loan portfolio expanded by 3.4% to reach CZK 51.4 billion. Reflecting persistent uncertainty about jobs and the economic outlook still affecting the attitudes of consumers, the volume of consumer loans provided by KB and by the consumer finance company ESSOX decreased by 0.3% to CZK 28.2 billion.

The Group's business loans reached CZK 252.0 billion, which represents an increase of 16.3%. Within this segment, lending to small businesses and entrepreneurs grew by 8.2% to CZK 27.8 billion. Loans to corporations (provided by KB in the Czech and Slovak Republics) increased by 5.6% to CZK 193.7 billion. The volume of receivables financed through factoring increased by 47.2% to CZK 2.8 billion. Loans provided by the company SGEF, acquired in May 2011, reached CZK 20.4 billion.

The loan portfolio's quality has improved compared to 2010. The share of standard loans within the total represented 91.0% (CZK 410.2 billion), while the proportion of watch loans was 3.2% (CZK 14.6 billion) and loans under special review (substandard, doubtful, loss) comprised 5.7% of the portfolio with a volume of CZK 25.7 billion. The volume of provisions created reached CZK 16.6 billion, which is 8.4% more than at the end of 2010.

Securities Available for Sale
The portfolio of available-for-sale securities increased by 8.2% to CZK 126.0 billion. The major part of this portfolio consists of debt securities in the amount of CZK 125.3 billion. From this total, Czech government bonds represented CZK 78.5 billion and foreign government bonds CZK 25.6 billion. From the total of foreign government bonds, Polish government bonds represented CZK 8.3 billion, Italian government bonds CZK 7.3 billion, and Slovak government bonds CZK 5.3 billion. Valued at 25% of their nominal book value, the Greek government bonds held in the banking book of Komerční banka at the end of 2011 stood at CZK 2.1 billion (CZK 7.3 billion in the amortised acquisition cost). The maturity of the Greek government bonds was originally contracted in 2013 (68% of the portfolio), 2014 (16%) and 2015 (9%). The very last repayment from the Greek portfolio as a whole was contracted for 2017 (7%).

The book value of shares and participation securities in the available-for-sale portfolio totalled CZK 0.7 billion.

▶ Go to boxes "Available-for-sale bonds" and „Foreign Sovereign Bonds - Holdings by Country" page 40

Investments Held to Maturity
The volume of securities in the held to maturity portfolio decreased by 50.0% to CZK 3.4 billion. That entire portfolio consists of bonds.

▶ Go to box "Held-to-maturity bonds" page 40

Tangible and Intangible Fixed Assets
The net book value of tangible fixed assets diminished by 2.0% to CZK 6.9 billion, while intangible fixed assets expanded by 2.4% to CZK 3.8 billion.

Goodwill
As of 31 December 2011, total goodwill amounted to CZK 3,752 million, which was 5.7% more than in the previous year due to the acquisition of a 50.1% interest in the company SGEF in May 2011.

Description of real estate owned by the Bank

Komerční banka manages real estate used mostly for the business activities for which it is licensed under the applicable legal regulations.

Summary of the real estate managed by the Bank:

As of 31 December 2011	Number	Of which KB owns
Buildings in the Czech Republic	438	122
Buildings in the Slovak Republic	2	0
Total	**440**	**122**

Note: See also Notes to the Separate Financial Statements according to IFRS, notes no. 19 – Assets held for sale and 26 – Tangible fixed assets.

Trademarks, licences and sub-licenses

Komerční banka, a.s., as part of its activities, uses trademarks for labelling its particular products and services both in the Czech Republic and the Slovak Republic. For the reason of legal protection of these trademarks, it was necessary that these trademarks were registered with national registries in the Czech Republic and the Slovak Republic.

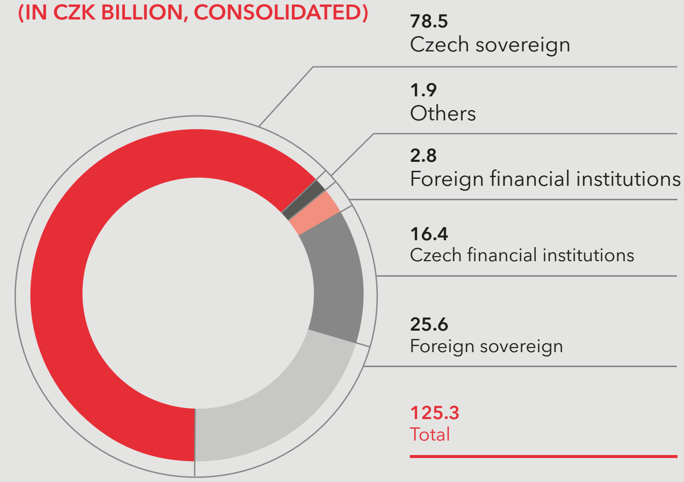
In 2011, Komerční banka, a.s. had registered a total of 156 trademarks with the Industrial Property Office in the Czech Republic. A further 10 trademarks have been entered into the registration process. In the Slovak Republic, 5 trademarks were registered with the Industrial Property Office of the Slovak Republic and 2 trademarks have been entered into the registration process.

In the course of co-operation with its subsidiaries, Komerční banka, a.s., provides certain subsidiaries licenses for its trademarks. In some cases, Komerční banka, a.s., is also a licensee and sub-licensee.

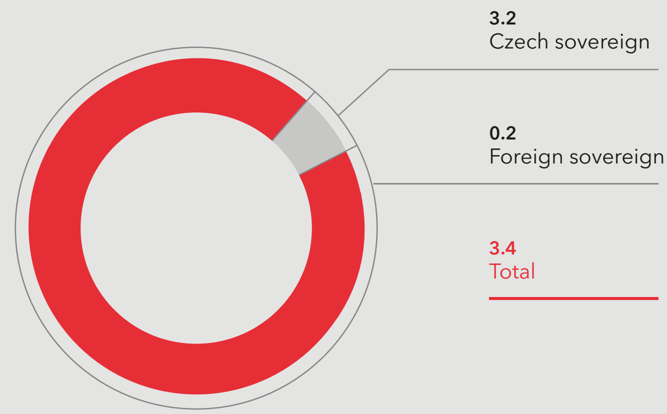
IN 2011, KB HAD

156 trademarks registered

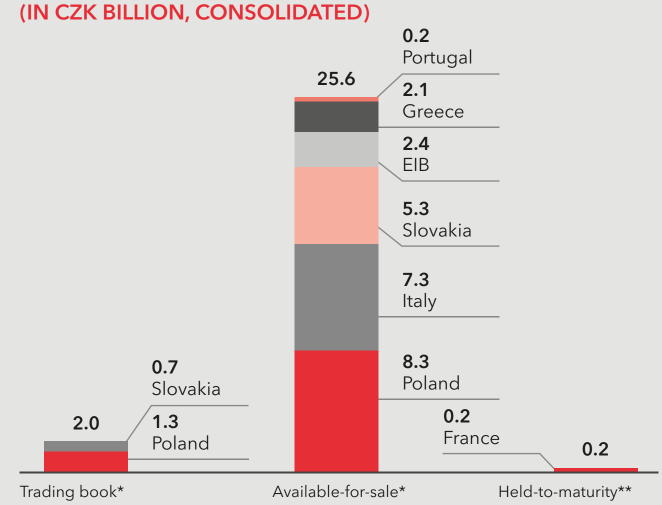
AVAILABLE-FOR-SALE BONDS
(IN CZK BILLION, CONSOLIDATED)



HELD-TO-MATURITY BONDS
(IN CZK BILLION, CONSOLIDATED)



FOREIGN SOVEREIGN BONDS – HOLDINGS BY COUNTRY
(IN CZK BILLION, CONSOLIDATED)



* Fair value ** Amortised cost

Financial and non-financial investments

Financial investments made by the Bank
(balance as of the end of the year)

CZK million, IFRS	31 December 2011	31 December 2010
Bonds and treasury bills	**101,495**	92,749
Shares	**709**	703
Emissions allowances	**0**	0
Equity investments in subsidiary and associated undertakings	**24,586**	23,249
Total	**126,790**	**116,701**

Main investments, excluding financial investments*
(balance as of the end of the year)

CZK million, IFRS	31 December 2011	31 December 2010
Tangible fixed assets	**6,536**	6,556
Intangible fixed assets	**3,449**	3,363
Total tangible and intangible fixed assets	**9,985**	**9,919**
Tangible fixed assets held under financial leases	**0**	0

Note: * Net book value of investments
See also Notes to the Separate Financial Statements according to IFRS, notes no. 25 – Intangible fixed assets and 26 – Tangible fixed assets.

Main ongoing investments, excluding financial investments
In 2011, the Bank made non-financial investments in a total of CZK 1.734 billion. Most of that amount was invested in the area of information technologies (over CZK 0.9 billion) for the acquisition and development of software and hardware. Significant amounts were also invested into the development and reconstruction of real estate owned by the Bank. In 2011, KB continued to construct a new headquarters building in Prague, which is expected to be completed in 2012 and will become the 4th headquarters building. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank, excluding financial investments
The investments planned by Komerční banka for 2012 should not exceed CZK 1.8 billion (the figure does not include the new headquarters building). The Bank will invest mainly into information technologies and maintenance and into developing the distribution network. The Bank's investment plans may be adjusted in accordance with developments in the global environment.

Information on remuneration to auditors for services provided in 2011

Remuneration to the auditors of KB and KB Group for services performed during 2011:

Type of service – CZK thousand, excl. VAT	KB	KB Group
Statutory audit	15,891	22,271
Audit related services	128	150
Legal and tax related services	176	0
Other	0	0
Total	**16,195**	**22,421**

Expenses on research and development

In 2011, Komerční banka had outlays through operating expenses of CZK 142 million for research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems, including development of internet applications.

R&D EXPENSES REACHED IN 2011

CZK 142 million

LIABILITIES

Total liabilities increased by 8.2% to CZK 673.0 billion.

Amounts Due to Banks
In 2011, amounts due to banks increased by 28.8% to CZK 37.5 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amounts Due to Customers
The consolidated volume of deposits totalled CZK 560.7 billion, which is 4.2% more compared to the end of 2010. Deposits from individuals at the Bank grew by 3.7% to CZK 155.9 billion and deposits of business clients increased by 5.0% to CZK 295.1 billion. Within the Bank's deposit base, growth in current account volumes was robust even as the most dynamic gain was recorded in the volumes on saving accounts, due in part to transfer from clients' term deposits.

Penzijní fond KB recorded growth of 5.7% in the volume of clients' assets to CZK 30.4 billion. Deposits at the building society Modrá pyramida grew year on year by 2.7% to CZK 70.9 billion.

Securities issued
The volume of debt securities issued increased by 5.2% to CZK 18.3 billion. The majority of this item is comprised of mortgage bonds issued during 2005–2007.

Provisions
Provisions increased by 1.0% to CZK 1.1 billion. This line item does not include provisions for loan losses, which are reflected at the item "Loans and advances to customers". It includes provisions for contractual commitments and provisions for other credit commitments, comprising provisions for off-balance sheet commitments and provisions for undrawn loan facilities.

Shareholders' Equity
KB Group's shareholders' equity rose by 7.6% to CZK 81.9 billion due to generation of net profit and positive change in fair value of hedging derivatives. KB paid out the dividend of CZK 10.3 billion in the second quarter of 2011. KB's share capital remained stable at CZK 19.0 billion.

The hedging revaluation reserve, which reflects the change in the fair value of hedging derivatives, increased by 149.8% from CZK 3.9 billion at the end of 2010 to CZK 9.8 billion at the end of 2011. In contrast, revaluation of securities available for sale period decreased by 5.7% in the same period from CZK 2.2 billion to CZK 2.1 billion.

Revaluation of hedging derivatives and the portfolio of securities available for sale provides only a limited picture for determining the balance sheet value, as, in accordance with accounting standards, assets and liabilities hedged by derivatives are valued on an accrual basis. Therefore, the book value of the hedging reserve and the value of the hedged assets and liabilities are generated on the basis of different accounting regulations. Similarly, the portfolio of securities available for sale is managed to correspond with the development of liabilities having stable interest yields. These, however, are not revalued on a mark-to-market basis.

For the purposes of capital adequacy under Basel II standards, revaluation of the hedging reserve is not included in calculating the regulatory capital. The regulatory capital of the consolidated Group according to the CNB methodology (Basel II) reached CZK 55.6 billion. The Group's capital adequacy ratio reached 14.6% as of the end of 2011, while its Tier 1 ratio was at 13.4%.

ACQUISITION OF TREASURY SHARES IN 2011

Komerční banka held 238,672 of its own shares as of 31 December 2011. These shares were purchased during 2006 and 2011 in accordance with decisions made by the Bank's general meetings of 28 April 2005, 26 April 2006 and 21 April 2011 allowing KB to purchase its own shares into treasury. In addition, Komerční banka intermediated transactions in KB shares for clients. In this case, it acted at the client's request and immediately sold on to the client the shares that had been purchased.

Komerční banka shares in treasury

	Number/nominal value as of 1 January 2011	Proportion of share capital as of 1 January 2011	Number/nominal value as of 31 December 2011	Proportion of share capital as of 31 December 2011
	(pcs/CZK thousand)	(%)	(pcs/CZK thousand)	(%)
Trading portfolio	0	0	0	0
(Trading book)	0		0	
Portfolio available for sale	54,000	0.142	238,672	0. 628
(Banking book)	27,000		119,336	

Trading volumes in Komerční banka shares carried out by KB in 2011

	Number/nominal value of acquired shares	Number/nominal value of sold shares	Sum of purchase prices of acquired shares	Min. and max. acquisition price	Sum of selling prices of sold shares	Min. and max. selling price
	(pcs/CZK thousand)	(pcs/CZK thousand)	(CZK thousand)	(CZK)	(CZK thousand)	(CZK)
Trading portfolio	47,437	47,437	177,633	2,900	177,640	2,900
(Trading book)	23,719	23,719		4,404		4,415
Portfolio available for sale	184,672	0	575,119	2,967	0	0
(Banking book)	92,336	0		3,240	0	0

Based on the consent of the General Meeting held on 21 April 2011, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions:
- The maximum amount of shares that can be held by the Bank at any specific moment shall be 3,800,985 pieces of ordinary shares representing the total nominal value of CZK 1,900,492,500.
- The share purchase value must be at least CZK 500 per share and at most CZK 6,000 per share.
- This resolution shall be valid for the term of 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in S. 161a (1)(b), (c) and (d) of the Commercial Code.
- For the term of validity thereof, the Bank can buy and sell shares repeatedly without any further restrictions.

Ludvík Kacer

VEGETABLE WHOLESALER

"My co-operation with Komerční banka dates back to 1997. Initially, I opened a business current account, and about five years ago I applied for my first loan. Since then, I have used several loans – for example, to buy the warehouse which has become our main office and to purchase refrigerators as well as machines for processing vegetables."

Gastrofresh vegetable wholesaler

Gastrofresh is a wholesaler of fresh fruits, vegetables, herbs, mushrooms, exotic fruits and fresh-packed products. Besides importing goods, it focuses on supplying gastronomic establishments and daily delivery of goods throughout Prague, Central Bohemia and all along the D1 highway.

The majority of fresh produce for distribution comes through the company's direct imports from Africa, Belgium, France, the Netherlands, Italy, Israel, South America, New Zealand, Spain and other countries. The offer also includes a wide range of fresh seasonal products from domestic growers, both standard and BIO.

In addition to HACCP food safety certification, Gastrofresh also holds a certificate for selling organic grocery products.

Report by the Supervisory Board

Throughout 2011, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a. s., ascertained the effectiveness of the management and control system and made its regular assessments.

Having checked the Bank's regular and consolidated financial statements for the period from 1 January 2011 to 31 December 2011, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in a transparent manner and in accordance with generally binding regulations providing for banks' book-keeping. The accounts show all important aspects of the financial situation of Komerční banka, a. s., and the financial statements worked out on their basis present a full and accurate picture of the Bank's accounting and financial situation.

The Bank's auditor, company Ernst & Young Audit, s.r.o., performed an audit of the Bank's consolidated and unconsolidated financial statements worked out under the International Financial Reporting Standards (IFRS). The report was unqualified.

The Supervisory Board recommends that the general meeting approve the regular and consolidated financial statements and the distribution of profit for the year 2011 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2011 drawn up under S. 66a (9) of the Commercial Code, and states on the basis of the presented documents that, during the accounting period from 1 January 2011 to 31 December 2011, Komerční banka, a. s., did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 9 March 2012

On behalf of the Supervisory Board of Komerční banka, a. s.:

Didier Alix
Chairman

Management Affidavit

To the best of our knowledge, we believe that this annual report gives a fair and true view of the Bank's and Group's financial position, business activities and results from the year 2011, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 6 April 2012

Signed on behalf of the Board of Directors:

Henri Bonnet
Chairman of the Board of Directors
and Chief Executive Officer

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

Independent Auditor's Report to the Shareholders of Komerční banka, a.s.

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

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

I. We have audited the consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Company") as at 31 December 2011 presented in the annual report of the Company on pages 53 - 126, on which we have issued an audit report, dated 28 February 2012, which is presented on pages 51 - 52. We have also audited the separate financial statements of Komerční banka, a.s. ("the Company") as at 31 December 2011 presented in the annual report of the Company on pages 130 - 200, on which we have issued an audit report, dated 28 February 2012, which is presented on pages 128 - 129 (both referred to further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of Komerční banka, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2011. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of Komerční banka, a.s. for the year ended 31 December 2011 presented in the annual report of the Company on pages 251 - 263. The management of Komerční banka, a.s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Komerční banka, a.s. for the year ended 31 December 2011 is materially misstated.

Ernst & Young

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

Jan Fanta
Partner

Michaela Kubjová

Michaela Kubjová
Auditor, License No. 1810

6 April 2012
Prague, Czech Republic

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

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
Partner

Michaela Kubýová
Auditor, License No. 1810

28 February 2012
Prague, Czech Republic

Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

CONSOLIDATED INCOME STATEMENT

(CZKm)	Note	Year ended 31 Dec 2011	Year ended 31 Dec 2010
			(after reclassification)
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

(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

Consolidated Statement of Changes in Shareholders' Equity for the 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 noncontrolling 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 of 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 for the year ended 31 December 2011

(CZKm)	Year ended 31 Dec 2011		Year ended 31 Dec 2010 (after reclassification)	
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 consolidated cash flow statement.

Notes to the Consolidated Financial Statements as at 31 December 2011

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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 at 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 at 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). The increased funds will be used for financing of the expenditures related to the construction.

In April 2011 the General Meeting of Komerční pojištovna, 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 4 May 2011. The primary reason for acquisition of SGEF was to further reinforce the Group's 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's 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 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 the 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 23 December 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 though it is dividend from SGEF's perspective, from the 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 shareholders' 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 shareholders' 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 Notes 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's 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 the 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)

The 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 first-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 fair value from the scope of the guidance previously contained in SIC 21.	1 January 2012
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
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

Standard	Summarised content	Effective for reporting period beginning on or after
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 the functional currency, the bank authority means the Czech National Bank (hereafter only "CNB") for the Czech crown and the European Central Bank for the 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 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 recognised 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 straightline 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 amortisation 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 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 amortisation 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 recognised 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 no 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 the asset is near to maturity, the Group received almost the 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 a 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 an 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 a 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 the hedged item are recognised in the Statement of Financial Position as part of the carrying amount of the 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 instruments. 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 the 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.

The Group as lessor
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".

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

Finance leases
At the commencement of a lease term, an asset held under finance lease is recognised in the appropriate item in the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the 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 banking 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 the 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 the 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 the 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. The discount rate used is the cost of capital calculated using the 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 the 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 "Personnel 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 1 January 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)	31 Dec 2010 As reported	31 Dec 2010 After reclassification	31 Dec 2009 As reported	31 Dec 2009 After reclassification	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 from General administrative expenses to Net fees and commissions.

4. Segment reporting

(CZKm)	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
		Retail banking		Corporate banking		Investment banking		Other		Total
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
Fees and commission income from 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)
Fees and commission expenses on 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 'Others' 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 year ended 31 December 2010 the net gain from the sale of the equity investment in Visa Inc. in the amount of CZK 30 million (refer to Note 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 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 recognised in 'Personnel expenses' is CZK 2 million (2010: CZK: 4 million) and the total amount of CZK 6 million (2010: CZK 4 million) recognised 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 recognised 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) recognised 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 amortisation	**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 at 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 at 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 of CZK 160 per share that represents in total the amount of CZK 6,082 million. The proposal is subject of the Supervisory Board's review and subsequently of the approval of the 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 balances 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 1.00% (2010: 1.00%) 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:

(CZKm)	31 Dec 2011		31 Dec 2010	
	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:

(CZKm)	31 Dec 2011		31 Dec 2010	
	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 finalised 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 at 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 at 31 December 2010 (excluding other amounts due from customers) comprises the following breakdown by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	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:

(CZKm)			31 Dec 2011			31 Dec 2010
	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 account 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 at 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:

(CZKm)	31 Dec 2011		31 Dec 2010	
	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 amortised cost EUR 23 million and USD 10 million (a total CZK equivalent of CZK 783 million) from portfolio financial assets held to maturity into portfolio financial assets available for sale due to the change of their holding intention. Intention to change the tenure occurred in connection with a significant deterioration of issuer's creditworthiness. Such reclassification does not trigger the "tainting rules" (refer to Note 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 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.

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 at 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 at 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 at 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 at 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 at 31 December 2011:

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

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

As at 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 CZK 1,800 million as at 4 May 2011.

Income Statement of acquired company:

(CZKm)	1 Jan 2011 until acquisition date	Since acquisition 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 at 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 at 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			31 Dec 2010
	Total commit-ments and contin-gencies collateral*	**Discounted commitme-nts and con-tingencies collateral value****	**Applied commit-ments and contin-gencies collateral value*****	**Total commit-ments and contin-gencies collateral***	**Discounted commitme-nts and con-tingencies collateral value****	**Applied commit-ments and contin-gencies 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 account 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 at 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 at 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:

(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 Luxembourg	**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:

(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 Luxembourg	**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 at 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 at 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 at 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 at 31 December 2011:

(CZKm)			Total exposure			Applied collateral
	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 at 31 December 2010:

(CZKm)	Total exposure			Applied collateral		
	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:

(CZKm)	31 Dec 2011		31 Dec 2010	
	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)		Past due loans, not impaired						Total
	Loans before due date	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days to 1 year**	**Over 1 year**	**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)		Past due loans, not impaired						Total
	Loans before due date	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days to 1 year**	**Over 1 year**	**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:

(CZKm)	31 Dec 2011		31 Dec 2010		31 Dec 2011		31 Dec 2010	
	Notional value		Notional value		Fair value		Fair value	
	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:

(CZKm)	31 Dec 2011		31 Dec 2010		31 Dec 2011		31 Dec 2010	
	Notional value		Notional value		Fair value		Fair value	
	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:

(CZKm)			31 Dec 2011			31 Dec 2010
	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 at 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				31 Dec 2010			
	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and balances with central banks	0	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:

(CZKm)		31 Dec 2011		31 Dec 2010
	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		Year ended 31 Dec 2010	
	Financial assets available for sale	Total	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 at 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.

Separate Financial Statements Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union and Independent Auditor's Report as at 31 December 2011

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

ERNST & YOUNG

Opinion

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

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

Jan Fanta
Partner

Michaela Kubýová
Auditor, License No. 1810

28 February 2012
Prague, Czech Republic

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

SEPARATE INCOME STATEMENT

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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

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

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

Separate Statement of Financial Position as at 31 December 2011

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

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

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

Signed on behalf of the Board of Directors:

Henri Bonnet
Chairman of the Board of Directors
and CEO

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

Separate Statement of Changes in Shareholders' Equity for the year ended 31 December 2011

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

Note: * Capital and reserve funds and retained earnings consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings. Retained earnings amount to CZK 30,122 million (2010: CZK 28,332 million) and statutory reserve fund CZK 3,801 million (2010: CZK 3,801 million).

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

Separate Cash Flow Statement for the year ended 31 December 2011

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

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

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

Notes to the Separate Financial Statements as at 31 December 2011

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1. Principal activities

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

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

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

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

2. Events for the year ended 31 December 2011

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

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

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

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

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

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

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

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

3. Principal accounting policies

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

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

3.1 STATEMENT OF COMPLIANCE WITH IFRS

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

The separate financial statements include a statement of financial position, a statement of comprehensive income presented in two constituent statements (a Separate Income Statement and a Statement of Comprehensive Income), a Statement of Changes in Shareholders' Equity, a Cash Flow Statement, and Notes to the Financial Statements containing accounting policies and explanatory disclosures.

3.2 UNDERLYING ASSUMPTIONS OF SEPARATE FINANCIAL STATEMENTS

3.2.1 ACCRUAL BASIS

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

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

3.2.2 GOING CONCERN

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

3.2.3 OFFSETTING

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

3.2.4 REPORTING PERIOD

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

3.3 BASIS OF PREPARATION

3.3.1 PRESENTATION CURRENCY

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

3.3.2 HISTORICAL COST

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

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

3.3.3 USE OF ESTIMATES

The presentation of separate financial statements in line with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the financial statements date and they specifically relate to the determination of:
- fair values in the Statement of financial position of financial instruments non-quoted in an active market which are classified as Financial assets or liabilities at fair value through profit or loss, Hedging derivatives or Available for sale financial assets (refer to Note 3.5.4);
- the value of intangible assets (refer to Note 3.5.8);
- the amount of impairment of assets (refer to Notes 3.5.4 and 3.5.8);
- provisions recognised under liabilities (refer to Note 3.5.9);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.6).

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

3.3.4 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

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

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

3.4 ADOPTION OF NEW AND REVISED IFRS

3.4.1 STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE EUROPEAN UNION

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

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

In addition, the European Commission has not approved the following effective standards and interpretations, and/or their amendments:
- IFRS 1 First-time Adoption of IFRS –amendment: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Transfer of Financial Assets
- IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments
- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – amendment: Mandatory Effective Date and Transition Disclosures
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements – amendment: Presentation of Items of Other Comprehensive Income
- IAS 19 Employee Benefits (revised 2011)
- IAS 27 Individual Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Financial Instruments: Presentation – amendment: Offsetting Financial Assets and Financial Liabilities
- IAS 12 Income Taxes – amendment: Deferred Tax: Recovery of Underlying Assets
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

3.4.2 STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT PERIOD (AND/OR PRIOR PERIOD)

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

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

3.4.3 STANDARDS AND INTERPRETATIONS ADOPTED EFFECTIVE FROM 1 JANUARY 2012 OR THEREAFTER

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

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

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

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

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for equity instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application. Derivatives embedded in financial assets are no longer separated according to the standard. In October 2010 the requirements in IAS 39 for classification and measurement of financial liabilities and for derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk. In December 2011 the Board issued the amendment that postpones the mandatory effective date of IFRS 9. Newly the Standard should be applied for annual periods beginning on or after 1 January 2015.	1 January 2015
IAS 1 Presentation of Financial Statements – amendment "Presentation of Items of Other Comprehensive Income"	Amendment requires that items in other comprehensive income are grouped on the basis of whether they are reclassified from other comprehensive income to profit or loss. Moreover, new title of 'statement of profit or loss and other comprehensive income' is used for the statement containing all items of income and expense.	1 July 2012
IAS 19 Employee Benefits – revised Defined Benefit Plans	Revised standard requires immediate recognition of defined benefit cost and improves presentation and disclosure.	1 January 2013
IAS 27 Separate Financial Statements – revised standard	Revised standard doesn't change current requirements related to separate financial statements.	1 January 2013
IAS 28 Investments in Associates and Joint Ventures – revised standard	Revised standard results from the new standard on joint ventures and incorporates the accounting for them. In consolidated financial statements joint ventures will be newly consolidated using only the equity method.	1 January 2013
IFRS 7 Financial Instruments: Disclosures – amendment: "Disclosures – Offsetting Financial Assets and Financial Liabilities"	The amendment requires disclosure of information that will enable users of entity financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.	1 January 2013
IFRS 10 Consolidated Financial Statements – new standard	New standard is based on current consolidation requirements stipulated in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. However, this standard presents a revised definition of control and related application guidance so that a single control model can be applied to all entities.	1 January 2013
IFRS 11 Joint Arrangements – new standard	New standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities —Non-Monetary Contributions by Venturers and it improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement and by eliminating a choice of accounting treatment.	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities – new standard	New standard enhances disclosures about consolidated and unconsolidated entities to be published.	1 January 2013
IFRS 13 Fair Value Measurement – new standard	New standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – new interpretation	Interpretation addresses recognition of production stripping costs as an asset ("stripping activity asset") and its initial and subsequent measurement.	1 January 2013
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment relates to criterion that an entity "currently has a legally enforceable right to set off the recognised amounts" newly added into application guidance.	1 January 2014
IFRS 7 Financial Instruments: Disclosures – amendment: "Mandatory Effective Date and Transition"	Standard has been amended due to the change of the mandatory effective date of IFRS 9 Financial instruments.	1 January 2015

3.4.4 STANDARDS AND INTERPRETATIONS VOLUNTARILY ADOPTED EARLY AND APPLIED TO THE REPORTING PERIOD BEGINNING 1 JANUARY 2011

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

3.5 PRINCIPAL ACCOUNTING POLICIES

3.5.1 TRANSACTIONS IN FOREIGN CURRENCIES

3.5.1.1 Functional and presentation currency

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

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

3.5.1.2 Transactions and balances translation

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

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

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

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

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

3.5.2 RECOGNITION OF INCOME AND EXPENSES

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

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

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

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

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

3.5.3 CASH AND CASH EQUIVALENTS

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

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

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

3.5.4 FINANCIAL INSTRUMENTS

3.5.4.1 Dates of recognition and derecognition

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

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

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

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

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

3.5.4.2 Initial measurement of financial assets and financial liabilities

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

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

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

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

3.5.4.3 'Day 1' profit or loss

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

3.5.4.4 Financial assets and liabilities classification and subsequent measurement

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

I. Financial assets and liabilities at fair value through profit or loss;
II. Held to maturity investments;
III. Loans and receivables;
IV. Available for sale financial assets;
V. Financial liabilities at amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.5.4.5 Reclassification of financial assets

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

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

The Bank may reclassify financial assets or significant amount out of the Financial assets held to maturity portfolio into Financial assets available for sale portfolio or Loans and receivables portfolio, without triggering the "tainting rules", in cases of the asset is near to maturity, the Bank received almost whole principal of the financial asset or there was a unique and exceptional event, that is out of the Bank's control and the Bank 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 Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of financial instruments. The hierarchy of fair values has the following three levels:
– Level 1: prices quoted for specific financial instruments on active markets (without modification);
– Level 2: prices quoted on active markets for similar financial instruments or other valuation techniques for which all significant input information is based on data identifiable on the market;
– Level 3: valuation techniques for which not all significant input information is based on data identifiable on the market.

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

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

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

I. quoted prices for similar assets or liabilities in active markets;
II. quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. inputs other than quoted prices, e.g. inputs based on interest rates, yield curves, etc.;
IV. inputs derived principally from or corroborated by observable market data.

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

3.5.4.7 Effective interest rate method

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

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

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

3.5.4.8 Renegotiated loans

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

3.5.4.9 Impairment and uncollectibility of financial assets

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

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

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

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

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

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

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

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

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

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

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

3.5.4.10 Repurchase agreements

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

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

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

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

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

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

3.5.4.11 Derivatives and hedge accounting

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

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

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

Hedging derivatives are derivatives that the Bank uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as for hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:
– there is compliance with the Bank's risk management objective and strategy in undertaking the hedge;
– at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
– the hedge is expected to be highly effective at inception and throughout the period;
– the effectiveness of the hedge can be reliably measured;
– changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:
I. a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. hedging of a net investment in a foreign operation.

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

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

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

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

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

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

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

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

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

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

3.5.4.12 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if and only if:
– the embedded derivative as a separate instrument meets the definition of a derivative;
– the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
– the host contract is not measured at fair value with fair value changes recognised in the Income Statement.

3.5.5 ASSETS HELD FOR SALE

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

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

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

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

3.5.6 INCOME TAX

3.5.6.1 Current income tax

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

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

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

3.5.6.2 Deferred income tax

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

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

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

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

3.5.7 LEASING

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

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

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

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

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

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

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

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

3.5.8 TANGIBLE AND INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

3.5.9 PROVISIONS

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

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

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

3.5.10 EMPLOYEE BENEFITS

3.5.10.1 General

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

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

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

The Bank has the following share plans and deferred compensation schemes:

3.5.10.2 Deferred bonus payments

The Bank implemented a 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) a non-deferred part which is paid in the following year and (ii) a 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 a vesting period.

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

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

3.5.10.3 Free share plan

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

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

3.5.11 SHARE CAPITAL

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

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

3.5.12 CONTINGENT ASSETS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS

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

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

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

3.5.13 OPERATING SEGMENTS

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

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

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

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

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

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

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

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

3.5.14 REGULATORY REQUIREMENTS

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

3.6 RECLASSIFICATION

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

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

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

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

4. Segment reporting

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

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

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

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

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

5. Net interest income and similar income

Net interest income and similar income comprise:

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

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

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

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

6. Net fee and commission income

Net fee and commission income comprises:

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

The line Others includes particularly fees and 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 of CZK 69 million (2010: CZK 57 million) and fee expense in the amount of CZK 8 million (2010: CZK 5 million).

7. Net profit on financial operations

Net profit on financial operations comprises:

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

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

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

8. Other income

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

9. Personnel expenses

Personnel expenses comprise:

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

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

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

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

The movement in the number of shares was as follows:

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

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

10. General administrative expenses

General administrative expenses comprise:

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

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

11. Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

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

12. Cost of risk

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

The movement in the Allowances and Provisions was as follows:

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

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

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

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

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

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

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

13. Loss on subsidiaries and associates

The profit on subsidiaries and associates includes the following:

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

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

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

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

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

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

14. Income taxes

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

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

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

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

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

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

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

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

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

Further information about deferred tax is presented in Note 33.

15. Distribution of net profit

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

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

16. Cash and current balances with central banks

Cash and current balances with central banks comprise:

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

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

17. Financial assets at fair value through profit or loss

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

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

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

Trading securities comprise:

(CZKm)		31 Dec 2011		31 Dec 2010
	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 Bank's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 3,549 million (2010: CZK 9,003 million).

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

Trading shares and participation certificates at fair value comprise:

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

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

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

Debt trading securities at fair value comprise:

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

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

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

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

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

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

18. Financial assets available for sale

Financial assets available for sale comprise:

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

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

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

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

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

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

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

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

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

Debt securities available for sale at fair value comprise:

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

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

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

Debt securities available for sale issued by foreign state institutions:

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

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

Debt securities available for sale issued by Greece comprise:

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

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

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

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

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

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

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

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

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

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

Consequently, the Greek government bonds held by the Bank under Financial 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).

19. Assets held for sale

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

20. Amounts due from banks

Balances due from banks comprise:

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

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

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

Securities acquired as loans and receivables

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

21. Loans and advances to customers

Loans and advances to customers comprise:

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

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

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

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

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

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

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

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

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

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

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

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

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

Note: * The nominal value of the collateral is determined based on internal rules of the Bank (e.g.internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of falling prices in the market, the risk of insolvency, etc..
*** The applied collateral value is the discounted collateral value reduced up to the actual amount of the hedged exposure balance.

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

Debt securities designated as loans and receivables

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

Loans and advances to customers – restructured

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

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

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

22. Financial assets held to maturity

Financial assets held to maturity comprise:

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

Note: * Amortised acquisition cost.

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

Debt securities held to maturity comprise:

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

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

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

Debt securities held to maturity issued by foreign state institutions:

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

Note: * Amortised acquisition cost.

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

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

23. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

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

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

24. Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

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

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

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

Associated undertakings

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

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

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

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

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

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

Changes in equity investments in subsidiaries and associates in 2011

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

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

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

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

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

25. Intangible assets

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

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

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

26. Tangible assets

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

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

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

27. Financial liabilities at fair value through profit or loss

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

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

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

28. Amounts due to banks

Amounts due to banks comprise:

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

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

29. Amounts due to customers

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

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

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

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

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

30. Securities issued

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

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

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

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

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

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

Note: Six-month PRIBOR was 145 basis points as at 31 December 2011 (2010: 156 basis points).
Three-month PRIBID was 78 basis points as at 31 December 2011 (2010: 85 basis points).
The value of the interest rate swap CZK sale average for five years as at 31 December 2011 was 169 bps (2010: 264 bps).
The value of the interest rate swap CZK sale average for ten years as at 31 December 2011 was 219 bps (2010: 319 bps).
* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for two to thirty years.

31. Accruals and other liabilities

Accruals and other liabilities comprise:

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

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

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

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

32. Provisions

Provisions comprise:

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

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

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

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

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

Movements in the provisions for contracted commitments are as follows:

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

33. Deferred tax

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

Deferred tax assets is as follows:

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

Deferred tax liabilities is as follows:

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

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

Deferred tax recognised in the financial statements:

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

34. Subordinated debt

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

35. Share capital

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

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

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

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

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

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

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

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

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

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

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

Capital Management

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

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

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

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

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

As part of the first pillar of Basel II, the Bank began to use the following approaches starting from 2008:
– Special approach to the calculation of capital requirements relating to credit risks based on an internal rating (Internal Rating Based Advanced Approach);
– Special approach to the calculation of the capital requirement to the operational risk (Advanced Measurement Approach).

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

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

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

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

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

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

37. Commitments and contingent liabilities

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

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

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

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

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

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

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

Financial commitments and contingencies comprise:

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

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

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

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

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

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

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

Note: * The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of falling prices in the market, the risk of insolvency, etc..
*** The applied collateral value is the discounted collateral value reduced up to the actual amount of the hedged exposure balance.

38. Related parties

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

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions were carried out on arm's length basis.

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

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

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

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

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

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

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

Interest income from loans granted to Group companies:

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

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

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

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

Amounts due to and from the Société Générale Group entities
Principal balances due from the Société Générale Group entities include:

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

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

Principal balances owed to the Société Générale Group entities include:

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

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

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading (refer to Note 20), issued bonds and subordinated debt (refer to Note 34).

As at 31 December 2011, the Bank also carried off-balance sheet exposures for the Société Générale Group, of which off-balance sheet notional assets and liabilities amounted to CZK 180,708 million (2010: CZK 148,764 million) and CZK 191,004 million (2010: CZK 181,426 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

40. Movements in the revaluation of available for sale financial assets

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

41. Risk management and financial instruments

(A) CREDIT RISK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals entrepreneurs.

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

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

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

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individuals entrepreneurs.

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

Classification of receivables

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

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

Characteristics of receivables that are not categorised

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

Allowances for receivables

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

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

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

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

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

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

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

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

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

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

Loan collateral

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

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

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

Real estate collateral valuation

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

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

Recovery of amounts due from borrowers

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

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

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

Credit risk hedging instruments

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

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

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

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

(B) MARKET RISK

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

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

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

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

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

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

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

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

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

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

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

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

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

(C) FINANCIAL DERIVATIVES

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

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

Financial derivative instruments designated as held for trading:

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

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

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

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

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

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

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

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

Financial derivative instruments designated as hedging:

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

Remaining maturity of derivatives designated as hedging 31 December 2011:

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

Remaining maturity of derivatives designated as hedging 31 December 2010:

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

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

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

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

During 2011, the Bank recorded the following hedges:
1. Interest rate risk hedge:
   a. The fair value of provided long-term loans/investments in long-term government securities classified into the Available for sale portfolio is hedged by an interest rate swap and cross currency swap, respectively;
   b. Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Income Statement on an ongoing basis);
   c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Income Statement on an ongoing basis).

2. Foreign exchange risk hedge:
   a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g., contractual payments to third parties in a foreign currency) or receivables of the Bank, the hedging instrument includes foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;
   b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent on the foreign exchange rate developments and selected foreign currency liabilities (e.g., short-term liabilities traded on the interbank market).

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

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

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

(D) INTEREST RATE RISK

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

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

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

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Total off-balance sheet liabilities	**398,688**	**238,780**	**239,988**	**82,393**	**0**	**959,849**
Net off-balance sheet interest rate sensitivity gap at 31 December 2011	**(59,276)**	**5,728**	**(29,063)**	**81,586**	**0**	**(1,025)**
Cumulative interest rate sensitivity gap at 31 December 2011	**117,730**	**182,079**	**293,628**	**420,946**	**71,443**	**x**

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
** Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

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

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
** Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

Average interest rates as at 31 December 2011 and 2010:

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

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

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

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

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

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

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

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up are included in the 'No interest' category.
* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) LIQUIDITY RISK

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

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

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

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

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

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

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

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

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

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

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

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

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

(F) FOREIGN EXCHANGE POSITION

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

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

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

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

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

(G) OPERATIONAL RISK

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

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

(H) LEGAL RISK

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

(I) ESTIMATED FAIR VALUE OF ASSETS AND LIABILITIES OF THE BANK

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

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

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

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

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

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

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

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

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

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

(J) ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS AT FAIR VALUE TO THE HIERARCHY OF FAIR VALUES

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

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

Financial assets at fair value – Level 3:

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

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

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

42. Assets under management

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

43. Post balance sheet events

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

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

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

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

Information disclosed pursuant to Sec. 213 of Decree No. 123/2007 Coll.

INFORMATION ABOUT CONSOLIDATED CAPITAL

a) Aggregate information about the conditions and main characteristics of capital and its components
The Bank's share capital is fully subscribed and paid. It totals to CZK 19,005 million and consists of 38,009,852 ordinary shares with nominal value of CZK 500 each. The shares are dematerialised and are publicly traded on public markets.

The Bank has accepted subordinated debt in the total amount of CZK 6 billion. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity as at 27 December 2016 with the Bank's option for repayment after five years and thereafter as at any interest payment date. The subordinated debt is part of Tier 2 capital.

In December 2011, the Bank announced the intention to repay the subordinated debt. The repayment of subordinated debt was subject to proceeding and approval by the Czech National Bank as the regulator. Due to a positive outcome of these negotiations and the capital position of the Bank, the subordinated debt was repaid on 27 January 2012.

The Bank calculates capital both on a stand-alone and consolidated basis.

			31 December 2011
			CZK million
b)	**Total original capital (Tier 1)**		**52,692**
	of which:	paid up share capital entered in the commercial register	19,005
		own shares	(726)
		share premium	198
		obligatory reserve funds	4,119
		other funds from distribution of profit	794
		retained earnings	34,508
		goodwill from consolidation	(3,606)
		final exchange rate differences from consolidation	0
		minority interests	2,394
		goodwill other than from consolidation	(146)
		other intangible asset (besides goodwill)	(3,848)
		negative difference from revaluation of AFS capital market instruments	0
c)	**Total additional capital (Tier 2)**		**6,000**
d)	**Total capital designated to cover market risks (Tier 3)**		**0**
e)	**Total deductible items from original and additional capital**		**3,111**
	of which:	deductible items due to an insufficient coverage of expected credit losses	1,644
f)	**Total capital after the consideration of deductible items from original and additional capital and stipulated limits applicable to items of capital**		**55,581**

Information about consolidated capital requirements				31 December 2011
				CZK million
	Total capital requirements			**30,442**
a)	**relating to credit risk**			**25,756**
	relating to credit risk pursuant to the Standardised Approach in IRB, to total exposures			**5,122**
	of which:	to exposures to central governments and banks		4
		to exposures to institutions		85
		to corporate exposures		2,254
		to retail exposures		2,735
		to other exposures		44
	relating to credit risk pursuant to the IRB Approach			**20,634**
	of which:	to exposures to central governments and banks		1,106
		to exposures towards institutions		1,525
		to corporate exposures		11,598
		to retail exposures		5,533
		to equity exposures (simplified method of risk weight)		1
		of which:	to exposures quoted on regulated markets	0
			to other equity exposures	1
		to securitised exposures		31
		to other exposures		842
b)	**relating to settlement risk**			**0**
c)	**relating to position, foreign exchange and commodity risks**			**1,000**
d)	**relating to operational risk**			**3,685**

The Bank discloses no other capital requirement.

Ratios – Komerční banka, a.s. standalone	31 December 2011
Capital adequacy	15.75%
Return on average assets (ROAA)	1.23%
Return on average equity (ROAE)	16.13%
Assets per employee (CZK thousand)	82,752
Operating costs per employee (CZK thousand)	1,286
Profit/Loss after tax per employee (CZK thousand)	996

Komerční banka Group

As of 31 December 2011, Komerční banka had eight subsidiaries and one associate, Komerční pojišťovna, a.s., where it held a 49% share. KB considers these companies as part of the Group.

In addition to its ownership interests in the Group, KB holds strategic interests, where it has ownership of 20% or less, in Czech Banking Credit Bureau, a.s. (20%) and Českomoravská záruční a rozvojová banka, a.s. (13%).

With the aim to maximise the use of all potential synergic effects, KB Group deepened in 2011 mutual business co-operation and even co-operation with other members of the Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination of products development in business areas and in distribution. The result should be optimal and comprehensive satisfaction of clients' financial needs.

CHANGES IN OWNERSHIP INTERESTS IN 2011

In January 2011, KB Real Estate, s.r.o. was entered in the Commercial Register. The company was founded in connection with the acquisition and administration of Bank's new office building in Prague. In April 2011, there was an increase in equity of the company by CZK 100 million. These funds will be used to finance expenditures related to construction.

In April 2011, at Komerční pojišťovna's General Meeting, it was decided to increase share capital by CZK 271 million from retained earnings from previous years by increasing the nominal value of shares. This was entered in the Commercial Register in May 2011.

On 4 May 2011, Bank acquired a majority interest of 50.1% in the company SG Equipment Finance Czech Republic s.r.o. for a purchase price of CZK 1,800 million. The remaining 49.9% is owned by SG Equipment Finance International GmbH. SG Equipment Finance Czech Republic s.r.o. is a leading provider of equipment and vendor financing in the Czech Republic and Slovakia.

In May 2011, there was a planned reduction in equity in the company Bastion European Investments SA by EUR 2.2 million (CZK 63 million). This reduction was brought about by the Bank as the majority shareholder of Bastion European Investments S.A.

In December 2011, at the General Meeting of SG Equipment Finance Czech Republic s.r.o., it was decided to decrease share capital by CZK 1,000 million in the form of a distribution of retained earnings from previous years. The Bank received payment of its share in the amount of CZK 501 million in December 2011.

SUBSIDIARIES AND ASSOCIATE COMPANIES IN THE KB GROUP

Company	Share capital	KB participation in the share capital – nominal	KB participation in the share capital – relative	Net book value	Nominal value of one share	Consolidation method
	CZK thousand	CZK thousand	%	CZK thousand	CZK thousand	
DOMESTIC PARTICIPATION						
Modrá pyramida stavební spořitelna, a.s.	562,500	562,500	100	4,872,282	100,000	Full
Penzijní fond Komerční banky, a.s.	200,000	200,000	100	230,000	100,000	Full
SG Equipment Finance Czech Republic s.r.o.	145,810	73,051	50.1	1,299,000	-	Full
Factoring KB, a.s.	1,184,000	1,184,000	100	1,190,000	10,000 100,000 1,000,000	Full
Protos, uzavřený investiční fond, a.s.	5,000,000	4,482,000 / 5,000,000[1]	89.64 / 100[1]	11,705,000 / 13,000,000[1]	1,000,000	Full
ESSOX, s.r.o.	2,288,086	1,165,387	50.93	1,165,387	-	Full
Komerční pojišťovna, a. s.	1,175,398	575,916	49	482,140	145,470 72,735	Equity
KB Real Estate, s.r.o.	200	200	100	101,000	-	Full
FOREIGN PARTICIPATION						
Bastion European Investment S.A.	14,500[2]	14,497[2]	99.98	3,540,978[3]	1 EUR	Full

1) Direct share/Group share
2) According to historical exchange rate
3) CZK/EUR exchange rate 25.800 as of 31 December 2011 (CNB)

Information on Komerční banka Group companies

Modrá pyramida stavební spořitelna, a.s.

Shareholder structure:
Komerční banka 100%

Core business:
building savings deposits and loans

Market position:
Second position on the building savings market as measured by new loans to clients (market share 17.5% as measured by loans to clients)+

Main products:
state-subsidised savings accounts, bridging loans, building savings loans

Financial summary (CAS, CZK thousand)	31 December 2011	31 December 2010
Total assets	**80,172,286**	76,715,196
Total loans	**51,421,748**	49,720,446
Shareholder's equity	**6,591,054**	5,646,322
Net banking income	**1,933,112**	1,780,280
Net profit	**1,050,659**	930,141

Contact
Modrá pyramida stavební spořitelna, a. s.
Bělehradská 222/128
120 21 Prague 2
ID: 60192852
Phone: +420 222 824 111
Fax: +420 222 824 113
Email: info@modrapyramida.cz
Internet: www.mpss.cz
www.modrapyramida.cz

Modrá pyramida
stavební spořitelna

Penzijní fond Komerční banky, a.s.

Shareholder structure:
Komerční banka 100%

Core business:
pension fund

Market position:
Penzijní fond Komerční banky, a.s. has kept its position on the pension fund market in 2011. Market share by number of participants is 11.0% and as measured by volume of assets under management it is 13.1%.+

Main products:
state-subsidised pension insurance

Financial summary (CAS, CZK thousand)	31 December 2011	31 December 2010
Total assets	**32,603,305**	30,601,851
Total volume on client accounts	**30,214,984**	28,559,348
Shareholder's equity	**1,793,426**	1,585,835
Net operating income	**850,364**	853,937
Net profit	**676,185**	726,815

Contact
Penzijní fond Komerční banky, a.s.
Lucemburská 7/1170
130 11 Prague 3
ID: 61860018
Phone: +420 272 173 172
Fax: +420 272 173 171
Email: pf-kb@pf-kb.cz
Internet: www.pfkb.cz

KB
Penzijní fond

SG Equipment Finance Czech Republic s.r.o.

Ownership structure:
Komerční banka 50.1%; SG Equipment Finance Int. 49.9%

Core business:
leasing

Market position:
15.9% share on the leasing market in the Czech Republic measured as volume results based on financed amount (exclusive of consumer credit companies)+

Main products:
financing of equipment, agricultural and forestry technology, vehicles for transportation of goods and passengers, high-tech, real estate and special projects

Financial summary (CAS, CZK thousand)	31 December 2011
Total assets	**22,976,531**
Volume of total financing	**20,257,215**
Shareholders' equity	**1,466,105**
Net operating income	**293,396**
Net profit	**108,964**

Contact
SG Equipment Finance Czech Republic s.r.o.
Antala Staška 2027/79
140 00 Prague 4
ID: 61061344
Phone: +420 225 988 500
Fax: +420 225 988 585
Email: info@sgef.cz
Internet: www.sgef.cz

ESSOX s.r.o.

Ownership structure:
Komerční banka 50.93%; SG Consumer Finance 49.07%

Core business:
providing consumer loans, credit cards and automotive financing

Market position:
16.3% market share in the consumer finance market+

Main products:
consumer loans, revolving credit (credit card), automotive financing

Financial summary (CAS, CZK thousand)	31 December 2011	31 December 2010
Total assets	**10,290,008**	10,554,883
Shareholders' equity	**2,947,351**	2,668,061
Loans to clients*	**6,844,022**	7,184,245
Net operating income	**1,409,682**	1,440,178
Net profit	**279,290**	232,285

* Receivables from commercial relationships

Contact
ESSOX s.r.o.
Senovážné nám. 231/7
370 01 České Budějovice
ID: 267 64 652
Phone: +420 389 010 111
Fax: +420 389 010 270
Email: essox@essox.cz
Internet: www.essox.cz

Factoring KB, a.s.

Shareholder structure:
Komerční banka 100%

Core business:
factoring

Market position:
Fourth place on the factoring market, managing 12.3% of the factoring portfolio on the Czech market.+

Main products:
domestic factoring, export factoring, import factoring, modified factoring, receivables management

Financial summary (CAS, CZK thousand)	31 December 2011	31 December 2010
Total assets	**7,150,303**	5,464,504
Factoring turnover+	**16,095,950**	12,035,106
Shareholder's equity	**1,489,896**	1,506,949
Net operating income	**160,415**	142,231
Net profit	**69,699**	9,402

Contact
Factoring KB, a.s
Lucemburská 7/1170
130 11 Prague 3
ID: 25148290
Phone: +420 222 825 111
Fax: +420 224 814 628
Email: info@factoringkb.cz
Internet: www.factoringkb.cz

KB Factoring

Komerční pojišťovna, a.s.

Shareholder structure:
SOGECAP 51%; Komerční banka 49%

Core business:
insurance

Market position:
9.3% share on the life insurance market (measured by premiums written)+

Main products:
saving life insurance, risk life insurance, capital life insurance, investment life insurance, accident insurance, payment card insurance, travel insurance, travel insurance for payment cards, risk life insurance for credit cards, risk life insurance for consumer loans

Financial summary (CAS, CZK thousand)	31 December 2011	31 December 2010
Total assets	**26,257,298**	21,700,214
Technical reserves+	**24,506,866**	19,964,136
Shareholders' equity	**1,346,544**	1,382,293
Gross premiums written	**6,850,897**	8,981,639
Net profit	**251,046**	139,116

Contact
Komerční pojišťovna, a.s.
Karolinská 1/650
186 00 Prague 8
ID: 63998017
Phone: +420 222 095 999
Fax: +420 224 236 696
Email: servis@komercpoj.cz
Internet: www.komercpoj.cz

KB Pojišťovna

Bastion European Investments S.A.

Shareholder structure:
Komerční banka 99.98%; Société Générale 0.02%

Core business:
project finance

Main products:
special purpose Belgian company for a single long-term project finance transaction

Financial summary (IFRS, CZK thousand)	31 December 2011	31 December 2010
Total assets	**6,638,563**	6,574,168
Shareholders' equity	**3,322,936**	3,296,388
Net interest income	**105,642**	122,316
Net profit	**105,174**	121,937

CZK/EUR exchange rate 25.060 as of 31 December 2010 (CNB), CZK/EUR average exchange rate 25.290 for the period from 1 January to 31 December 2010 (CNB)
CZK/EUR exchange rate 25.800 as of 31 December 2011 (CNB), CZK/EUR average exchange rate 24.586 for the period from 1 January to 31 December 2011 (CNB)

Contact
Bastion European Investments S.A.
Place du Champ de Mars 5, Ixelles
1050 Brussels
ID: BE 0877.881.474
Phone.: + 32 2 506 65 51
Fax: + 32 2 506 65 73

Protos, uzavřený investiční fond, a.s.

Shareholder structure:
Komerční banka 89.64%; Factoring Komerční banky 10.36%

Core business:
investment fund

Main products:
fund management

Financial summary (CAS, CZK thousand)	31 December 2011	31 December 2010
Total assets	**13,181,287**	14,028,163
Shareholders' equity	**13,170,988**	14,001,212
Net operating income	**(325,474)**	567,437
Net profit/(loss)	**(309, 256)**	539,067

Contact
Protos, uzavřený investiční fond, a.s.
Dlouhá 34/713
110 15 Prague 1
ID: 27919871
Phone: +420 224 008 888
Fax: +420 222 322 161
Email: info@iks-kb.cz
Internet: www.iks-kb.cz

KB Real Estate, s.r.o.

Ownership structure:
Komerční banka 100%

Core business:
management and maintenance of properties and real estate

Main products:
rental of buildings

Financial summary (CAS, CZK thousand)	31 December 2011
Total assets	**102,566**
Shareholder's equity	**100,695**
Net profit/(loss)	**(305)**

Contact
KB Real Estate, s.r.o.
Politických vězňů 1419/11
110 00 Prague 1
ID: 24794015
Phone: +420 955 536 656
Fax: +420 955 536 620

Jiří Bělohlav

CHAIRMAN OF THE BOARD OF DIRECTORS

"KB is one of our main banks. Our co-operation began in 1961 with the opening of the first account and continues successfully to this day. It consists primarily in issuing guarantees for many of our important construction projects, which testifies to an exceptional trust in the quality of our work."

Metrostav a.s.

Metrostav operates across all fields of the building industry throughout the Czech Republic, albeit with Prague as a focal point. It dominates the domestic market in the unique underground construction segment, in which it is also successfully expanding abroad.

Metrostav has a strong position in transport engineering. Other successful projects are in industrial construction, and the company's achievements in reconstructing historical buildings are also noteworthy. Thus, in these segments, too, the door is open to taking the lead in terms of quality. Along with these fields, Metrostav is also expanding development activities in housing construction and civic engineering. It stands ready to actively participate in important construction projects with non standard financing. Another of the company's objectives is to grow its activity in building facility management.

Risk Management

RISK MANAGEMENT STRATEGY OF KB GROUP

Through its risk management strategy, KB Group continues to pursue a prudent and balanced approach to all types of risks assumed, i.e. credit, market and liquidity risks, as well as regulatory, legal, operational and environmental risks. At the same time, it aims to support development of the Group's business activities, including to sustainably grow its lending activities while reinforcing the Group's market positions.

The objective is to ensure profitable credit and market activities across the business cycle and, at the same time, to preserve a sound balance sheet with strong capital and liquidity ratios. To this end, advanced risk management tools, including statistical ones, are continuously enhanced and analytical and risk management skills are maintained at high levels for both risk management and business staff. Techniques like stress testing are regularly used.

In support of KB's strategic objectives, risk departments contribute to several initiatives and projects that include optimising credit processes, increasing the effectiveness of risk tools, and developing new products.

The level of the Group's appetite for risk fully reflects the risk management strategy. It is based on actively managing credit granting criteria to reflect the market and macroeconomic environments in combination with strong and focused monitoring of both individual counterparties and particular portfolios.

A dedicated credit risk audit team is responsible for independently assessing the quality of risk management. Since 2010, that team has been integrated into the Bank's Internal Audit in line with Société Générale Group principles for internal control processes.

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies.

Komerční banka's corporate governance standards assure that the risk management function is independent of commercial and operational functions.

CREDIT RISK MANAGEMENT

Enhanced credit risk management plays a role not just in preventing risk, but it also significantly supports the Bank's business activities – including to better utilise business synergies within the Group.

It is based on comprehensive assessment of clients' risk profiles from both financial and qualitative points of view, supported by advanced scoring and rating tools plus individual approval by a competent risk or business manager. The system of approval authorities is set up to differentiate the risk profiles of the counterparties and appropriate levels of competencies required for their assessment.

No credit exposure can be originated until a credit limit has been first duly established. Credit limits management and monitoring is at the core of the Group's credit risk management, serving also in managing concentration of risks.

Principal activities in 2011 focused upon:
- redesigning the approval authorities system to emphasise empowerment of the sales force,
- optimising credit processes and supporting the Group's business activities within the context of the Ambition 2015 programme,
- strengthening credit risk monitoring to reflect experience acquired during the previous declining phase of the business cycle,
- proactively preventing credit frauds,
- deepening the integration of Basel II components and results, and
- updating key risk models to reflect the last observations from portfolio development while maintaining sufficient margins through the business cycle.

All KB scoring, rating, LGD, CCF and PD models were back-tested quarterly, their quality was carefully monitored, and any deterioration triggered corrective measures.

Credit fraud prevention
The Bank uses an automated system for detecting individual credit frauds in retail segments and also for co-ordinating reactions to credit fraud attacks in all client segments. The system is fully integrated into the credit risk assessment process and the Bank's main applications.

In 2011, Komerční banka also issued a new internal register of negative information. It includes improved algorithms for evaluating negative credit information and thus contributes substantially to protecting the Bank from risky entities.

KB Group credit risk management synergies
A general target of KB's risk management is to harmonise risk processes and tools throughout the Group. In 2011, the Bank implemented shared access to selected tools within the credit risk system for selected subsidiaries (SGEF, Essox and Factoring KB) to provide a unified credit risk view and harmonise the credit risk approach vis-à-vis common clients who have provided the Group with their specific consents.

The Bank also co-operates on optimising granting processes (MPSS, SGEF, Essox and Factoring KB) in order to support implemented business synergies.

Provisions
The Bank classifies all its assets arising from financing activities into five categories according to Czech National Bank Decree No. 123/2007, taking into account both quantitative criteria (payment discipline, financial statements availability) and qualitative criteria (in-depth client knowledge, client's behaviour and history). Since 2008, and in compliance with Basel II rules, the contagion principle has been implemented in classifying co-applicants and guarantors in relation to defaulted receivables.

All significant impaired exposures are assessed individually and at least every quarter by provisioning committees or by recovery specialists. Provisions are established according to the present value of estimated future cash flows to the Bank and after considering all available information, including the estimated value of collateral and the expected duration of the recovery process. The remaining receivables (especially from the retail segments) are provisioned based on statistical models that reflect the specifics of the given receivables (e.g. client segment, product type and risk classification). These models were developed in accordance with the Basel II requirements and were implemented in August 2007. In November 2011, the provisioning models were updated with respect to updated Expected Loss values based on the latest loss observations and new risk drivers reflecting the phase of the business cycle.

The Bank also implemented regular back-testing of the model to carefully monitor its quality and to identify its potential deterioration in time.

Real estate valuation
In compliance with Czech regulations and Basel II rules, the valuation and monitoring of real estate collateral accepted by the Bank as security for corporate and retail loan exposures is delegated to a dedicated team. This group of internal specialists is part of the Bank's risk unit and co-operates with a broad group of external valuation experts.

The Bank continuously monitors the residential real estate market in order to identify negative developments and implement adequate measures. Due to observed material decline of market prices in some regions, a collective decrease in collateral values for properties located in these regions was recorded in the fourth quarter of 2011.

Commercial real estate is revalued in accordance with Basel II rules as an integral part of the regular monitoring activity.

Recovery activities
The Bank's recovery activities were marked by still weak economic development and a worsened financial situation of some clients. This puts the recovery performance under pressure as recovery periods were extended due to the greater use of judicial proceedings and increasing complexity in recovering real estate collateral.

Given the increased portfolio volume in recovery, the Bank continued in optimising its recovery capacity and performance by using external capacities, which covered approximately 18% of the total portfolio exposure in recovery and represented 82% of the total number of clients in recovery, as well as regular monthly auction sales of unsecured retail receivables to selected investors.

Capital Markets Risks Management
The Capital Markets Risks Department is responsible for managing market risk and counterparty risk in KB Group's capital markets activities. In order to ensure proper segregation and independence of its activities, this department reports directly to the Bank's Chief Risk Officer as well as to Société Générale Group's Market Risk Division. Market risks within KB are managed in accordance with the following principles, which are regularly reviewed by the Board of Directors:
- All risks are systematically and regularly monitored, and they are reported independently from business units.
- Methods for measuring risks and control procedures are defined and approved by KB management and Société Générale Group's Market Risk Division.
- Limit applications are processed based on requests from business units and within the global limits established by the Board of Directors.
- All regulatory requirements are meticulously controlled.

Market risk management methods for the trading portfolio
Assessment of market risks in KB's trading portfolio is based on four main types of indicators that are used to quantify limits and measure related exposures:
- The Value-at-Risk (VaR) historical simulation method, calculated with a 99% confidence level and a one-day time

horizon. All open positions of the trading portfolio are subject to VaR computation.
- Measurement using crisis scenarios (stress testing) takes into account low-probability events not covered by VaR. The Bank performs several types of stress tests for underlying asset exposures in the foreign exchange, interest rates, equity and commodity areas. Shock scenarios are calibrated based on historical studies or hypothetical analysis and are regularly reviewed.
- Sensitivity indicators are used to measure interest rate and credit spread positions.
- Volume indicators are used to measure FX positions as well as equity, liquidity and concentration risks.

Value-at-Risk method

KB has been using the VaR historical simulation method since 2003. The method uses scenarios simulating one-day variations of relevant market parameters over a period taking in the last 250 trading days and allows simple consolidation of the VaR indicator within SG Group. The method is based on historical scenarios and thus takes into account the correlations between various financial markets and underlying instruments. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable scenarios. This loss is calculated as the average of the second and third largest possible losses from the 250 scenarios considered.

Accuracy of the VaR model is tested on an ongoing basis. The back-testing consists of comparing trading results (both the actual daily result and a hypothetical result, i.e. excluding profit and loss from deals concluded intraday) with the VaR indicator. The number of excesses ought not be greater than 1% of days over a given time period. Having changed in the past five years, the market conditions gave rise to some new risk factors which are not fully captured by the current model. Daily losses (real or hypothetical) in 2011 exceeding the 99% VaR occurred in 2% of days over the full year. A major project for improving the VaR calculation by implementing a more sophisticated VaR model is being launched in collaboration with Société Générale's Market Risks Department.

250 scenarios

CONSIDERED IN KB'S VALUE-AT-RISK MODEL CALCULATIONS

Counterparty risk on capital markets activities
In the field of counterparty risk from capital markets activities, the principle of pre-authorisation (ensuring there is authorisation prior to executing any trade with a counterparty) is systematically applied for all capital markets transactions. Limits monitoring encompasses KB's structural and trading book operations on capital markets but also those of all KB subsidiaries, namely the structural book transactions of Modrá pyramida and Penzijní fond KB. Front office dealers are provided on a daily basis with available limits for clients. Any breach of limit is immediately reported to the relevant level of management within the Bank. The Board of Directors is regularly informed of all limit breaches on a monthly basis.

The measurement of counterparty risk arising from derivative products sold to the Bank's clients is based on the Credit Value at Risk (CVaR) indicator. Using Monte-Carlo simulation, CVaR quantifies the potential replacement costs associated with a client of the Bank in case of that client's possible future default under the given market conditions and taking into consideration such specific parameters as the type of derivative product, time to maturity, nominal amount of the transaction, and volatility of the underlying asset. With a confidence level of 99%, CVaR measures the Bank's maximum risk arising from its derivative deals concluded with a specific client. It thereby quantifies counterparty risk in cases of adverse market scenarios.

All KB contracts with important counterparties include a close-out netting clause, allowing to offset market values of different derivative transactions with a given counterparty should a credit event occur.

With preference given to the interbank market, KB negotiates contracts implementing margin calls to mitigate the credit risk arising from movements in market values of derivative contracts.

Capital adequacy and risk weighting under Basel II
KB Group uses two advanced approaches under the Basel II framework for calculating risk-related capital requirements: the "Advanced Internal Rating Based" (AIRB) approach for credit risk and the "Advanced Measurement Approach" (AMA) for operational risk.

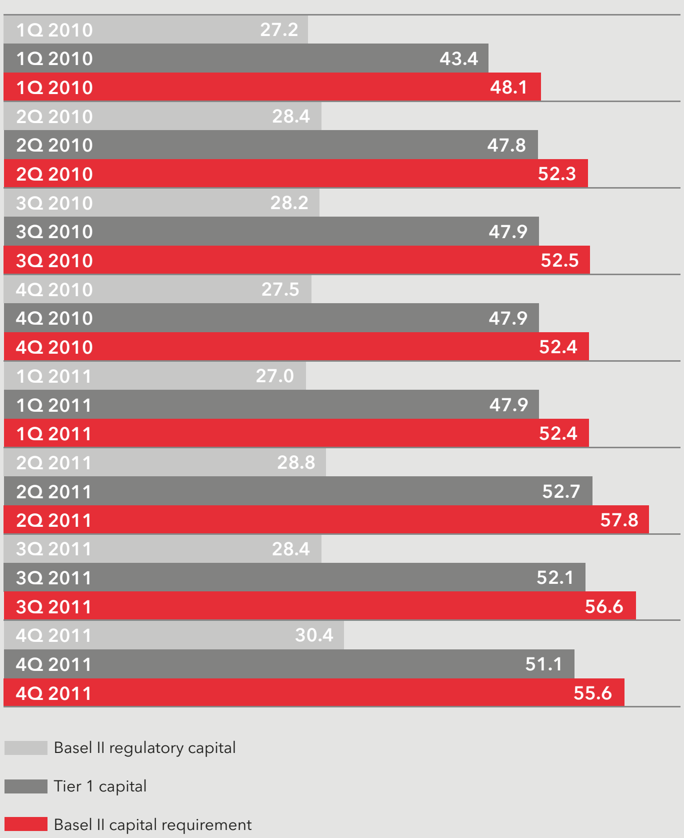
Both regulatory capital and Tier 1 capital for KB Group, calculated in accordance with the regulations of the Czech National Bank under the Basel II framework, are well above the regulatory required minimum. KB Group's capital adequacy as of 31 December 2011 stood at 14.6% (i.e. significantly above the regulatory required minimum of 8%). Regulatory capital increased during 2011 due to the allocation of undistributed profit into the Bank's capital in April 2011.

Capital adequacy (as of 31 December 2011 in CZK billion)

	Capital ratio	Tier 1 ratio	Total capital requirement	Credit risk capital requirement	Market risk capital requirement	Operational risk capital requirement
KB Group	14.6%	13.4%	30.4	25.8	1.0	3.7
Standalone KB	15.8%	14.4%	26.7	22.6	1.0	3.1

The Bank continues in regular stress testing of its positions as an integral part of its risk management. Stress testing results in 2011 confirmed that KB would meet the regulatory requirements for capital adequacy even in the case of an unexpected negative development in the Czech economy.

KB GROUP BASEL II REGULATORY CAPITAL EVOLUTION+ (IN CZK BILLION)

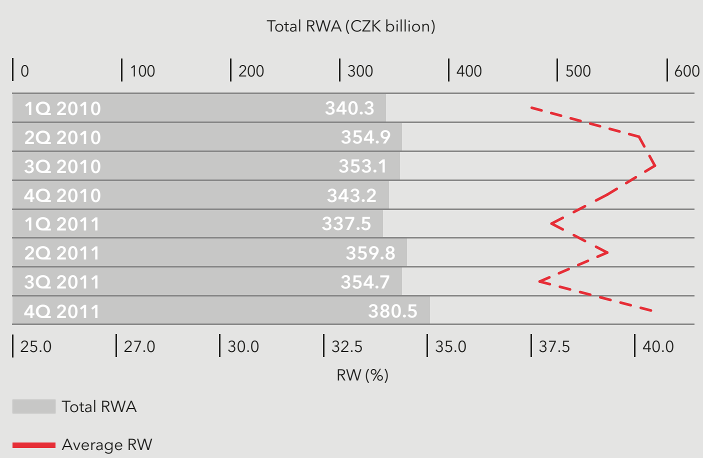


Mainly due to the acquisition of SGEF in the second quarter of 2011, the level of total risk weighted assets (RWA) rose in 2011. Average risk weight (RW) of the KB Group portfolio ranged in 2011 from 38% to 40%.

The corporate portfolio was characterised by decreasing RW as a result of improving quality of the non-defaulted portfolio and gradual increase of provision coverage for defaulted exposures.

The retail portfolio was also characterised by decreasing RW, mainly owing to an increase in provision coverage of the defaulted portfolio (particularly mortgages).

EVOLUTION OF AVERAGE RW AND TOTAL RWA OF KB GROUP+



ASSET AND LIABILITY MANAGEMENT (LIQUIDITY AND OTHER FINANCIAL RISKS)

KB Group's financial risks management strategy
In addition to credit risk and non-financial risks, the Group is exposed to risks related to changes in interest and exchange rates, availability of financing sources, and liquidity of assets (financial risks). The process of managing financial risks aims to hold risks undertaken to a minimum while also facilitating the Group's organic development. The methods for identifying, measuring and managing risks in the area of foreign exchange and interest rates are typically based on the requirement to minimise the impact on earnings. Liquidity risk is managed to maintain a very high probability of being able to cover potential future outflows of funds from the Bank.

From an organisational viewpoint, Komerční banka's Asset and Liability Management Department (ALM) is in charge of designing measurement methods and managing interest rate, liquidity and foreign exchange risks of the Bank itself, and, as an intermediary, also those of the Group, as KB ALM methodically oversees the processes for asset and liability management within all the individual entities of KB Group. ALM in line with the strategy aims to achieve stability in the financial results by minimising the impacts from changes in interest and exchange rates while ensuring at all times the sufficient availability of liquid funds. The transactions pursuing this optimisation of KB Group's financial performance are subject to approval by the Assets and Liabilities Committee (ALCO).

ALCO, whose members include, among others, members of the Bank's senior management and, as observers, SG Group representatives, approves rules and methods used in managing the aforementioned risks. ALCO oversees the levels of risk taken on and the proposed hedging transactions that the Bank executes in order to reduce risk.

All ALM activities fully comply with the rules of the Czech regulatory authorities and with relevant international banking regulations.

Liquidity Risk
Thanks to its strong balance sheet structure, KB Group is in a situation where it is not forced by external economic developments to modify its balance sheet in the sense of reducing some types of exposure or seeking to obtain other types of funding. The reasons lie in its high level of capital adequacy, as well as its large and stable customer deposit base. These provide it an excellent ratio of loans to deposits of 78%.

Funding of KB Group
Client deposits comprise a crucial part (approximately 74%) of the Group's total liabilities and shareholders' equity. These include current and savings accounts, term deposits, and deposits of pension scheme subscribers. This percentage remained stable throughout 2011. Within the Group, Komerční banka itself holds – at around 80% (of which about 57% are current accounts) – the largest proportion of these client deposits, followed by Modrá pyramida with more than 12% (building savings) and Penzijní fond KB with approximately 5% (deposits of pension scheme subscribers).

In addition to its broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues and loans taken. Komerční banka continued to issue debt securities during 2011, when new issuance totalled CZK 3.9 billion in nominal value. As of the end of 2011, the total nominal amount of mortgage bonds and other debt securities reached CZK 32.9 billion, of which CZK 17.4 billion is placed outside KB Group.

The Bank's liquidity and capital adequacy continued to be augmented by a subordinated loan in the amount of CZK 6 billion with an interest rate tied to 1M PRIBOR. That loan had been taken at the end of 2006 to support the Bank's long-term growth potential while optimising its capital structure. On 9 December 2011, the Bank announced its intention to use the option to repay its subordinated debt during 2012 (optional early repayment). The repayment was subject to the regulator's (CNB's) approval and to following certain procedural steps. The repayment of subordinated debt in the first quarter of 2012 reduced the Group's regulatory capital, albeit to a level KB regards as safe due to its sufficiently high level before the repayment. As a result of the repayment, the Group's regulatory capital has a high-quality structure, as it is wholly in the form of Tier 1 capital, and interest expense in relation to subordinated debt has been reduced.

KB Group's liquidity – monitoring and management
Liquidity risk management focuses primarily on the ability of the Bank and entire Group to meet their payment obligations at all times. This includes maintaining adequate cash volumes as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily increasing the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management, which minimises the occurrence of unforeseen payment demands during a given period. This primary objective is achieved by managing a liquidity buffer covering the Bank's maximum anticipated cash-out with a very high confidence level of 99% over a sufficiently long future period (one year).

A liquidity snapshot broken down by currency (CZK, USD, EUR and others) is monitored based on indicators measuring the incoming and outgoing cash flows within particular time horizons. Behaviour of the client deposit base is simulated on stress scenarios in order to maintain a very high certainty of covering possible outflows of funds. The Bank also simulates the utilisation of clients' funding volumes related to products whereby clients are able to determine the timing and magnitude of drawings. Sufficient liquidity is managed using a system of limits. To achieve these, KB uses on balance sheet instruments (e.g. bond issues, loans taken) and off balance sheet instruments (cross currency swaps, foreign exchange swaps). Using foreign exchange swaps, the Group obtains financing in foreign currencies (mainly EUR) and therefore depends upon trading in the interbank market. Even during the more difficult periods of the financial crisis this type of trading remained available to the Group. While in fact costs for this type of funding have been rising over the years, the Group is prudent in its strategy and uses medium- and long-term instruments that allow it to stabilise both the volumes and costs while at the same time better reflecting increased costs in setting the prices of newly provided products.

The Group at all times maintains high liquidity. It covered all its liabilities during 2011 from its internal sources without any problems, and thus it had no need to obtain secondary funding in financial markets (e.g. by issuing securities). The Group's liquidity cushion is a combination of investments in government bonds and reverse repo operations with the CNB. In this context, a properly functioning bond market is an important prerequisite for a smoothly running financial sector. Therefore, KB Group greatly appreciates CNB's policy to provide repo operations, which the Bank sees as strengthening the bond market's liquidity and hence the banking sector.

With the introduction of Basel III regulation, two new measures are being implemented: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are generally similar to simplified indicators used to measure KB Group's liquidity. At the beginning of 2012, KB Group was working on a routine implementation of the LCR and on methodological linking of the new regulatory indicators with the existing internal systems. The aim of this process is to create a unified view on measuring liquidity so that internal and regulatory systems are consistent with one another.

The strong level of liquidity is clearly demonstrated by the Bank's ability to cover an outflow of approximately 30% of all client liabilities during the course of one year without great problems.

KB Group's structural interest rate risk – monitoring and management

Interest rate risk constitutes the risk of possible changes in the Group's net interest income due to movements in market interest rates.

KB Group has divided its business activities according to their nature into the Structural Book and Market Book. Transactions executed with clients through the branch network typically fall within the Structural Book while operations on the interbank market belong in the Market Book. Interest rate risk is measured and managed separately for the Structural and Market books. Structural interest rate risk is defined as the risk to the Group of potential loss due to changes in market rates.

With regard to structural interest rate risk, the parent company (i.e. Komerční banka) and Modrá pyramida are the most significant members of the Group. The Group manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity analysis) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of the volatility of future interest income. KB also has implemented an asset and liability management system supplied by SUNGARD, which has been used since 2008 in Modrá pyramida as well. The aim of the Group is to minimise structural risk and not at all to speculate on interest rate changes. To this end, the Group has established limits close to zero which must not be exceeded. The reasons for limits close to zero are only technologically related and ensue, for example, from the time needed for processing large volumes of data. The Group did not exceed this limit in 2011, and thus it can be considered that structural interest rate risk was minimised.

The Bank uses such standard market instruments for hedging against interest rate risk as interest rate swaps (IRS) and forward rate agreements (FRA), as well as investing into securities. All deals are immediately entered into the front office system, where they are recorded and priced.

Securities are for the most part held by the Group in the available-for-sale (AFS) portfolio, even though the Group does not acquire these with the intention to sell them before maturity. The reason for this choice of portfolio lies in the fact that the held-to-maturity (HTM) portfolio, which would be the more appropriate choice in accounting terms (as a bond is maintained at amortised cost, and mark-to-market valuation does not occur), has strong restrictions with potential negative impacts of a fundamental nature. Therefore, it is the strategy of the entire SG Group to minimise use of the HTM portfolio. It remains applicable that the Group uses a slightly different concept in the portfolio of Penzijní Fond KB. An amendment to the law on pension schemes effective in 2009 allows the use of HTM securities portfolios in pension funds. The Group has taken advantage of this opportunity and introduced the HTM portfolio treatment at Penzijní fond KB, because, in the Group's opinion, the use of HTM and the corresponding accounting better reflect the long-term nature of investing the pension participants' funds.

As the overall aim of ALM is to ensure stable interest income into the future, hedging transactions are established mainly in relation to liabilities with stable interest rates. KB purposely uses the term "stable" rather than "fixed" interest rates, because the rates of some deposit products are neither floating nor fixed in the true sense of the word, but they do correlate with market rates in some way. The Bank's aim, moreover, is to assemble assets such that they correlate with market rates in a similar manner.

From an accounting viewpoint, bonds in the AFS portfolio and the majority of hedging derivatives for cash flow hedging are revalued by marking to market only in the statement of financial position (directly to the shareholders' equity accounts) and thus without impact on the income statement. Only in a case of selling these instruments or terminating a hedging relationship (for derivatives) would such an impact occur. As a result of the accounting treatment for bonds in the AFS portfolio and for hedging derivatives, the shareholders' equity account will be affected by the impact of revaluing both types of instruments to market value. The special nature of the shareholders' equity account for the revaluation of these instruments, however, is such that it does not represent relevant information as to the influence on the value of the Bank, as only selected types of instruments are revalued and not all of them as a whole. That is given by the fact that only a selected group of instruments (a group for which there exists general agreement on how to measure their market values) is represented in this account; the majority part of the statement of financial position is exempt from revaluation on the principle of marking to market and continues to be recorded according to the accrual principle. Because only one side of the interest rate position is revalued and the other remains based on the accrual principle, with increasing rates in the market the value of this capital account will decline and may even acquire negative values.

Interest rate derivatives (derivatives for hedging risk in the Structural Book) are accounted for in accordance with the valid accounting regulations (including IAS 39) in order to achieve the most accurate accounting presentation. KB has worked out a detailed strategy of interest rate risk management that includes descriptions of which derivatives are allowed, how these may be used, and the procedures for their accounting valuations.

A forthcoming Basel III regulation calls for strict treatment of the valuation differences ensuing from revaluation of the AFS portfolio to fair value, which differences would be recognised on the capital accounts. Regulators suggest to include future revaluation into regulatory capital. Due to the nature of revaluation of the AFS portfolio, this would mean the volume of regulatory capital could be unexpectedly affected not only due to deteriorating creditworthiness of bond issuers but also due to movements in interest rates. Therefore, the Bank is working to adjust its hedging strategies in order to minimise the risk of regulatory capital volatility.

KB Group's structural foreign exchange risk – monitoring and management

Structural foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis, and its position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the Structural Book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in KB itself. The maximum open foreign exchange position of the Structural Book in 2011 was less than 0.2%+ of the Bank's capital, and thus was essentially negligible.

Part of foreign exchange risk management also involves the Bank's ability to respond quickly to market developments so as to prevent any economically disadvantageous occurrence in its day-to-day business operations. The Bank uses an automatic system for continuously monitoring the development of market rates, and it changes those rates used in client transactions once the market movement reaches a predetermined boundary.

Price setting

The process of product price setting is organised on two levels. The first involves the economic principle of determining a proper benchmark in terms of current market conditions and at the level of the Bank's portfolio. The second is to determine the price for the customer in view of a combination of marketing objectives and product parameters from the client perspective.

Establishing the right economic benchmark is the ALCO's responsibility, while client interest rates and the methodology for setting them in accordance with external economic conditions are established by the Commercial Committee. Members of the Bank's senior management are represented on both these committees. ALM provides or proposes external interest rates for deposit products, and it determines KB's base lending rates from which loan rates are derived.

ALM also supports the Bank's business network in the valuation of significant transactions through a dedicated intranet application. This application allows direct access for individual traders to ALM experts, who make accurate valuations of the deals so that the added value of a transaction is well established and, at the same time, hedged.

The price-setting strategy is to offer clients products bearing competitive interest rates while always taking into account those costs connected with the price of liquidity and hedging against interest rate risk and so that margins and financial stability are preserved even despite possible changes in market conditions.

Also related to the foreign exchange business, the ALM department proposes exchange rate spreads to the Commercial Committee and provides for the issuance of KB's exchange rates list.

Capital management

The Group manages capital adequacy to ensure its sufficient level while allowing for organic business growth and for potentially adverse macroeconomic development. Under the Basel II regulation of capital adequacy currently in force, in addition to the usual reporting of the capital adequacy ratio (Pillar 1) this role includes fulfilling requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Group has selected a method close to the regulatory procedures applied for Pillar 1. That essentially means that the necessary levels of economic and regulatory capital are very similar.

Since the introduction of Basel II regulation, KB Group has regularly simulated future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications due to their deteriorating the risk profile of the Bank's portfolio.

The Group compiles hypothetical macroeconomic scenarios on the basis of which are estimated medium-term impacts on earnings and on transactions' risk profiles. On this basis, KB Group acquires a view as to the changing volume of risk-weighted assets, financial results, and, while also taking into account the outlook for dividend payments, the level of the Bank's capital adequacy ratio.

This process is in a way iterative, because the results of stress testing are taken into account when determining the possible dividend strategies. Conversely, the expected dividend strategy is a prerequisite for simulating future levels of capital adequacy. For the Group, dividend payment strategy is the main tool for managing capital adequacy. Secondary tools comprise purchasing the Bank's own shares into treasury and managing the volume of subordinated debt.

In 2011, the Bank purchased its own shares to the extent indicated in the table below:

Date	Total volume purchased on PSE		Average price	Nominal value	Share in registered capital and voting rights
	Shares	CZK thousand	CZK	CZK thousand	%
23 Aug 2011	3,700	11,873	3,209	1,850	0.01%
12 Sep 2011	15,200	48,589	3,197	7,600	0.04%
13 Sep 2011	9,500	29,859	3,143	4,750	0.02%
14 Sep 2011	6,000	19,249	3,208	3,000	0.02%
15 Sep 2011	500	1,603	3,205	250	0.00%
19 Sep 2011	17,000	52,752	3,103	8,500	0.04%
20 Sep 2011	14,000	42,635	3,045	7,000	0.04%
21 Sep 2011	10,500	32,515	3,097	5,250	0.03%
22 Sep 2011	20,000	61,564	3,078	10,000	0.05%
23 Sep 2011	11,500	34,622	3,011	5,750	0.03%
26 Sep 2011	14,000	43,985	3,142	7,000	0.04%
02 Nov 2011	6,912	22,116	3,200	3,460	0.02%
10 Nov 2011	10,000	31,962	3,196	5,000	0.03%
11 Nov 2011	5,916	18,940	3,201	2,960	0.02%
14 Nov 2011	4,000	12,751	3,188	2,000	0.01%
15 Nov 2011	6,000	18,540	3,090	3,000	0.02%
16 Nov 2011	5,270	16,249	3,083	2,640	0.01%
18 Nov 2011	7,500	22,981	3,064	3,750	0.02%
21 Nov 2011	5,289	15,911	3,008	2,640	0.01%
22 Nov 2011	3,385	10,113	2,988	1,690	0.01%
23 Nov 2011	1,000	3,062	3,062	500	0.00%
24 Nov 2011	7,500	23,255	3,101	3,750	0.02%
Total	**184,672**	**575,124**	**3,114**	**92,340**	**0.49%**

At the end of 2011, the Bank also announced its intention to fully repay its CZK 6 billion in subordinated debt. The subordinated loan was repaid in January 2012. The Bank considers the level of its capital adequacy to be comfortably high and to allow full repayment of the subordinated debt. Subsequently, the Group's regulatory capital is in the form of high-quality Tier 1 capital and, at the same time, it will save on interest costs associated with the subordinated debt.

Influence of the financial crisis and recession on KB Group's market risk and outlook for the future

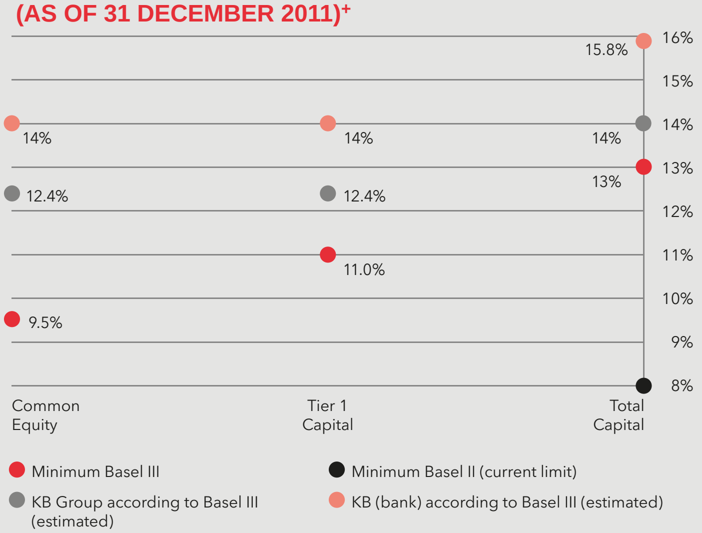
KB Group is governed by a conservative investment policy, due to which it did not invest into so-called "toxic assets". Consequently, it was unaffected by the immediate impacts arising from the first phase of the financial crisis that began in 2008. The Bank has preferred investing into assets bearing low risk. Government bonds have heretofore always been regarded as such. Deterioration in the credit profiles of several European countries needs to be perceived as one of the secondary impacts of the financial crisis, caused by a combination of those states' high indebtedness and limited competitiveness. The Bank's exposure to more endangered sovereigns in the euro zone is limited due to diversification limits that had been set in order not to imperil the Bank's stability from possible default in connection with government debt instruments. The changing fiscal situation in Greece, the market price of Greek state debt, and the outcome of negotiations between Greece and its creditors were found by the Group in 2011 to constitute objective evidence that the Greek government bonds held by the Group (all by the Bank) were impaired. Based on a conservative analysis of the Greek government's credit risk which incorporated assumptions on the terms and conditions, such as interest rate, maturity and nominal haircut, then under negotiation as to the involvement of private investors in restructuring the Greek government debt, the Bank wrote down the value of those bonds by a total 75% of their nominal value. The residual exposure of CZK 2.1 billion represents 25% of the original nominal value of Greek bonds held by the Bank. Writing down the exposure to this level means there is only very limited risk of further significant impacts on the Group's profit.

At the beginning of 2011, very different trends had been observed in the mood of markets compared to the end of the year. Optimism had prevailed, with expectations of economic growth at the beginning of the year. By the year's end, growth forecasts had been revised toward zero. At the same time, market conditions had deteriorated for the Bank as well as for all other businesses. This is reflected especially in markets' heightened instability and diminished functionality, as only short-term trading still prevails. Because of its strong client deposit base, however, the Bank remains independent of secondary financial resources, and it therefore does not expect material negative impacts in relation to the aforementioned situation. This view is supported, too, by the Bank's ability to adapt to market developments while remaining profitable and able to grow.

New regulatory constraints in Basel III framework

In large measure, strengthened regulatory requirements in the banking industry also can be attributed to the financial crisis. The new regulatory concept known as Basel III focuses primarily on the definition of capital, boosting banks' capital adequacy and liquidity, and implementing new leverage ratios.

INDICATIVE COMPARISON OF ACTUAL AND MINIMUM CAPITAL ADEQUACY LEVELS ACCORDING TO BASEL III (AS OF 31 DECEMBER 2011)+



Since the structure of KB's capital is not complicated, its expected diminishment due to the new rules for calculating regulatory capital is very limited and mainly ensues from limits on the inclusion of minority capital from the consolidated subsidiaries and from other deductible items and from increased volatility of the regulatory capital as a result of including part of unrealised losses and gains on the AFS portfolio. KB also meets the newly defined minimum capital levels, because its current level of capital adequacy is well above the increased regulatory requirement (see the accompanying chart).

Komerční banka has conducted a preliminary assessment of its liquidity in view of the newly defined Liquidity Coverage Ratio and Net Stable Funding Ratio. Required levels for both ratios would be safely met, as the Bank's overall liquidity is solid.

Although regulators are still contemplating what will be the target level of the required leverage ratio, as of the time of preparing this report a 3% requirement has been indicated. The Bank's healthy position is confirmed by this indicator, as well, thus providing KB significant room for further growing its business.

KB continuously assesses regulatory developments so that it remains ready to reflect regulatory changes. According to the Bank's current knowledge, the proposed regulatory amendments within the Basel III concept will not have significant negative consequences for Komerční banka.

COMPLIANCE RISK

Breaching of regulatory rules, including standards of ethical conduct to which the Bank has made a specific commitment, could have such potentially negative consequences as litigation with regulatory institutions and clients, direct financial losses (fines or compensation for damage), and harm to Komerční banka's reputation. Responsibility for managing this type of risk lies not only with the Compliance Department as the central unit for directing compliance, but it is also the duty of all managers and employees to whom the legal regulations and ethical standards apply.

One of the main tasks of the Compliance Department is to define principles and processes for the compliance function, for preventing risks of money laundering and financing of terrorism, and ensuring that legal regulations are upheld in relation to financial markets, banking law, consumer protection, client data protection, as well as rules for advertising and fair competition. The Compliance Department is also responsible for fashioning the rules on ethical behaviour for all employees. Moreover, the Bank provides consultancy to its subsidiaries in these areas and oversees that compliance risk is effectively managed.

Komerční banka amended several procedures during 2011 in relation to the new Act on the Circulation of Banknotes and Coins, which, among other things, establishes the obligation to ensure training of all employees who come into contact with cash on how to recognise banknotes and coins that should be suspected of forgery or alteration. The Bank also closely monitored other regulations in processes of preparation or amendment. Those included in particular new EU requirements on managing capital adequacy and credit exposure, the new Civil Code, amendments under development regarding the Act on Identification Cards, and legislation relating to pension reform.

In 2011, the Czech National Bank conducted a comprehensive on-site inspection at KB focused on management of credit,

Governing Law

As an issuer of publicly traded securities, the Bank is governed in its activities particularly by the following laws:
- Act No. 21/1992 Coll., the Banking Act, as subsequently amended;
- Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended;
- Act No. 145/2010 Coll., on Consumer Credit;
- Act No. 284/2009 Coll., on Payments;
- Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on Amending the Trade Licensing Act;
- Act No. 253/2008 Coll., on Certain Measures against Legalization of Proceeds from Criminal Activity and Terrorist Financing;
- Act No. 513/1991 Coll., the Commercial Code, as subsequently amended;
- Act No. 563/1991 Coll., on Accounting, as subsequently amended;
- Act No. 101/2000 Coll., on Personal Data Protection;
- Act No. 143/2001 Coll., on Protection of Economic Competition.

operational and other risks, including to verify adherence to the rules on provision of payment and investment services. Only minor insufficiencies were detected, and the overall outcome of the control was positive.

Main tasks of the Compliance Department for 2012 include to ensure implementation of new rules on capital adequacy (so-called CRD IV); monitor regulatory developments that are anticipated to include a number of new European Commission initiatives on personal data protection, consumer protection in the areas of providing mortgages, and transparency of fees, as well as rules on providing investment services; assess their impacts on Komerční banka; and, as the case may be, manage their implementation in actual practice.

OPERATIONAL RISK

The overall strategy for operational risk management is determined by the Operational Risk Committee, which also adopts appropriate steps in case of any negative development in the operational risk area and approves principal changes in the insurance programme utilised for mitigating impacts of operational risk events.

In managing operational risks and calculating the capital requirement for this type of risk, the Bank uses tools such as monitoring, assessment and operational risk control. KB has been applying the Advanced Measurement Approach (AMA) for this purpose since 2008.

Besides the standard tools utilised within the AMA approach, such as collecting data on actual operational risk losses, risk control self-assessment, key risk indicators and scenario analysis, KB also has implemented a system of permanent supervision composed of daily and formalised controls. In 2011, the process of risk self-assessment was closely linked to the activities performed by the Bank's individual departments. Moreover, Komerční banka boosted efficiency in collecting information on internal operational risk events while also enhancing the detail of information gathered for each such event.

In 2011, Komerční banka recorded 675 operational risk losses in a total gross amount of CZK 166 million. This sum largely reflects a single event bearing the marks of credit fraud.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. With the integration of SGEF into KB Group, the AMA approach has been used in three Group companies. These are in two cases non-banking entities (SGEF and ESSOX), which situation is wholly unique in the Czech Republic. Transition to the AMA approach for the remaining members of KB Group is being planned for the coming years and should lead to further strengthening of the operational risk management process within the Group.

Business continuity

Business continuity management comprises methodologies and procedures to ensure that specified business and support functions can be continued or recovered on a timely basis in case of their disruption. The aim is to minimise the operational, financial, legal, reputation and other consequences of such disruption. To achieve this aim, documentation for business continuity has been elaborated which includes an analysis of business impacts, a recovery strategy, as well as crisis management and business continuity plans. The plans are meticulously and continuously tested. All main business and supporting activities are covered by appropriate business continuity plans.

Information security

In 2011, information security was restructured in order to use the available resources more efficiently while improving the actual information security strategy. IT security activities cover IT risk management, secure architecture, development as well as ICT operations. The main initiatives for 2012 will focus primarily on improving co-ordination with KB's business lines and enhancing risk mitigation in relation to information protection.

LEGAL RISK

Legal risk management consists in minimising the uncertainty associated with enforcement and interpretation of legal acts, agreements, regulations and laws. The role of the Legal Department at Komerční banka in this area is to provide co-ordination and expertise while working together with the individual units of KB to monitor legal risks. The Legal

Martin Borecký

KOMERČNÍ BANKA CLIENT

"At the end of 2011, we took out a mortgage to build a house. At the same time, we arranged risk life insurance with Komerční pojišťovna."

We wanted the certainty of a roof over our heads

Having experienced living in the city, the Borecký family felt that this was not for them and so they were contemplating a family house. The reasons were many: They had always desired to live outside of Prague, they wanted the security of having a roof of their own over their heads, and, last but not least, they desired it for their children. They financed the land purchase in Jílový u Prahy themselves, but a mortgage was necessary for building the house. Given the conditions offered by Komerční banka, they did not even look at other options. And because a mortgage is a substantial long-term commitment, Mr Borecký also decided to arrange risk life insurance with Komerční pojišťovna in order to protect his family against inability to pay off the mortgage loan should an unfortunate life event come to pass.

Department provides legal support when concluding and executing trades and contracts, introducing new products and processes, and preparing the Bank's standard forms for contracts. As appropriate, it also directs co-operation within the Group. The Legal Department provides information about currently valid, proposed and pending law in the Czech Republic and the EU, as well as concerning the most important court decisions impacting the Bank's operations. The lawyers of the Legal Department also represent KB before the courts, financial arbiter and law enforcement authorities.

The main events in the legal area during 2011 included preparation of the new Civil Code and the Act on Business Corporations. KB participated in analysing the draft proposals in association with the Czech Banking Association (CBA). Other important legal projects in which KB participated involved the implementation of state savings bonds, establishment of a secondary market for government bond transactions, preparation of model contracts for syndicated financing (within the CBA), as well as modifications to the law on public procurement. During 2012, the main challenge for the legal team will be to prepare for the new Civil Code's coming into force. This will mainly entail its revising and creating standard client and non-client contracts, as well as preparations for the Czech Republic's new pension system as a consequence of the pension reform.

▶ Go to box "Pension reform" page 29

Significant Legal Disputes
With respect to its overall financial situation, the Bank considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million.

As of 31 December 2011, the Bank was a party to legal proceedings as a plaintiff in nine significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 578.6 million. The Bank was a bankruptcy creditor with a claim exceeding CZK 50 million in 37 bankruptcy proceedings. The total amount of claims filed in relation to these proceedings was CZK 14.1 billion.

As of 31 December 2011, the Bank was a party to legal proceedings as a defendant in 11 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 3.1 billion.

Information concerning the provisions created for litigations in which the Bank is a defendant is stated in the Notes to the Unconsolidated Financial Statements according to IFRS, Note 37 – Commitments and contingent liabilities.

INTERNAL AUDIT

The internal audit function is a part of the Group's comprehensive risk management system. It aims to systematically and methodically evaluate and contribute to improving the effectiveness of risk management, management and control processes, as well as the organisation's administration and governance.

In 2011 within SG Group, a full implementation of the newly set up global division for internal audit and control (DCPE) was completed in the Czech Republic and the Central European Region. Within KB Group, this represented centralisation of the internal audit units of Modrá pyramida, ESSOX and Komerční pojišťovna. Outside the KB Group, KB Internal Audit received a mandate to perform internal audit also in the Central European Region (for a total of 23 companies in the Czech and Slovak republics, Hungary, Poland, Lithuania, Latvia and Estonia) based on an agreement with each individual company and full invoicing of the respective costs.

Internal Audit's strategic focus remained above all on covering the most significant risks and the most important Group activities in relation to fulfilling all regulatory requirements. Audits were carried out according to an approved plan and also in response to the Bank's actual needs as these arose. In total, 150 audits were performed (including 39 special investigations), of which 27 were carried out in KB Group subsidiaries and associated companies. The audits covered both the distribution network and head office units, as well as selected companies to which KB outsources significant services. In total, 725 corrective actions adopted on the basis of findings from the audit engagements during 2011 (50 with high priority) were implemented in the Bank.

In its regular report to the Board of Directors, Audit Committee and Supervisory Board, KB's Internal Audit judged the Bank's internal control system to be functional. Nevertheless, there still exist opportunities for further improvements.

A new methodology for risk assessment was used in preparing the audit plan for 2012. This methodology introduced a uniform approach to risk assessment throughout SG Group. KB's Internal Audit was able to reflect the results of risk mapping results from previous years.

Employees

Komerční banka's human resources strategy is to create long-standing, professional relationships founded upon open and two-way communication with the employees – the same as with the clients. Issues the Bank regards as crucial include working with talents, developing employees' skills, maintaining equal opportunities, and supporting proper balance between work and private life. Support for internal mobility is also among KB's priorities as a way to provide employees with professional and career growth.

Employees in 2011

The Czech labour market was characterised by a positive trend of diminishing unemployment for most of 2011, although with a deteriorating economic outlook the unemployment rate levelled off and late in the year rose in line with the usual seasonal development. The turnover rate among KB Group employees remained on a low level, similarly to 2009 and 2010.

KB Group's average number of employees was 8,774 (+1.8% year on year) in 2011, 7,855 (+0.5%) of which were in the Bank itself. The average number of employees in KB subsidiaries was 919 (+14.9% year on year) in 2011. The increase was due to acquisition of SGEF in May 2011.

As of 31 December 2011, Komerční banka had in total 7,979 employees, of which 7,942 in the Czech Republic and 37 in Slovakia. At headquarters, there were 3,723 employees (47%) and in the distribution network 4,219 (53%). Of these, 785 were in the Prague region, 862 in South-west Bohemia, 832 in Hradec Králové, 825 in Ostrava, and 915 in Brno. In comparison to the end of 2010 (7,979), the total number of the Bank's employees in 2011 (7,979) rose by 96 (1.0%).

Diversity as a Positive Value

KB realises that diversity in the team has a positive influence on decision-making, creativity and work effectiveness. Nevertheless, the expectations and needs of individual employees vary, and the Bank therefore creates specific programmes for individual groups of employees.

Parents with small children. Approximately 800 of the Bank's employees (10% of the population) are mothers and fathers on maternal and parental leave. A special programme, introduced by KB already in 2009, helps them maintain contact with the Bank and then return more easily and quickly to working life.

Handicapped employees. The team of KB associates also includes employees with disabilities. The intention of the Group is to improve working conditions of disabled employees, and a new barrier-free building in Prague – Stodůlky will also contribute to this goal.

Gender diversity. KB Group provides equal opportunities to all its employees and undertakes to achieve a more balanced ratio of men and women in leading positions. One of the methods supporting women in developing their careers is mentoring, which KB provides through its Talent Management programme.

KB endeavours to help employees maintain balance between their work and private lives, because their satisfaction at home significantly affects their performance at work, motivation and overall appetite for work. The most important instrument in this area is to offer flexible working hours.

Acquiring New Talents, Employing the Young

Komerční banka Group is a substantial employer. While providing job opportunities to people of all age groups, a part of our new colleagues are graduates and young people. In its effort to attract talented new people, KB does not rely only on its good reputation; it actively presents itself and long has been co-operating with important schools, student organisations such as AIESEC and CEMS, and other institutions. In 2011, the Bank was successful among competing prestigious employers and was rated third by university students in the Most Desired Employer category of Sodexo's Employee of the Year 2011 competition conducted under auspices of the Ministry of Labour and Social Affairs of the Czech Republic. The fifth annual international game Citizen Act that focuses upon companies' social responsibility is an example of co-operation with students.

Employees' Education and Development
The Group provides its employees with a wide range of training programmes and courses to broaden their skills and qualifications for their existing positions or prepare their career advancement. In 2011, special emphasis was given to training employees having direct contact with clients within the branch network, to managers, and to participants in the Talent Management programme.

KB newly prepared a system of training events for managers directed to managing people, the Talent Management programme was improved, and training continued for the entire sales team in KB's distribution network under the name "KB – A Bank for Clients". Additional group integration and development programmes were dedicated to new employees (StartinG), university graduates (ConnectinG and ConnectinG+), and future managers (ChallenginG).

The average number of training days per employee in 2011 rose year on year from 5.4 to 5.9.

Remuneration and Employee Benefits
In 2011, Komerční banka's Supervisory Board approved new remuneration principles incorporating efficient risk management. Remuneration at Komerční banka is established to motivate employees towards responsible behaviour. The principles of remunerating managers are described in the corporate governance section of this annual report.

Komerční banka fulfilled all its commitments to employees ensuing from the Collective Agreement and its amendments valid for 2011, including the development of basic wages and provision of employee benefits. On 22 December 2011, KB and the Trade Union of Komerční banka, a.s. concluded collective bargaining by signing the Annex to the Collective Agreement for the period through the end of 2012.

In strengthening social security and to support dealing with difficult life situations, the management of Komerční banka decided to provide a new benefit to employees in the form of risk life insurance from 1 January 2012. The insurance provides coverage in case of an employee's death and pays benefits to the survivors. Since mid-2011, the Bank also has provided its employees with more attractive pricing for advantageous products. For the eighth year already, employees have been able to participate in subscribing to Société Générale's employee shares.

In the health care area, the Bank continued to co-operate with the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry and offered the Bank's employees – insured by OZP – preventive medical care above and beyond the medical care covered by public health insurance.

KB – A Bank for Clients

Komerční banka aims to distinguish itself from the competition by its superior approach to clients. Therefore, the Bank carries out training for the entire sales team within the distribution network focusing on efficient advisory and a proactive approach to clients. The first training under the name "KB – A Bank for Clients" focused on improving the sales skills of banking advisors. The following two training events were related to the new products the Bank introduced to the market in 2011. The aim of even the product-related training, however, is not only to acquaint the employees with the parameters of new products, but especially to teach them to prepare solutions which are in accordance with clients' individual needs.

Talent Management

The main goal of the Talent Management programme is to identify, motivate and develop key and talented employees in the KB Group. During 2011, the Bank modified the programme with the specific aim of extending the range of development activities, for example to include mentoring, internships, and training focused on improving employees' physical condition, as well as to interconnect the programme with the creation of succession plans.

Corporate Social Responsibility

Komerční banka views corporate social responsibility as one of the key factors to its long-term success. Naturally, therefore, the Bank builds social responsibility into its business strategies and endeavours thereby to create value for its clients, employees, business partners, shareholders, investors and the entire Société Générale Group, of which it is an integral part. At KB, social responsibility means not just isolated instances of charity or volunteering, but an overall conscientious approach to doing business that encompasses also responsible risk management and compliance with all regulatory requirements imposed by the Czech National Bank and the Czech and European legal regulations.

Corporate Governance and Organisation, Internal Control
Komerční banka's management structure is clear, transparent and defined in the Articles of Association. The Bank's direction is entrusted to a Board of Directors with six members, led by the Chairman of the Board. The Board of Directors' audit function is complemented by the Audit Committee, which is responsible for auditing all processes and ensuring these comply with the applicable legal and regulatory measures, professional and ethical practices, internal directives and approaches defined by KB's executive bodies.

So-called first-level controls operate across the entire Bank, and these are regularly monitored by Internal Audit and the Audit Committee.

Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism
In its approach, Komerční banka seeks maximally to obstruct its being misused for purposes of money laundering or financing terrorism. For this purpose, rules, methods and controls in accordance with legal regulations and international standards are applied, as are the rules of the Société Générale financial group. These rules and methods are continuously validated and updated.

When entering into business relationships with clients, Komerční banka rigorously applies the "know your client" method. It declines to work with any person or entity refusing to co-operate in verifying identification or conducting in-depth control. Nor does it work with untrustworthy persons or those whose transactions do not meet standards of transparency or bear high reputation risk.

In order to fulfil the aforementioned stipulations, KB's employees are regularly trained and their knowledge is also tested.

Responsible Approach to Human Resource Management
Komerční banka aims in the human resources area to create long-term professional relationships with its employees and nurture their satisfaction. A number of instruments are used towards achieving this end, such as support of talented employees, skills development, maintaining equal opportunities and attention to work-and-life balance. More on this topic can be found in the Employees chapter.

▶ Go to chapter "Employees" page 223

Ethics in Komerční banka
The Bank realises that only by taking an ethical and transparent approach to doing business and providing financial services can it hope to maintain and improve its position on the banking market over the long term. Integral to this approach are the requirements of professional conduct and behaviour for all KB Group employees. The Group has been enforcing corporate rules of conduct and principles of ethical behaviour in relation to its employees for a number of years. A basic overview of KB's ethical rules is publicly available on the Bank's website.

▶ More information on our website:
http://www.kb.cz/en/about-the-bank/about-us/ethics-in-komercni-banka.shtml @

Komerční banka's detailed Code of Ethics elaborates on rules of conduct compulsory for all its employees. While springing from the Code of Conduct of the SG Group, it has at the same time been a source of inspiration for other companies of the Group.

Sustainable Development
A responsible approach to the environment is part of the Bank's strategy. With the aim of achieving a neutral carbon footprint, several dozen environmental indicators are monitored. This monitoring is regularly evaluated.

Moreover, for several years KB has been purchasing so-called green energy and thus contributes to research and development of renewable energy sources. From January 2011, Komerční banka has undertaken to purchase 100% of its electricity as green energy from all its suppliers.

▶ Go to box "Renewable energy sources" page 31

Cycling to Work

Three five-member teams of Komerční banka's employees cycled to and from work the entire month of May. They entered the competition for green spring kilometres announced by the Auto*Mat movement as part of the Cycling to Work campaign. Competitors from KB Velo teams 1, 2 and 3 pedalled a total of 4,880 km in May, and thanks to this environmentally friendly mode of transport they averted over a half ton of CO_2 emissions. Komerční banka provides its employees commuting to work by bike parking places on the premises of the Bank, if the conditions allow.

4,880 km

PEDALLED BY COMPETITORS IN THE GREEN SPRING KILOMETRES EVENT

Sponsoring
KB's sponsorship policy also develops long-term relationships with its partners. Its sponsoring focuses mostly on support to three main areas: culture, amateur sport and education.

The year 2011 marked the tenth anniversary of KB's prestigious partnership with the most important theatrical institution, the National Theatre. A decade has passed, too, from signing of the first partnership contract with the French Film Festival, which brings to the Czech Republic quality films of French production or co-production.

Komerční banka also was the main partner for the cycle of exhibitions Smetana's Creative Litomyšl, which accompanies the traditional musical festival Smetana's Litomyšl. In 2011, this was dedicated to Bohuslav Reynek, an important Czech painter.

Through the French–Czech Music Academy in Telč, Komerční banka has already several times supported promising young musicians who were able through the academy to improve their mastery of musical instruments under the leadership of top Czech and French artists. Thus, KB significantly contributes to Czech culture's ongoing development.

Each year, the Bank also supports sportspersons with handicaps, the Czech Wheelchair Rugby Association, the Wheelchair Athletics civic association, and these organisations' representation activities. Komerční banka is also the main partner of the KB Czech Wheelchair Athletics Cup competition. Through the sport and social project Sport without Prejudice, elementary school children from across the Czech Republic were able during 2011 to try out rugby and various athletics disciplines.

Meanwhile, the successful co-operation of seven years and running continued with the Prague Zoo. Komerční banka carried on, too, in supporting regional zoos in Ostrava and Jihlava.

Reintroducing Przewalski's Horse to Mongolia

In co-operation with the Prague Zoo, Komerční banka arranged the possibility of donating to the exceptional project "Reintroduction of Wild Horses to Nature". Financial contributions from KB Group employees allowed the transport of Przewalski's horses to their original Mongolian territory.

Komerční banka's Jistota Foundation
Komerční banka's Jistota Foundation obtains funds for its charity operations mainly from the Bank itself, but also from its employees. Both its board of directors and supervisory board are composed of KB employees, who decide which projects are to be supported. In 2011, it distributed funds totalling more than CZK 5.5 million.

Early in the year, the Jistota Foundation and the Group's employees responded to the catastrophic situation following the disastrous tsunami in Japan and helped the afflicted areas through a gift of CZK 250,000 to the Red Cross.

In its efforts to assist handicapped children, the Jistota Foundation supported projects in schools providing care to people with serious disabilities. Aid totalling CZK 400,000 was sent to the institutions Daneta and Prointepo. This assisted in providing interior furnishings and complete equipment for a children's playground. Komerční banka's Jistota Foundation also contributed to the Ivančice civic association for support and aid to children with medical disabilities. This involved the Figurková školička project, which incorporates oversized chess pieces into elementary school curricula. Prostějov's JISTOTA secondary and elementary school and kindergarten received funds for the purchase of a pottery wheel with accessories.

Another part of the donations was directed to hospices and hospitals for long-term patients. In co-operation with Linet a.s., a top manufacturer of hospital beds, special beds were offered for purchase at a 30% discount. For example, in 2011 support was provided to the Centre for Palliative Care at Prague's Hospital of the Sisters of Mercy of St. Borromeo, St. Lazarus' Hospice in Pilsen, the St. John N. Neumann Hospice in Prachatice, and the Drachtinka Seniors Home. In total, these entities received an amount exceeding CZK 1 million.

In the area of support to health care, the Jistota Foundation donated almost CZK 600,000 to Motol University Hospital for acquiring a Multifiltrate CiCa haemodiafiltration device for the Paediatrics Clinic. The IBD Comfort foundation received CZK 500,000 to buy a special endoscope. General University Hospital in Prague received CZK 300,000 for purchase of the Medin-cno nasal high-flow CPAP therapeutic system. The Institute for the Care of Mother and Child in Prague was given CZK 200,000 to procure a digital ultrasound device for prenatal screening.

Counselling in Stringency

Komerční banka has been financially supporting the Debt Advisory Center – Counselling in Stringency (hereinafter the "Advisory Center") since its establishment in 2008. The contribution in 2011 was CZK 1,656,600. These funds were used to provide non-financial counselling and sustain the Advisory Center's operation.

Employees' Photography Competition – The World in Green

In the first half of 2011, proceeds were donated from the employees' auction of photographs from the World in Green competition. The auctioned photographs and contribution of the Jistota Foundation raised a total of CZK 70,811 to buy medical equipment for the Children's Haematology and Oncology Clinic of Motol University Hospital.

Komerční banka's Ombudsman

Komerční banka, as the first financial institution in the Czech Republic, has established the position of an independent ombudsman, who may be contacted by clients not satisfied with the settlement of their complaints as initially resolved at the branch and then by the Customer Relations Department. Since autumn 2009, JUDr. Joseph Franciscus Vedlich, LLM has been in this position. He has extensive experience in banking and the legal environment of Central and Eastern Europe.
In 2011, the Ombudsman was contacted by 109 clients of Komerční banka Group, Mr Vedlich resolved 17 cases that fall under the Charter of the Ombudsman's jurisdiction.

The Advisory Center is a public benefit organisation focused on providing no-cost and independent debt counselling to individuals. The Advisory Center's main aim is to support its clients in their efforts to actively resolve their financial problems and potential insolvency. Part of the Advisory Center's activities also include preventing overindebtedness.

Collecting Medical Materials for Africa

ADRA

Voluntary help was also directed to Africa. In spring 2011, Komerční banka, in co-operation with Abbott Laboratories and the non-profit organisation ADRA organised a collection of old automotive first-aid kits. Thereby, older but still functional medical supplies were put to good use at a hospital in Itibo, Kenya. KB Groups employees donated altogether some 500 first-aid kits.

Bc. Tomáš Kecl

COMPANY EXECUTIVE

"We are a long-term KB client, both as a company and personally. We've worked with the bank for 20 years, and we are also shareholders. The way I see it, we understand one another because we have the same view as regards quality."

EKO Logistics s.r.o.

EKO Logistics s.r.o.

EKO Logistics s.r.o. works in the recycling of scrap metal, especially from electronic devices, waste from the energy sector, and high-quality steel. The plant in Kolín was founded based upon learning about modern facilities of this type in other countries, and it is set up so as to meet even stricter criteria for environmental protection. Thus, it is prepared for future regulatory changes. The Kolín plant has an ideal situation, as it is located in the heart of the country and at a crossroads where water and rail transport intersect. This provides possibilities for container transport of products. The firm is implementing its Euroyard project in Kolín to create the premises and machinery for processing metal waste of the highest quality. The budget for this project exceeds CZK 100 million, to which Komerční banka and its leasing company both have contributed significantly.

Corporate Governance

(A separate part of the annual report pursuant to Section 118 (4) (b), (c), (e) and (j) and (5) (a)–(k) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended)

Komerční banka adheres to and voluntarily upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004, issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the website of the Ministry of Finance of the Czech Republic at http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/fnm_sprava_kodex.html.

In 2011, there occurred no fundamental changes that would adversely affect the aforementioned governance standards of the Bank, and Komerční banka continued in its efforts to improve the Bank's corporate governance performance.

SHAREHOLDERS AND THE GENERAL MEETING

The share capital of KB totals CZK 19,004,926,000 and is divided into 38,009,852 ordinary listed shares (i.e. admitted to trading on a regulated market), each with a nominal value of CZK 500. All the Bank's shares carry the same rights.

The General Meeting shall be the supreme body of the Bank. The Regular General Meeting is held at least once a year, however no later than four months from the last day of each accounting period.

Major shareholders of Komerční banka with over 3% of the share capital as of 31 December 2011 (according to the extract from the issuers' register taken from the Central Securities Depository)

Shareholder	Proportion of share capital (%)
Société Générale S.A.	60.35
Chase Nominees Limited	4.65
Nortrust Nominees Limited	3.69
STATE STREET BANK AND TRUST COMPANY	3.54

The General Meeting shall constitute a quorum if the attending shareholders hold shares whose total nominal value exceeds 30% of the registered capital of the Bank, provided that voting rights are attached thereto in accordance with generally binding legal regulations. The quorum is checked at the time of convening the General Meeting and always before each vote. The General Meeting shall pass resolutions by majority of votes of the attending shareholders unless legal regulations require a qualified majority of votes. The General Meeting's order of business is governed by the agenda stated in the published notice calling the General Meeting. Issues that were not included in the proposed agenda for the General Meeting are decided only with the attendance and consent of all the Bank's shareholders. The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board (usually the Chairman of the Board of Directors). This member of the Board of Directors also shall run the General Meeting until the Chairman of the General Meeting is elected.

All persons registered in the list of attending shareholders and present at the General Meeting at the time of announcing a vote are entitled to vote, unless the law stipulates otherwise. The sequence of voting corresponds to the order on the General Meeting's agenda. The casting of votes shall be carried out by means of ballots. Each CZK 500 of the nominal share value represents one vote. Any proposal presented by the Board of Directors shall be voted on first. Should such proposal of the Board of Directors be accepted by the required majority, other proposals or counter-proposals to this point shall not be voted upon. Other proposals or counter-proposals shall be voted on in the sequence in which they have been presented. Should such proposal or counter-proposal be accepted in a vote by the General Meeting, other proposals or counter-proposals shall not be voted upon.

Shareholder structure of Komerční banka (according to the extract from the issuers' register taken from the Central Securities Depository as of 31 December 2011)

	Number of shareholders	Proportion in number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	46,080	100.00	100.00
of which: legal entities	549	1.19	96.69
private individuals	45,531	98.81	3.31
Legal entities	549	100.00	96.69
of which: from the Czech Republic	162	29.51	1.37
from other countries	387	70.49	95.32
Private individuals	45,531	100.00	3.31
of which: from the Czech Republic	40,998	90.04	3.13
from other countries	4,533	9.96	0.17

It is within the powers of the General Meeting to:

a) decide upon amendments to and changes in the Articles of Association, with the exception of a change in consequence of an increase in the registered capital by the Board of Directors or on the basis of other legal circumstances as established by law;
b) decide upon increase in the registered capital, with the exception of the procedure specified under Section 31 of the Articles of Association, or upon setting off a monetary claim towards the Bank against a claim to be used for payment of the issue price;
c) elect and remove members of the Supervisory Board, with the exception of the election and removal of members elected by the Bank's employees under Section 13 of the Articles of Association;
d) approve the Board of Directors' reports regarding the Bank's business activities and the Bank's assets, at least once per accounting period;
e) decide upon a decrease in the registered capital provided that a prior consent of the Czech National Bank has been given, unless this concerns a decrease to cover a loss;
f) decide upon a change in the class or type of the shares;
g) decide upon issuing bonds of the Bank if the law so requires;
h) decide upon modifying the rights attached to individual classes of the shares;
i) approve the Annual Financial Statements, Extraordinary Financial Statements, Consolidated Financial Statements and Interim Financial Statements when required by law;
j) decide upon distribution of the profit or other shareholders' funds or coverage of a loss, and to determine directors' fees;
k) decide upon the compensation of members of the Board of Directors, Supervisory Board and Audit Committee, and approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
l) decide upon merger or division of the Bank or on transfer of assets to the Bank as a member in cases required by the legislation provided that a prior consent of the Czech National Bank has been given;
m) decide upon winding up the Bank with the prior consent of the Czech National Bank;
n) approve proposed distribution of the liquidation balance of the Bank's assets;
o) decide upon quoting participation securities of the Bank in accordance with a special legal regulation and upon terminating the registration thereof;
p) approve contracts serving as a basis for a transfer of the business or a part thereof, contracts for the lease of the business or a part thereof, contracts for the pledge of the business or a part thereof;
q) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified in the Commercial Code and the Articles of Association (Section 31);
r) decide upon acquiring the Bank's own shares in accordance with the relevant provisions of the Commercial Code;
s) decide upon eliminating or restricting the pre-emptive right to acquire convertible or priority bonds, elimination or restriction of the pre-emptive right to subscribe for new shares in accordance with the Commercial Code;
t) approve contracts of control, profit transfer contracts and silent partnership contracts, and changes thereof;
u) approve the acquisition or disposal of assets, when the law so requires;
v) decide upon other matters which, according to the generally binding legal regulations or the Articles of Association, are part of the powers of the General Meeting;
w) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
x) decide upon the appointment and removal of members of the Audit Committee;
y) decide upon the approval of rules for the provision of discretionary compensation to Audit Committee members.

The results and information from the General Meeting are available on Komerční banka's website.

DESCRIPTION OF THE RIGHTS AND OBLIGATIONS VESTED IN THE KOMERČNÍ BANKA SHARES

The shares of Komerční banka are ordinary quoted bearer shares and can be transferred freely. All shares are dematerialised. The nominal value of each share is CZK 500. The shareholders' rights are presented in the Commercial Code (especially in Section 180) and in the Articles of Association (Section 5). All the Bank's shares carry the same rights. There are no restrictions on the voting rights attached to Komerční banka's shares. A voting right can be suspended only for reasons specified by law. Komerční banka cannot exercise voting rights attached to its shares held in treasury.

Shareholders enforce their right to participate in the Bank's management particularly at the General Meeting where in particular they exercise their voting right. Each CZK 500 of nominal share value is equivalent to one vote. Any shareholder at the General Meeting also is entitled to request an explanation, ether orally at the call of the Chairman of the General Meeting or in writing through the information centre. The Chairman of the General Meeting shall be obliged to ensure that all requests for explanation presented according to the Rules of Procedure and Voting Rules will be satisfied. The information contained in the explanation must be clear and must provide a sufficient picture of reality. Information may be wholly or partly omitted only in those cases stipulated by the Commercial Code (Section 180 (4)). Shareholders also can submit proposals and counter-proposals to the issues on the General Meeting's agenda. The General Meeting always is informed of these proposals and counter-proposals by its Chairman before voting on each resolution. In accordance with the Articles of Association, any proposal of the Board of Directors shall be voted on first. Shareholders also shall be entitled to request that the minutes clerk of the General Meeting include any protest concerning a resolution of the General Meeting in the minutes of the General Meeting. Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting and, furthermore, have the right to call for the General Meeting to consider the proposed issues and review the operations of the Board of Directors as stipulated in Sections 181 and 182 of the Commercial Code and in Section 5 (8) of the Articles of Association. Pursuant to the provisions of Section 183 in relation to the provisions of Section 131 of the Commercial Code, a shareholder may request, under these circumstances, a court to find the resolution of the General Meeting to be invalid. Any shareholder shall be entitled to ask the Bank to produce a copy of the minutes of any General Meeting or a part thereof throughout the Bank's existence. The copy of the minutes or part thereof shall be made at the Bank's expense. A shareholder is entitled to request a court of justice to appoint an expert in order to examine the report on the relationships between the controlled entities and associated entities, under the terms and conditions stipulated in Section 66a (13) of the Commercial Code.

Principle Resolutions of Komerční banka's General Meeting Held in 2011

At the General Meeting held on 21 April 2011, 212 shareholders holding shares with a nominal value representing 69.08% of the Bank's share capital were present in person or through their representatives. The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its assets and liabilities for the year 2010 as well as the annual financial statements of Komerční banka for the year 2010, decided to distribute profit for 2010 in the total amount of CZK 12,035,466,415.74, and decided to pay out dividends in the amount of CZK 270 per share. The Annual General Meeting also:

– approved the consolidated financial statements for the year 2010;
– elected Mr. Bernardo Sanchez Incera as a member of the Supervisory Board and Mr. Jean – Louis Mattei as a member of the Audit Committee;
– approved the discretionary part of the remuneration (bonus) of the members of the Board of Directors for 2010;
– consented to acquisition of the Bank's ordinary shares into treasury under specified conditions;
– appointed the company Ernst & Young Audit, s.r.o. as the Bank's external auditor for 2011.

BOARD OF DIRECTORS

The Board of Directors is an authorised body which manages the Bank's activities and acts in its name. The Board of Directors shall ensure business management, including proper keeping of the Bank's accounting records. The Board of Directors shall further ensure the creation and evaluation of the management and control system, be responsible for its continuous functioning and effectiveness, and create conditions for the independent and objective performance of compliance-related operations and of internal audit.

The Board of Directors shall decide upon all matters concerning the Bank, unless assigned to the competence of the General Meeting, the Supervisory Board or the Audit Committee by law or by the Articles of Association.

The Board of Directors consists of six members, natural persons, who meet the conditions provided in legal regulations for becoming a member of the Bank's Board of Directors and who are elected by an absolute majority of all Supervisory Board members at the recommendation of the Remuneration and Personnel Committee for a four-year term. The professional qualifications, credibility and experience of the members of the Bank's Board of Directors are assessed by the Czech National Bank.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been filed against them. No bankruptcy, receivership or liquidation was declared in relation to the stated persons in the past 5 years.

Composition of the Board of Directors

Henri Bonnet
Chairman of the Board of Directors (since 10 September 2009)

Vladimír Jeřábek
Member of the Board of Directors (since 1 June 2008)

Jan Juchelka
Member of the Board of Directors (since 1 July 2006, re-elected on 2 July 2010)

Peter Palečka
Member of the Board of Directors (since 5 October 2001, re-elected on 7 October 2009)

Patrice Taillandier-Thomas
Member of the Board of Directors (since 1 February 2008)

Aurélien Viry
Member of the Board of Directors (from 1 January 2011)

Henri Bonnet
Graduated from the University of Poitiers with a law degree. He has worked in the Société Générale Group since 1967, having first been employed in French branches of SG in Chateauroux and Limoges and later in the Internal Audit and Leasing departments. Since November 1978, he has worked temporarily as the head of the Leasing Department in the Korean–French banking group in Seoul and then from 1981 as the Executive Vice President of Banco Sogeral SA in Sao Paulo, Brazil. In July 1987, he became Head of Credit, Leasing and International Finance at SG Elsässische Bank in Frankfurt, Germany. Between 1995 and 1997, he worked as Head of Corporate Relations in SG's Investment Banking Department. From December 1997 to June 2001, he served as Regional Director for Germany and served as Director of SG Frankfurt, and from July 2001 he held the position of Deputy Head of Specialised Financial Services within SG. Mr Bonnet was elected by KB's Board of Directors as the Chairman of the Board of Directors and CEO of Komerční banka with effect from 10 September 2009. Mr Henri Bonnet is also a member of Société Générale's Group Management Committee. Furthermore, Mr Henri Bonnet is a member of the supervisory boards of Komerční pojišťovna and SG Equipment Finance Czech Republic, and Chairman of the supervisory boards of Modrá pyramida and ESSOX.

Vladimír Jeřábek
Graduated from VUT Technical University in Brno, Czech Republic, and from Nottingham Trent University. He has held the positions of economic director and member of the Board of Directors in several banking institutions and in Zetor, a.s., a producer of agriculture tractors. Upon his arrival to Komerční banka in 1998, Mr Jeřábek was the regional manager responsible for the Brno region and later was in charge of Komerční bank's distribution channels. In February 2007, he was appointed the Executive Director of the Distribution Network. He is responsible for the Bank's distribution network serving the Retail and Corporate segments and also for the alternative distribution channels such as internet banking and non-banking channels. The Supervisory Board elected Mr Jeřábek as a member of the Board of Directors in charge of Distribution with effect from 1 June 2008. Moreover, Mr Jeřábek is a member of the supervisory board of Penzijní fond KB.

Jan Juchelka
Graduate of the Business Faculty of the Silesian University in Karviná. After his studies, Mr Juchelka worked in the private sphere and from 1995 at the National Property Fund of the Czech Republic. From 2002 to 2005, he was its Chairman. He joined Komerční banka on 1 February 2006. The Supervisory Board elected Mr Juchelka as a member of the Board of Directors in charge of Top Corporations with effect from 1 July 2006.

Peter Palečka
Graduate of the University of Economics, Bratislava. From 1982 to 1988, Mr Palečka worked in foreign trade enterprises. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federative Republic. From 1992 to 1994, he was the Permanent Representative of the Czech and Slovak Federative Republic and then of the Czech Republic to GATT, and from 1995 to 1998 he was the Permanent Representative of the Czech Republic to the World Trade Organization. He joined Komerční banka in 1998 as the Director for Strategy. In October 1999, he was elected a member and in April 2000 Vice-Chairman of Komerční banka's Board of Directors. On 5 October 2001, he was re-elected as a member and Vice-Chairman of the Board of Directors. At present, he is a Member of the Board of Directors and Corporate Secretary. Mr Palečka is also a member of the supervisory board and the chairman of the audit committee of Modrá pyramida.

Patrice Taillandier-Thomas
Graduated from the Institut d'Études Politiques, Mr Taillandier-Thomas holds also a postgraduate degree in law and another in economics. Since 1983, he has held various positions in Société Générale, first at the General Inspection and then mainly in the area of payments. Since 2000, he has been deputy manager of the Card Activity Department and manager of the E-business Division. In his previous position, he managed the Basel II project for SG retail banking. Effective from 1 February 2008, Komerční banka's Supervisory Board elected Mr Taillandier-Thomas as a member of the Board of Directors and Chief Administrative Officer. Mr Taillandier-Thomas is also a member of the supervisory board of Modrá pyramida and a member of the statutory body of Bastion European Investments, S.A.

Aurélien Viry
Graduated in finance and accounting from ESCP Paris and holds a degree in reporting and finance from DECF. His career at Société Générale began in 1990, when he started work in the inspection department of SG. In July 1996, he became deputy manager of the Société Générale branch in Seoul. He moved on to the SG Securities division in April 1999, working first as the Seoul branch manager and then, from December 1999, as co-chief operating officer in charge of North Asia based in Hong Kong. In October 2001, he became chief operating officer of SG Securities Asia Limited for the region of Asia. In April 2003, having returned to France, he started to serve as head of global equity derivatives middle offices at SG headquarters. His last assignment before being appointed to KB's Board of Directors was as CEO of GENEFIM, an SG subsidiary dealing with real estate finance, where he started work in November 2005. He was appointed by the Supervisory Board as a new member of the Board of Directors of Komerční banka in charge of risk management with effect from 1 January 2011. Mr Viry is a member of the supervisory board of SG Equipment Finance Czech Republic.

Activity Report of the Board of Directors
The Board of Directors shall convene at its regular, periodic meetings, usually once every two weeks. Meetings shall be convened and presided over by the Chairman of the Board of Directors or, in his or her absence, by a member of the Board of Directors authorised to do so by the Board of Directors. Should it not be possible to hold a Board of Directors' meeting, a decision may be adopted by voting remotely in accordance with the Articles of Association.

The Board of Directors met at 21 regular and 4 extraordinary (unscheduled) meetings in 2011 and held three remote votes in accordance with the Bank's Articles of Association. The average meeting length was 2 hours and 45 minutes and with an average participation of 91%.

The Board of Directors shall constitute a quorum if an absolute majority of the Board members is present. Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present, except for the election of the Chairman of the Board of Directors, who shall be elected by an absolute majority of all members of the Board of Directors. If the votes are equal, the chairperson shall cast the deciding vote.

In 2011, the Board of Directors discussed the annual financial results of KB Group for the year 2010, as well as KB's consolidated financial statements, non-consolidated financial statements, and their footnotes as of 31 December 2010 and prepared under International Financial Reporting Standards (IFRS). The Board of Directors submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. At the same time, it submitted to the Supervisory Board for review the proposed profit distribution for 2009, which was subsequently approved by the General Meeting.

The Board of Directors also discussed additional proposals for the General Meeting, in particular the Report of the Board of Directors on the Bank's Business Activities, the Report on Relations among Related Entities, draft amendments to the Articles of Association, the conditions for acquiring the Bank's own shares and other matters falling within the competence of the General Meeting. It approved the Bank's Annual Report for 2010, as well.

The Board of Directors regularly reviewed the quarterly financial results of KB Group and measures taken in relation to the bond portfolio held by the Bank, especially the Greek and other government bonds. It continuously evaluated the Bank's capital adequacy and also approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 123/2007 Coll. stipulating the prudential rules for banks. It also discussed reports on the financial results of the competition and the development of structural risks for each quarter of the year, as well as the KB Group budget for 2011.

As part of its activities, the Board of Directors also regularly assessed the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets on a monthly basis. At the same time, it monitored sector analyses, discussed the limits of market risks, and, within its competence, it approved loans to economically connected groups above a specified limit. It also approved the strategy for dealing with clients assigned to the administration of the Asset Valuation and Recovery Department.

As regards operational risks, the Board of Directors discussed the regular reports for this area submitted on a quarterly basis. In the context of operational risk, reports on the results of the first level controls and overview of all permanent controls within the Bank were also discussed.

Compliance risks were evaluated both in the Annual Report for 2010 and the quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2010 annual evaluation report on KB's system against money laundering and the financing of terrorism. Furthermore, it addressed measures adopted by KB related to compliance matters, and in particular the results of inspection by the Czech National Bank and the measures taken in this context. KB also discussed access to new or updated standards issued by the Czech Banking Association.

Regarding Internal Audit, the Board of Directors discussed a number of documents. It approved reports on the status of corrective measures as of the end of each quarter of 2011 and was informed of all actions carried out by Internal Audit in each period. Moreover, it evaluated the summary of these actions and their results for 2010. Management of corrective measures and their proper implementation were fully addressed with emphasis on the fulfilment of all steps of the action plan in order to improve the area of information security. The Board of Directors also addressed the results of risk mapping, and based on its evaluation the annual internal audit plan for 2012 and the strategic plan for 2012–2015 were drawn up and approved. It also discussed measures taken according to the findings in the Management Letter, which had been prepared and presented to the Board of Directors by the external auditor Ernst & Young Audit, s.r.o. The Board of Directors also evaluated the external auditor's activities.

The Board of Directors evaluated the overall functioning and efficiency of the Bank's management and control system. This system covers all the Bank's key risks and leads to their mitigation, although there is still room for its ongoing improvement. Furthermore, the Board of Directors addressed reports on the handling of complaints and claims (including complaints sent to the Bank's Ombudsman), which are processed on a quarterly basis and in a full-year summary. The Board of Directors also discussed the Bank's strategic direction for the next period.

The Board of Directors also discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in KB Group's subsidiaries, such as approval of financial statements, election and remuneration of members of company bodies, amendments to the Articles of Association, appointment of auditor and other matters. In 2011, it took all the necessary decisions in connection with the activities of the Bank's foreign branch in the Slovak Republic.

As part of its activities, the Board of Directors decided on many other issues related to organisational structure, approving directives within various arms or granting powers of attorney. It approved the strategy and principles for remunerating KB's employees and discussed the results of a survey as to their satisfaction. It also decided to implement the resolutions of the General Meeting regarding the acquisition of own shares under specific conditions Moreover, it dealt with adopting the decision related to construction of the Bank's new headquarters building.

Great attention was devoted to Corporate Governance issues with regard to new developments in Czech legislation and also in the context adopted by the parent company Société Générale. It was informed about regulatory changes and their impacts in connection with the prepared re-codification of the Civil Code, the new companies law, and the law on criminal liability of legal entities. The Board of Directors evaluated its own activities in 2010 and submitted its report on those activities for this period to the Supervisory Board.

The Board of Directors establishes specialised committees to which it delegates the authority for making decisions in various areas of activity assigned to them. The Board of Directors approves the statutes of these committees, while their members are appointed by the CEO. These committees include the following:

Directors' Committee (DIRCOM)
The Directors' Committee is a body for communication and exchange of views regarding strategies and issues of KB's general interest. The Directors' Committee has two forms: the Directors' Committee and the Enlarged Directors' Committee in which representatives of Komerční banka's subsidiaries and affiliates are also present.

Project Management Committee (PMC)
The Project Management Committee makes and proposes decisions regarding KB's development activities and their prioritisation (KB's Project Plan), initiation/changes/termination of important projects, and measuring and evaluating projects' contributions. It considers both the material content of important projects and their links as well as the viewpoint regarding financial and non-financial resources.

Provisions Committee (PC)
The Provisions Committee makes and proposes decisions regarding provisions.

Assets and Liabilities Committee (ALCO)
The Assets and Liabilities Committee makes and proposes decisions regarding assets and liabilities management in KB.

Group Communication Committee (Group CoCom)
The Communication Committee makes and proposes decisions regarding internal and external communication within the KB Group and approves strategy in the area of sponsorship within the KB Group.

Commercial Committee (CC)
The Commercial Committee makes and proposes decisions in the area of business offers, business strategy and tactics, rates, prices and conditions. It also provides its opinions on selected new products in accordance with its statutes.

Credit Risk Management Committee (CRMC)
The Credit Risk Management Committee makes and proposes decisions regarding credit risk management principles and their implementation.

Investment Banking New Product Committee (IB NPC)
The Investment Banking New Product Committee makes and proposes decisions on new investment banking products in accordance with its statutes. Its activities include assessing the risks related to these products (new or significantly altered), establishing the conditions for launching products, and monitoring that these conditions are met.

Corporate and Retail Banking New Product Committee (CRB NPC)
The Corporate and Retail Banking New Product Committee makes and proposes decisions on new products other than investment banking products in accordance with its statutes. Its activities include assessing the risks related to these products (new or significantly altered), establishing the conditions for launching products, and monitoring that these conditions are met.

Operational Risk Committee (ORC)
The Operational Risk Committee makes and proposes decisions regarding operational risks and safety.

Compliance Committee (COC)
The Compliance Committee provides consultancy in the area of compliance risk management and it is a platform for exchange of views regarding risk compliance management, development of regulations, investigation of regulatory institutions, and serious compliance failures.

Security Committee (SecCom)
The Security Committee approves the strategy for security of KB's information systems, approves the security management for KB, and proposes a portfolio of priority security projects relating to information security, physical security, personnel security and information technology security.

Credit Committee (CrCo)
The Credit Committee monitors and assesses both past and expected development of KB's credit portfolio based on the analysis of risk indicators, including monitoring credit risk in its subsidiaries and affiliates.

During 2011, the Internal Control Co-ordination Committee (ICCC) and the Card Activities Committee (CACO) were abolished and their responsibilities taken over by other committees.

Information about Special Rules for the Election and Recall of Members of the Board of Directors
Members of the Board of Directors of Komerční banka are elected by the Supervisory Board upon nomination by its Remuneration and Personnel Committee. A nominee must receive an absolute majority of votes of all Supervisory Board members. Members of the Board of Directors are elected to a term of four years. Only persons fulfilling the conditions for serving as a Board of Directors member specified by the Commercial Code and by the Banking Act may become a member of the Board of Directors. The professional qualifications, trustworthiness and experience of the members of the Board of Directors are assessed by the Czech National Bank.

The Supervisory Board has the right to decide at any time to recall a member of the Board of Directors. The decision is carried if approved by an absolute majority of its members. The Supervisory Board's decision is based on a proposal of the Supervisory Board's Remuneration and Personnel Committee.

Information about Special Powers of the Members of the Board of Directors, Especially about Authorisations under Sections 161a and 210 of the Commercial Code
The Board of Directors of Komerční banka is the statutory body that decides upon all matters concerning the Bank with the exception of those matters falling within the powers of the General Meeting of the Supervisory Board. It is within the Board of Directors' exclusive powers to:
a) convene the General Meeting and implement its resolutions;
b) submit to the General Meeting for its approval the ordinary, extraordinary and consolidated financial statements and the interim financial statements along with a proposal for distribution of the profit (the same must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting) or a proposal for covering of losses;
c) submit to the General Meeting proposals for amendments and changes to the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
d) submit to the General Meeting a report on the Bank's business activities and the state of the Bank's property and to do so at least once for each accounting period;

e) decide to confer and revoke power of procuration;
f) decide upon the appointment, removal and remuneration of selected managers of the Bank;
g) approve acts in connection with the realisation of security instruments for claims of the Bank whose value exceeded CZK 100,000,000 as of the date of the claim's origin and whose presumed realisation value is lower than 50% of the value of the securitising instrument as ascertained upon the conclusion of the loan agreement;
h) submit to the Supervisory Board for information quarterly and half-yearly financial statements;
i) decide upon acts which are outside the scope of the Bank's usual business relations;
j) define and regularly evaluate the Bank's overall strategy, including to establish the principles and targets for its fulfilment and to ensure the continuous and effective operation of the internal control system;
k) approve the Bank's annual plans and budgets as well as the strategic and annual plans of legal entities controlled by the Bank under the Banking Act;
l) conclude the contract with the auditor for performance of the statutory audit or, as the case may be, for provision of other services;
m) inform the Supervisory Board as to the day of the General Meeting no later than within the period specified by the Commercial Code for the convening of the General Meeting;
n) decide upon issuance of the Bank's bonds, with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by law;
o) decide upon an increase in the share capital if so authorised by the General Meeting;
p) enter into a collective agreement;
q) decide upon providing loans or guarantees to persons with a special relationship to the Bank pursuant to the Banking Act;
r) approve the rules and the strategic and periodic plans for the activities of the Internal Audit;
s) approve the annual reports of the Bank;
t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
u) decide upon establishing other funds (in the balance sheet) and on the rules governing their creation and usage;
v) approve the Report on Relations among Related Entities in accordance with the Commercial Code;
w) approve and regularly evaluate the Bank's organisational structure;
x) approve the principles of the personnel and remuneration policy;
y) evaluate the overall functioning and effectiveness of the management and control system at least yearly;
z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital adequacy, and the information systems development strategy;
za) approve and regularly evaluate the principles of the internal control system, including the principles aiming to prevent any possible conflict of interests and the compliance principles;
zb) discuss the audit report with the auditor.

In addition to the aforementioned, the Board of Directors shall in particular:
a) manage the activities of the Bank and conduct its business affairs;
b) ensure the proper maintenance of the Bank's accounting, including the proper administrative and accounting processes;
c) exercise employer's rights;
d) exercise rights in respect of the Bank's property interests arising from the Bank's ownership holdings;
e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 as a single case or as a total for related cases;
f) approve the business continuity plan and the fire protection plan.

The General Meeting did not authorise the Board of Directors to make a decision on increasing the registered capital. Based on the consent of the General Meeting held on 21 April 2011, Komerční banka was authorised to acquire its ordinary shares into treasury. The conditions and information on the acquisition of its own shares are provided in the Report of the Board of Directors on the Bank's Business Activities and the State of Its Property, which is part of this annual report.

ORGANISATIONAL CHART (AS OF 31 DECEMBER 2011)

Komerční banka, a.s.

- Chairman of the BoD and CEO **Henri Bonnet**
  - Human Resources
  - Internal Audit
  - Marketing, Communication and Business Development
  - Strategy and Finance
  - CEO Office
  - Transformation Program Management
- Member of the BoD and Senior Executive Director **Aurélien Viry**
  - Risk Management
- Member of the BoD and Senior Executive Director **Jan Juchelka**
  - Investment Banking
  - Top Corporations
- Member of the BoD and Senior Executive Director **Peter Palečka**
  - Corporate Secretariat
- Member of the BoD and Senior Executive Director **Patrice Taillandier-Thomas**
  - Information Technology
  - Operations
  - Project Organisation and Management
  - Support Services
  - Investment Banking – Operations
- Member of the BoD and Senior Executive Director **Vladimír Jeřábek**
  - Distribution

SUPERVISORY BOARD

The Supervisory Board is the supervisory authority of the Bank. It supervises the exercise of the Board of Directors' powers, the conduct of the Bank's business activities, and the effectiveness and efficiency of the Bank's management and control system as a whole.

The Supervisory Board consists of nine members, individuals, who meet the statutory requirements for becoming a member of the Bank's Supervisory Board. Two thirds of them are elected by the General Meeting and one third by the Bank's employees to a term of four years.

Composition of the Supervisory Board

Didier Alix, Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009)
Jean-Louis Mattei, Vice-Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009)
Bernardo Sanchez Incera, Member of the Supervisory Board (elected as a substitute member of the Supervisory Board from 1 October 2010 until 21 April 2011 and thereafter elected by the General Meeting as from 22 April 2011)
Bořivoj Kačena, Independent Member of the Supervisory Board (since 29 April 2008)
Pavel Krejčí, Member of the Supervisory Board elected by KB's employees (since 27 May 2001, re-elected on 28 May 2005 and 29 May 2009)
Petr Laube, Independent Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009)
Dana Neubauerová, Member of the Supervisory Board elected by KB's employees (since 29 May 2009)
Christian Achille Frederic Poirier, Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009)
Karel Přibil, Member of the Supervisory Board elected by KB's employees (since 29 May 2009)

Didier Alix

Graduate in three year studies of economics, and graduate of the Paris Institute of Political Studies. In 1971, he started to work for Société Générale, where he has held a number of positions. From 1972 to 1979, he worked at the Group General Inspection. In 1980, he started to work at the General Directorate as head of Central Risk Control. In 1984, he was appointed director of the Levallois Branch and in 1987 as director of the Paris Opera Branch. From 1991 to 1993, he worked as chief executive officer of the SG subsidiary FRANFINANCE, appointed within the activities of a specialised financial division. From 1993, he worked as deputy director and later as director of the French business network within the Retail Banking Division. In 1998, he was appointed chief executive officer of Retail Banking. In 2006, he became one of the SG chief executive officers and since January 2010 he has been an advisor to the Société Générale Chairman of the Board of Directors and Chief Executive Director. Since 2001, he has been a Member and Chairman of the Supervisory Board of Komerční banka.

Jean-Louis Mattei

Graduate in three year studies and in advanced studies of private law, and graduate of the Institute of Political Studies and of the Centre of Advanced Banking Studies. In 1973, he started to work for Société Générale, where he has held a number of positions. He has worked, inter alia, at SG's branch in Bordeaux, at the Human Resources Management Department, and later as the head of cost analyses and as the head of the management audit of the Organisation and of the Information Technologies departments. Subsequently, he worked as head of the Organisation Unit. In 1988, he became a member of the board of directors and chief executive officer of SG de Banques in Cote d'Ivoire. Between 1992 and 1998, he was deputy director and later director for the zone of Africa Overseas and for the zone of Africa, Near and Middle East, Overseas. Since 1998, he has been head of International Retail Banking. Since 2001, he has been a Member and Vice-Chairman of the Supervisory Board of Komerční banka.

Bořivoj Kačena

Graduate of the Czech Technical University in Prague (Faculty of Civil Engineering). In 1966, he started to work for Stavby silnic a železnic, n. p. (SSŽ), where he held various positions. From 1978, he worked in SSŽ as director of its branch office 4, and from 1983 as director of the organisation "Investor of Transport Construction" for metro and urban road construction within the Prague Public Transit Company. He became director of the state enterprise SSŽ in November 1988 and its chief executive officer and Chairman of the Board of Directors in 1992. From 2007 to April 2008, he was the Chairman of the Board of Directors of SSŽ. Since 2008, he has been a Member of the Supervisory Board of Komerční banka.

Pavel Krejčí

Graduate of the Brno University of Technology, Faculty of Electrical Engineering, and of the Palacký University Olomouc, Philosophical Faculty. In 1987, he started to work at the Czechoslovak National Bank. In 1990, he joined Komerční banka. From 1992 to 2005, he was an elected chairman of KB's Trade Union Committee. Since 1997, he has served as vice-chairman of the Federation of Trade Unions of Employees of Financial and Insurance Companies of the Czech Republic. In Komerční banka, he currently works in the Information Technologies Department as an IT analyst/systems engineer and is also the vice-chairman of KB's Trade Union Committee and a member of the team for collective bargaining and social dialogue. Since 2001, he has been a Member of the Supervisory Board of Komerční banka, elected by KB's employees, and since 2004 he has been a member of the European Council of Employees of Société Générale Financial Group in Paris.

Petr Laube

Graduate of the University of Economics, Prague, specialised in foreign trade. From 1974 to 1991, he worked in Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992, he was at Deutsche Bank, A.G. in Nuremberg. Between 1992 and 1993, he worked for Lafarge Coppée, Paris, and since 1993 he has been chief executive officer and chairman of the Board of Directors of Lafarge Cement, a.s., Prague. From 2005, he served as director of the segment of electricity, gas, liquid fuels and SG&A at Lafarge, s.a., Paris. From January 2007, he was chief executive officer of Lafarge Cement, a.s., in Ukraine. He has been retired since December 2009. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Dana Neubauerová
Graduate of the Secondary School of Economics in Havlíčkuv Brod. She has been working in Komerční banka (formerly State Bank of Czechoslovakia) since 1984. She gradually passed through a number of positions from data acquisition to liquidation worker, and then from 1991 to 1998 she worked as head of the Services Department. From June 1998 to 2002, she worked in a position relating to transactions with entrepreneurs and until 2006 as the bank advisers team leader. From 1 March 2006, she was appointed Director of the Havlíčkuv Brod branch, and then was Director of the Level 2 Havlíčkův Brod branch from 1 October 2008. She has been the Director of the Level 2 Jihlava branch since 1 July 2009. She has been a union member since joining Komerční banka, and she served as chairwoman of the Trade Union in Havlíčkuv Brod from 1990 to June 2008. Since 2009, she has been a Member of the Supervisory Board of Komerční banka.

Christian Achille Frederic Poirier
Graduate of the National School of Administration, postgraduate studies of history. Between 1980 and 1987, he served in leading positions in the national administration. Since 1987, he has worked in Société Générale: from 1987 to 1991 as head of the department of public and governmental organisations, from 1991 to 1995 as director of the Japanese corporate department. Between 1995 and 1997, he worked as director of subsidiaries specialised in consumer credit, leasing and factoring. Between 1997 and 2001, he was deputy head of the Strategy and Marketing Division. Between 2001 and 2006, he was the head of Strategy and Marketing. From January 2007, he was Senior Advisor to the Chairman and Chief Executive Officer of Société Générale. He has been retired since December 2009. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Karel Přibil
Graduated from the Faculty of Education at Charles University in Prague, where in 1986 he defended his thesis. Since joining Komerční banka in 1993, he has worked in various positions at headquarters – first as a specialist officer, then in 1995 in internal services, and from 2003 as an asset management specialist. From 1 March 2006 to date, he has held the office of Chairman of the Trade Union Committee and been a member of other union bodies. He has been a union member since joining Komerční banka and Chairman of the CKB Trade Union and a member of KB's Trade Union Committee since the mid-1990s. He also participates in collective bargaining. He has been a member of the Supervisory Board of Komerční banka since 2009 and a member of the Supervisory Board of the Occupational Health Insurance Company since 2011.

Bernardo Sanchez Incera
Graduate in economic studies at the Institute of Political Studies in Paris and holder of an MBA degree from INSEAD in Fontainebleau. During 1984–1994, he worked first as manager of customer relations and deputy director for corporate clients of Credit Lyonnais La Défense and subsequently as Deputy to the CEO of Crédit Lyonnais Belgium. During 1994–1996, he served as CEO at Banca Jover in Spain and during 1996–1999 as CEO of Zara France. From 1999 to 2001, he was a member of the Board of Directors of Inditex. In the years 2001–2003, he was President for Europe of LVMH & Maroquinerie Mode within the LVMH Fashion Group, and in the years 2003–2004 he served as CEO of Vivarte. During 2004–2009, he served as CEO for the Monoprix supermarket chains. In 2009, he joined Société Générale, and since January 2010 he has been one of its chief executive officers responsible for international retail banking and specialised financial services. Since 2010, he has been a member of the Supervisory Board of Komerční banka.

Activity Report of the Supervisory Board
Regular meetings of the Supervisory Board shall be held once per calendar quarter with the possibility of remote voting. The Supervisory Board shall constitute a quorum if at least five members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of all members of the Supervisory Board.

In 2011, the Supervisory Board held four regular meetings. The average meeting length was 1 hour and 23 minutes.

The Supervisory Board reviewed the Bank's ordinary and consolidated financial statements as of 31 December 2010 prepared under International Financial Reporting Standards (IFRS). The report of the external auditor, Ernst & Young Audit, s.r.o., was unqualified, and the Supervisory Board recommended that the General Meeting approve both financial statements as proposed by the Bank's Board of Directors.

The Supervisory Board also examined the Board of Directors' proposal for distribution of net profit for the 2010 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities in 2010 drawn up pursuant to Section 66a (9) of the Commercial Code and stated that based on the presented documents Komerční banka did not incur during the accounting period from 1 January 2010 to 31 December 2010 any damages resulting from the contracts and agreements made with related entities.

The Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses in 2011. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's management and control systems and concluded that the management and control systems are functional, although there is still room for their continuing improvement. Moreover, it examined the 2010 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism and the annual compliance risk management report. KB Group's budget for 2011 was presented to the Supervisory Board. The Supervisory Board also discussed the developments in the areas of employee turnover, sickness rate and overtime, training and development of KB employees, and the results of an employee satisfaction survey. It discussed the principles of remuneration and issues related to the new headquarters building in Stodůlky, as well as the annual analysis of the handling of all complaints sent to KB and its Ombudsman. The Activity Report of the Board of Directors for 2010 also was presented to the Supervisory Board.

The Supervisory Board regularly discussed the Bank's quarterly financial results, its position on the market with regard to the development of the macroeconomic environment, and measures taken in the area of the Bank's bond portfolio, especially the Greek and other government bonds. Furthermore, it discussed the proceedings of Internal Audit and their results in individual quarters of the year, and Internal Audit's statutes were presented to it for discussion. At the same time, the Supervisory Board expressed its consent to the annual internal audit plan for 2012 and the strategic plan for 2012–2015. It duly investigated two complaints addressed to it and concurred in the conclusions drawn and measures taken by the Bank's Board of Directors.

In the course of its activities, the Supervisory Board continued to rely on the opinion of its Remuneration and Personnel Committee and was informed of the issues discussed by the Audit Committee.

The Supervisory Board's Remuneration and Personnel Committee
The Remuneration and Personnel Committee is an advisory and recommending body of the Supervisory Board and has three members, one of whom is independent. The committee usually meets once per quarter and constitutes a quorum if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by an absolute majority of all its members.

The committee held four regular meetings in 2011. The average length of the sessions was 2 hours.

The committee discussed issues of the Bank's personnel policy and remuneration of its employees and provided recommendations to the Supervisory Board within the scope of its powers. Moreover, it discussed and provided its recommendations on the remuneration of KB managers who are also members of the Board of Directors, and the principles of remuneration, which were discussed in advance by the committee and subsequently by the Supervisory Board.

AUDIT COMMITTEE

The Audit Committee is a body of the Bank established by the General Meeting in accordance with Act No. 93/2009 Coll., on Auditors, from 29 April 2009, and its powers are stipulated by that Act and the Bank's Articles of Association.

The Audit Committee consists of three members, individuals, who meet the requirements for the performance of duties of a member of the Audit Committee set forth by legal regulations and by the Articles of Association. Audit Committee members shall be appointed by the General Meeting from the members of the Supervisory Board for the term of four years. One Audit Committee member shall be an independent member.

Composition of the Audit Committee
Petr Laube, independent member of the Audit Committee (since 29 April 2009) and Chairman of the Audit Committee (since 30 September 2010)
Christian Poirier, member of the Audit Committee (since 29 April 2009) and Vice-Chairman of the Audit Committee (since 9 September 2009)
Jean-Louis Mattei, member of the Audit Committee (elected as a substitute member of the Audit Committee from 1 October 2010 until 21 April 2011 and thereafter elected by the General Meeting as from 22 April 2011)

Activity Report of the Audit Committee
The Audit Committee meets as a rule once per quarter, but at least four times in a calendar year. The Audit Committee shall constitute a quorum if a simple majority of all Audit Committee members attend the meeting. Decisions on all matters discussed by the Audit Committee must receive an absolute majority of votes to be carried. If the votes are equal, the chairperson shall cast the deciding vote. The person in question shall not vote in the proceedings with respect to the election and removal of Chairman and Vice-Chairman of the Audit Committee.

The Audit Committee held eight regular meetings in 2011. The average meeting length was 1 hour and 42 minutes.

The committee performed an important role in its monitoring activities and worked closely within the Bank, especially with the Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, but also with the external auditor, who kept it informed about the ongoing audit of the Bank.

The committee discussed KB Group's annual financial results for 2010 and the consolidated and unconsolidated financial statements and notes thereto as of 31 December 2010 prepared under International Financial Reporting Standards (IFRS) and the proposal for distribution of net profit for 2010. It recommended that the Board of Directors submit to the General Meeting for approval a proposal to appoint Ernst & Young Audit, s.r.o. as the Bank's external auditor for 2011. KB Group's budget for 2011 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's report on the status of corrective measures and was continuously informed about all of Internal Audit's investigations conducted in individual quarters. Moreover, it evaluated the summary of these actions and their results for 2010. Furthermore, it discussed the overall functionality and efficiency of the Bank's management and control system in 2010, stating that this control system covers all key risks to the Bank even though there is still room for its continuing improvement. The committee addressed an assessment of the compliance risk in the 2010 annual report and also discussed the 2010 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism. The committee discussed the so-called Management Letter prepared by the external auditor, Ernst & Young Audit, s.r.o., and a document concerning the evaluation activities of the external auditor. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2012, and the strategic plan for 2012–2015. It also discussed Internal Audit's statutes.

The Audit Committee always discussed at its meetings the Group's financial results for each quarter and KB's acquisition of an ownership interest in SGEF. Competition reports and information on the development of the Bank's market shares in particular segments were also submitted to the Audit Committee. It was also informed of the results of the transformation of KB Bratislava from a subsidiary into a foreign branch and its current operations. Other subjects of detailed discussion included the portfolio of bonds held by the Bank, especially the Greek and other government bonds and the steps taken in connection thereto. The committee was also regularly informed about the Bank's functioning in the area of permanent control and supervision and measures taken in the area of information security. The results of an inspection of the Czech National Bank conducted in 2011 were also submitted to it.

No person with executive power has, in relation to his or her work in the Bank, any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Chairman of the Board of Directors Henri Bonnet and members of the Board of Directors Aurélien Viry and Patrice Taillandier-Thomas have employment contracts signed with Société Générale S.A. and they are delegated to serve as the Bank's directors.

EMOLUMENTS AND BENEFITS TO THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

Principles of Remuneration for Members of Komerční banka's Board of Directors and Supervisory Board

Board of Directors

The remuneration of the members of the Board of Directors consists of fixed and variable parts.

The fixed remuneration is paid monthly and is the same for all members of the Board of Directors, except for the Chairman.

The variable part of the remuneration (annual bonus) has the same limit for all members of the Board of Directors, with the exception of the Chairman. This maximum amount is determined by the General Meeting. In 2011, as it was in the previous years, the actual amount of the bonus paid to individual members of the Board of Directors was approved by the General Meeting on the basis of the proposal of the Supervisory Board and its Remuneration and Personnel Committee in the range from zero to the limit. From 1 January 2012 the amendment of the Commercial Code has come to force which states that if a member of the Board of Directors is elected by the Supervisory Board, the Supervisory Board also approves the member's remuneration.

The amount of the remuneration for members of the Board of Directors is closely linked with the results of the Bank, taking into account the Bank's strategy, its objectives, values, an acceptable level of risk and long-term interests. The aforementioned bodies decide upon the remuneration amount in consideration of all relevant financial, risk and business indicators, including development of net profit, net banking income, costs and market shares.

In accordance with the Banking Act, the members of the Board of Directors also act as executive directors in charge of specific arms of the Bank on the basis of a management contract in accordance with the Labour Code. This contract entitles them to a basic salary and other compensation in lieu of salary. No additional remuneration is provided under the management contract. The aforementioned compensation of the members of the Board of Directors for execution of managerial responsibilities is subject to approval by the Supervisory Board.

Members of the Board of Directors that fulfil the established terms and conditions are entitled:
- based upon the employment relationship with KB, and with the exception of KB employees temporarily delegated to the Czech Republic, to contributions from the employer to: retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan;
- based upon the management function at KB, and under the same conditions as other KB managers, including KB employees temporarily delegated to the Czech Republic, to the following additional benefits: company car (including for private use) and a contribution to fuel costs for private use of the car; and

– based upon temporary delegation to the Czech Republic from other companies of the Société Générale Group, under standard and global conditions for foreign delegation of the SG Group, to additional benefits relating to long-term stay abroad.

Information on all monetary and in-kind income to the members of the Board of Directors is given in the following section.

Supervisory Board
The remuneration to the members of the Supervisory Board consists of a fixed monthly part and a part dependent on the members' attendance at meetings. The amount of remuneration is set by decision of the General Meeting. In accordance with a resolution of the annual General Meeting held on 17 June 2004, remuneration for the members' attendance at Supervisory Board meetings is limited to the maximum of six meetings per year.

Moreover, members of the Supervisory Board elected by employees are entitled to a basic monthly salary and other compensation in lieu of salary according to their employment contract in accordance with the Labour Code as employees of the Bank.

Members of the Supervisory Board that fulfil the established terms and conditions are entitled:
– under the contract for employment, and under the same conditions as other KB employees, to contributions from the employer to: retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan.

Information on all monetary and in-kind income to the members of the Supervisory Board is given in the following section.

Information on Monetary and In-kind Income to Members of the Board of Directors and Supervisory Board
In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, and in conformity with the European Commission Recommendation of 14 December 2004 (2004/913/EC), Komerční banka releases information on all monetary and in-kind income received during the 2011 financial reporting period by members of the Board of Directors and Supervisory Board from the issuer and entities controlled by the issuer. This information is specified for each director and member individually.

The data are published in the structure described in Section III, point 5.3 of the Commission Recommendation:
(A) the total amount of remuneration paid or due to be paid for the services performed in the relevant financial year, including where appropriate the attendance fees fixed by the annual general shareholders meeting;
(B) remuneration and benefits received from any undertaking belonging to the same Group (Note: KB Financial Group);
(C) remuneration paid in the form of profit sharing and/or bonus payments for 2011 (Note: not applicable);
(D) any significant remuneration paid for special services outside the scope of the usual functions (Note: This item covers salary and compensation paid for job performance under the management contract, as described above.);
(E) compensation paid to former members of the Board of Directors or Supervisory Board in connection with the termination of their activities during that financial year (Note: not applicable);
(F) and the total estimated value of in-kind incomes considered as remuneration not included in the items covered in points (A) to (E).

In the following tables, all the emoluments paid to members of Komerční banka's Board of Directors and Supervisory Board in the structure described above are presented. If no value is shown under a category, that means that no such payment was made to such member by Komerční banka or by entities controlled by it.

CZK	(A)	(B)	(D)	(F)	Total
Henri Bonnet	5,674,343	21,505	2,212,727	2,826,610	**10,735,185**
Patric Taillandier-Thomas	3,354,056	21,505	1,382,342	2,204,046	**6,961,949**
Aurelien Viry	2,460,000	22,100	1,209,751	2,087,640	**5,779,491**
Didier Colin	1,908,184	0	25,334	72,661	**2,006,179**
Peter Palečka	4,860,000	168,345	2,031,236	255,558	**7,315,139**
Vladimír Jeřábek	5,660,000	204,526	1,686,092	225,828	**7,776,446**
Jan Juchelka	5,060,000	153,326	1,123,190	212,553	**6,549,069**
	28,976,583	**591,307**	**9,670,672**	**7,884,896**	**47,123,458**

CZK	(A)	(B)	(D)	(F)	Total
Didier Alix	825,000	0	0	0	**825,000**
Jean-Louis Mattei	297,000	0	0	0	**297,000**
Bernardo Sanchez Incera	313,500	0	0	0	**313,500**
Christian Poirier	313,500	0	0	0	**313,500**
Petr Laube	330,000	0	0	0	**330,000**
Bořivoj Kačena	330,000	0	0	0	**330,000**
Dana Neubauerová	330,000	52,723	812,148	35,952	**1,230,823**
Pavel Krejčí	330,000	39,149	335,187	0	**704,336**
Karel Přibil	330,000	42,555	309,969	0	**682,524**
	3,399,000	**134,427**	**1,457,304**	**35,952**	**5,026,683**

Information on Shares and Share Options Held by Members of the Board of Directors and Supervisory Board and by Related Persons

The following table provides information on the number of shares issued by Komerční banka and held by members of the Board of Directors and Supervisory Board as well as information on options and similar investment instruments whose values are connected to KB shares and which were concluded by or on behalf of the listed persons.

31 December 2011	Shares	Options
Board of Directors		
Henri Bonnet, Chairman	0	0
Didier Colin	0	0
Vladimír Jeřábek	0	0
Jan Juchelka	0	0
Peter Palečka	4,700	0
Patrice Taillandier-Thomas	0	0
Supervisory Board		
Didier Alix, Chairman	0	0
Jean-Louis Mattei, Vice-Chairman	0	0
Bernardo Sanchez Incera	0	0
Bořivoj Kačena	0	0
Pavel Krejčí	0	0
Petr Laube	4,949	0
Dana Neubauerová	0	0
Christian Poirier	0	0
Karel Přibil	0	0
Close persons (total)	0	0

No members of the Board of Directors or members of the Supervisory Board were contractual parties, directly or indirectly, for any option or similar contracts concerning comparable investment instruments whose values are connected to KB shares.

Additional Information in Accordance with Section 118 (5) (f), (i), (j) and (k) of the Act on Capital Market Undertakings

Komerční banka is aware of no contracts made between its shareholders as a result of which the transferability of the shares or of voting rights would become more complicated. Komerční banka has entered into no significant contracts which take effect, are altered or terminate if the person or entity in control of Komerční banka changes as a consequence of a takeover bid. Komerční banka has entered into no contract with a member of its Board of Directors or any employee stipulating an obligation for Komerční banka to perform in the event that such person would cease to serve as a member of the Board of Directors or cease to be employed in connection with a takeover bid. Komerční banka has established no programmes enabling the members of the Board of Directors and employees of the Bank to acquire the Bank's securities, options on these securities or other rights under preferential conditions.

INFORMATION ABOUT SPECIAL RULES ON THE REVISION OF THE BANK'S ARTICLES OF ASSOCIATION

If a revision of the Articles of Association of Komerční banka is to be on the agenda of the General Meeting, then the notice calling the General Meeting must at least generally describe the proposed changes and these proposed changes to the Articles of Association must be available for shareholders' inspection at the Bank's headquarters and on its website for the period established for convening of a General Meeting. Shareholders have a right to request a copy of the proposed Articles of Association at their own cost and risk. These rights are notified to the shareholders in the notice calling the General Meeting. If a shareholder wishes to raise counterproposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obligated to deliver the written wording of such proposal or counterproposal to the Bank no later than five business days prior to the General Meeting. The Board of Directors is obligated to publish the proposal so delivered along with its viewpoint with regard to it in the manner specified for the convening of the General Meeting, if possible, at least three days prior to the announced date of the General Meeting.

Decisions on changes to the Articles of Association are made by the General Meeting and carried by two thirds of those votes of the attending shareholders upon a proposal of the Board of Directors, of the Supervisory Board, or of one or more shareholders in accordance with the Commercial Code and with the Articles of Association. Decisions on changes to the Articles of Association must be recorded by means of a notarial deed. Komerční banka is obligated to report to the Czech National Bank its intention to make changes to the Articles of Association relating to the facts that must be stated in the Articles of Association based on a requirement set forth by the Commercial Code or by the Banking Act.

INFORMATION ON INTERNAL CONTROL AND APPROACH TO RISKS IN THE ACCOUNTING REPORTING PROCESS

To ensure true and accurate presentation of the facts in accounting and proper compilation of the financial statements, the Bank uses a number of tools in several areas, beginning with tools used for proper recording of individual transactions through controls and finally in the area of preparing the statements and their control.

The tools used for proper recording of transactions, events, trades, and the like in accounting include, in particular, the selection of appropriate systems (applications) for their recording and processing, thorough testing during their implementation, maximum automation of all repetitive processes, as well as setting and maintaining access rights to individual systems. Setting up systems, processes and controls is always formally governed by the Bank's internal regulations.

Compliance of the accounting methods used with IFRS in particular is ensured by an independent department that regularly monitors development in these standards and other regulatory rules, analyses effects ensuing therefrom, and implements them in co-operation with the relevant departments. For more information on the rules used, see the Notes to the Financial Statements, note 3 "Principal accounting policies" and note 44 "Risk management and financial instruments".

The Bank utilises a system of defining responsibilities for individual ledger accounts, the so-called control system, under which a particular employee authorised to transact with and an employee responsible for account analysis are assigned to each account of the general ledger. The control over account analysis includes, in particular, the duty to specify at any time the account balance, monitor its balance and movements, as well as responsibility for attending to the related documents. The control over account analysis also involves reconciliation of data in supporting systems relating to the data in the general ledger at specified regular intervals.

The area of control tools may be divided into two parts: control as to the accuracy of input data and follow-up control over the consistency and integrity of the functioning and accounting of the individual systems.

Input data accuracy control is performed especially in the Distribution and Operations sections within the first level of the control system, which constitutes the basis of the Bank's internal control system. The first level of the control system establishes the control activities of the management employees so that there occurs oversight over operational risks arising from the activities of the relevant departments; monitoring of the quality, effectiveness and reliability of the established work procedures; verification of the employees' compliance with the applicable regulations and procedures; and determination of corrective measures in cases when deficiencies are identified.

Follow-up control is carried out particularly by an independent department of the Accounting and Reporting Division which in particular checks the data in the accounting using analytical procedures. The main analytical procedures may be classified as control in accordance with data consistency as of the current date with the development in the past, consistency between financial and non-financial data (numbers of transactions, trades, etc.), and consistency between the changes in the balance sheet and income statement. The changes in the development of individual items of the financial statements or directly in the general ledger accounts are regularly analysed, and these changes are subsequently reconciled to the changes in trades, prices for services provided, and market data, or that are attributable to one-off items.

An automated system is used to process most financial statements. In most cases, detailed data from source systems is used for their creation and this data is reconciled to the general ledger while at the same time the accuracy of the data in the general ledger is checked.

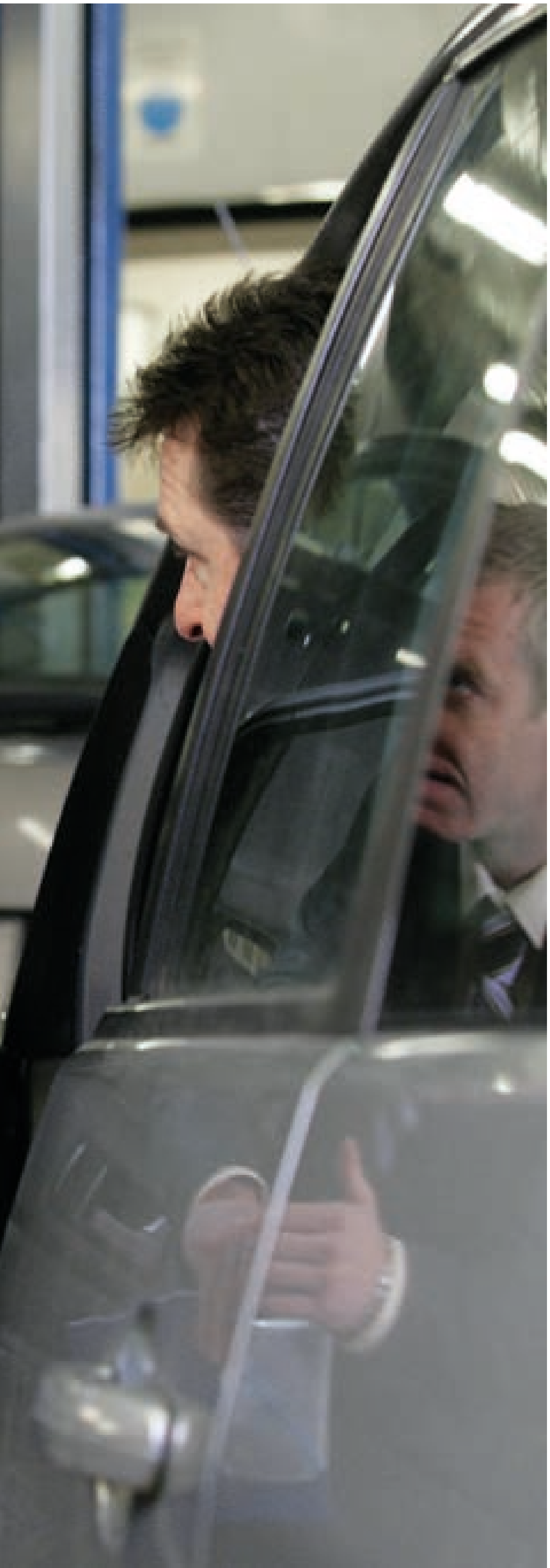
The effectiveness of internal controls is regularly evaluated by both internal and external audits.

Michal Papoušek

EXECUTIVE OF AUTO PAPOUŠEK

"We've co-operated with KB since 1991, when we drew our first loan of what today seems a tiny amount of just CZK 50,000. Though our financing needs are now much greater, the bank continues to accommodate us in every respect. Considering the bank's personal approach, we regard it as our family bank."

Auto Papoušek



AUTO PAPOUŠEK s.r.o.

The Czech family-owned firm Autoservis Papoušek was founded in 1990. At that time, the Prague-based auto shop had two employees. Construction of a new service station began the very next year on Opletalova Street in central Prague.

The firm and its 23 employees provide service for vehicles of individual clients as well as for corporate car fleets. The independent service station offers comprehensive services in a top-notch facility operated by specially trained staff. It uses state-of-the-art service technologies and works according to expressly established technological procedures. The firm's customers include, for example, the Czech Ministry of Foreign Affairs, six embassies and the company Kapsch.

Securities Issued by KB

KOMERČNÍ BANKA SHARES

Kind:	ordinary share
Type:	bearer share
Form:	dematerialised
Total value of the issue:	CZK 19,004,926,000
Total number of shares:	38,009,852
Nominal value per share:	CZK 500
ISIN:	CZ0008019106

Public tradability
Komerční banka 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, česká burza cenných papírů, a.s. (the Czech Stock Exchange).

Rights vested in the shares
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. Each CZK 500 of nominal share value is equivalent to one vote.

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.

In accordance with the Articles of Association, the right to a dividend shall accrue to any shareholder registered as owning shares in the statutory records of the securities' issuer 7 calendar days prior to the date of the General Meeting. The dividend shall become payable upon expiration of 30 days following the date of the General Meeting at which the resolution on the dividend payment was adopted.

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.

For further information about trading in the shares, their prices and dividends, please refer to the chapter Komerční banka Share Price.

KOMERČNÍ BANKA GLOBAL DEPOSITORY RECEIPTS

Global depository receipts (GDRs) were issued for shares of Komerční banka 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 Komerční banka.

The GDR programme 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 491,196.

BONDS ISSUED BY KOMERČNÍ BANKA (OUTSTANDING)

List of outstanding bonds issued by Komerční banka

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pcs (as of 31 December 2011)	Interest rate	Payout of interest
1.	HZL 2005/2015	CZ0002000565[1)]	2 August 2005	2 August 2015	5,200,000,000	520,000	3M PRIBID + min. (-0.10% p.a.; [-0.1 * 3M PRIBID]% p.a.)	quarterly
2.	HZL 2005/2015	CZ0002000664[1)]	21 October 2005	21 October 2015	10,000,000,000	1,000,000	4.40% p.a.	yearly
3.	HZL 2006/2016	CZ0002000854[1)]	1 September 2006	1 September 2016	EUR 21,335,000	42,670	3.74% p.a.	yearly
4.	HZL 2007/2019	CZ0002001142[2)]	16 August 2007	16 August 2019	3,000,000,000	30	5.00% p.a.	yearly
5.	HZL 2007/2037	CZ0002001324[2)]	16 November 2007	16 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
6.	HZL 2007/2037	CZ0002001332[2)]	16 November 2007	16 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
7.	HZL 2007/2037	CZ0002001340[2)]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
8.	HZL 2007/2037	CZ0002001357[2)]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
9.	HZL 2007/2037	CZ0002001365[2)]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
10.	HZL 2007/2037	CZ0002001373[2)]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
11.	HZL 2007/2037	CZ0002001381[2)]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
12.	HZL 2007/2037	CZ0002001399[2)]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
13.	HZL 2007/2037	CZ0002001431[2)]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
14.	HZL 2007/2037	CZ0002001449[2)]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
15.	HZL 2007/2037	CZ0002001456[2)]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
16.	HZL 2007/2037	CZ0002001464[2)]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
17.	HZL 2007/2037	CZ0002001472[2)]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
18.	HZL 2007/2037	CZ0002001480[2)]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
19.	HZL 2007/2037	CZ0002001498[2)]	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
20.	HZL 2007/2037	CZ0002001506[2)]	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
21.	HZL 2007/2037	CZ0002001514[2)]	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
22.	HZL 2007/2037	CZ0002001522[2)]	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
23.	HZL 2007/2037	CZ0002001530[2)]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
24.	HZL 2007/2037	CZ0002001548[2)]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
25.	HZL 2007/2037	CZ0002001555[2)]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
26.	HZL 2007/2037	CZ0002001563[2)]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
27.	HZL 2007/2037	CZ0002001571[2)]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
28.	HZL 2007/2037	CZ0002001589[2)]	12 December 2007	12 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
29.	2007/2017	CZ0003701427[1)]	18 December 2007	1 December 2017	460,200,000	767	4.216% p.a.	yearly
30.	HZL 2007/2017	CZ0002001761[1)]	19 December 2007	19 December 2017	771,720,000	12,862	4.09% p.a.	yearly
31.	HZL 2007/2037	CZ0002001753[1)]	21 December 2007	21 December 2037	5,680,000,000	568	RS plus 1.5% p.a.	yearly
32.	HZL 2007/2037	CZ0002001746[1)]	28 December 2007	28 December 2037	1,240,000,000	124	RS plus 1.5% p.a.	yearly

HZL = mortgage bonds, RS = reference rate
1) dematerialised bonds
2) bonds in documentary form

All bonds are made out to the bearer and, with the exception of mortgage bond ("HZL") ISIN CZ0002000854, are denominated in CZK.

HZL ISIN CZ0002000565 was issued under the KB Debt Issuance Programme approved by a decision of the Czech Securities Commission dated 6 May 2003. This 10-Year Debt Issuance Programme with the maturity for any single issue of up to 10 years enables the Bank to issue mortgage bonds in a maximum amount of CZK 15 billion outstanding.

The bonds listed in the table under numbers 4–32 were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30-Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding. Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, issuance terms and conditions, or supplements to the bond programmes were approved by the Czech Securities Commission or the Czech National Bank.

Public tradability
HZL ISIN CZ0002000565 and CZ0002000664 were admitted for trading on the official free market of the Prague Stock Exchange.

Transferability
The transferability of the bonds is not limited.

Rights vested in the bonds
Rights and obligations pertaining to the bonds are governed and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the issuance terms and conditions for each issue.

Bonds bear interest from the date of issue, and coupon payments are made quarterly, yearly or at stated intervals. The bonds' returns are paid by the issuer – Komerční banka, a.s., having its registered office at Na Příkopě 33, Prague 1.

The bonds will be redeemed by Komerční banka, a.s., Na Příkopě 33, Prague 1, in the whole amount of the nominal value (with the exceptions of HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bond ISIN CZ0003701427) on the maturity day. HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bond ISIN CZ0003701427 are amortised bonds.

Report on Relations among Related Entities for the year ended 31 December 2011

(hereinafter called the **"Report on Relations"**)

Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained at the Metropolitan Court of Prague, Section B, File 1360, (hereinafter called **"KB"** or the **"Bank"**), is part of a business group (holding company) in which the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entity (hereinafter called **"related entities"**) exist.

This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2011, that is, from 1 January 2011 to 31 December 2011 (hereinafter called the **"reporting period"**).

I. Introduction

In the period from 1 January 2011 to 31 December 2011, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter called "SG" or "SG Paris").

During the course of the 2011 reporting period, the Bank entered into arrangements with the following related entities:

(a) SG's Head Office and branch offices

Company	Registered office
SG Paris *	29, Boulevard Haussmann, Paris, France
SG London	Exchange House, Primrose Street, London, Great Britain
SG New York	1221 Avenue of the Americas, 10020, New York, USA
SG Istanbul	Nispetye Cad. Akmerkez E-3 Blok Kat. 9 ETILER 80600 Istanbul, Turkey
SG Zurich	Sihlquai 253, 8031 Zurich, Switzerland
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Neue Mainzer Strasse 46-50, 60325, Frankfurt am Main, Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Vienna	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Milan	Via Olona 2, 20123 Milan, Italy
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Polska	111, Marszalkowska St., 00-102 Warsaw, Poland

* including the branch offices

(b) SG's subsidiaries

Company	Registered office	SG's share of voting power
ALD (SIA)	K. Ulmana gatve 119, Riga, LV-2167, Latvia	75.00
ALD (UAB)	Ukmerges 283, Vilnius, LT -06313, Lithuania	75.01
ALD Automotive Hungary	1133 Budapest, Váci út 76, Hungary	99.99
ALD Automotive Polska sp. z.o.o.	Ostrobramska 101A, 04 Warsaw, Poland	100.00
ALD Automotive s.r.o.	U Stavoservisu 527/1, Prague 10, 10040, Czech Republic	100.00
ALD EESTI AS (Estonia)	Akadeemia tee 15A, 12618 Tallinn, Estonia	75.01
Banca Romana Pentrui Devzoltare (B.R.D.)	Boulevard Ion Mihalache no.1-7, sector l, Bucharest, Romania	58.32
Crédit du Nord	28 Place Rihour 59800 Lille, France	100.00
ESSOX SK s. r. o.	Cesta na Senec 2/A, Bratislava 821 04, Slovak Republic	100.00
European Fund Services, SA	17 rue Antoine Jans L-1820 Luxembourg, Luxembourg	100.00
EURO-VL Luxembourg	16, Boulevard Royal, L 2449 Luxembourg, Luxembourg	100.00
Franfinance, SA	57-59 Avenue De Chatou, 92500 Rueil Malmaison, France	100.00
General Bank of Greece	109 Messogion Avenue, 11510 Athens, Greece	52.32
General Financing LIT	Perkünkiemio g. 3, Vilnius, Lithuania	100.00
HITEX Hungary	1062 Budapest, Vaci út 1-3, Hungary	100.00
Inter Europe Conseil	Tour Société Générale, 17 Cours Valmy, 92987 La Défense, Paris, France	100.00
Komerční pojišťovna, a.s.	Karolinská 1/650, Prague 8, 186 00, Czech Republic	100.00
Lyxor International Asset Management (LIAM)	Tour Société Générale, 17 Cours Valmy, 92800 Puteaux, France	100.00
National Société Générale Bank (N.S.G.B.)	5 Champollion Street, Cairo, Egypt	77.20
Newedge Group (Frankfurt branch)	Neue Mainzer Strasse 52, 60311 Frankfurt am Main, Germany	100.00
Newedge Group Financial Limited (UK Branch)	10 Bishops Square, London, E1 6EG, UK	100.00
ORBEO	Tour Société Générale-S7W 17 Cours Valmy La Défense 7, 92987 Paris La Défense CEDEX, France	50.00
PEMA Polska sp. z. o. o.	Ul. Syrenia 4, Poznaň 61-017, woj. Wielkopolskie, Poland	100.00
PEMA Praha, spol. s r. o.	Ul. Dopraváků 723, 184 00 Prague 8, Czech Republic	100.00
PEMA Slovakia, spol. s r. o.	Pri Prachárni 20, 04001 Košice, Slovakia	100.00
Rosbank	11 Masha Poryvaeva Street, 107 078 Moscow, Russian Federation	74.89
SG Asset Management	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Asset Management Alternative Investments	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Asset Management Banque (SGAM Banque)	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng Disctrict, 100140 Peking, China	100.00
SG Cyprus Ltd.	7/9 Grivas Dighenis Avenue, Nicosia, Cyprus	51.00
SG Equipment Finance Czech Republic s.r.o [1)]	Antala Staška 2027/79, Prague 4 – Krč, 140 00, Czech Republic	100.00
SG Equipment Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	99.85
SG Equipment Leasing Hungary Ltd	1062 Budapest, Vaci út 1-3, Hungary	99.97
SG Equipment Leasing Polska	Marszalkowska 111 St., 00-102 Warsaw, Poland	100.00
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	97.95
SG Maroccaine de Banques	55, boulevard Abdelmoumen, Casablanca, Morocco	56.91
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneve 11, Switzerland	100.00
SG Securities (London) Ltd.	8 Salisbury Square, London, EC4Y 8BB, UK	100.00
SG Splitska Banka	Rudjera Boskovica 16, 21000 Split, Croatia	100.00
SG Vehicle Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	100.00
SG Vostok [2)]	5 Nikitsky Pereulok, 103009 Moscow, Russia	100.00
SGA Société Générale Acceptance N.V.	PO Box 837, Curacao De Ruyterjade 58A, Netherlands Antilles	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100.00
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	99.70
Sogecap	50 avenue du Général de Gaulle, 92093 Paris, la Défense CEDEX, France	100.00
Sogeprom Česká republika s.r.o.	Politických vězňů 1419/11, Prague 1 – Nové Město, 110 00, Czech Republic	100.00

1) On 4 May 2011, Komerční banka, a.s., bought a 50.1% stake in the company. The report only lists the mutual relations up to that day.
2) KB only had mutual relations with SG Vostok until 30 June 2011, when the company merged into Rosbank.

c) KB's subsidiaries

Company	Registered office	SG's share of voting power
ESSOX s.r.o.	Senovážné náměstí 231/7, České Budějovice, 370 21, Czech Republic	100.00
Factoring KB, a.s.	Lucemburská 1170/7, Prague 3, PSČ 130 00, Czech Republic	100.00
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128, č. p. 222, Prague 2, PSČ 120 21, Czech Republic	100.00
Penzijní fond Komerční banky, a.s.	Lucemburská 1170/7, Prague 3, PSČ 130 11, Czech Republic	100.00
Protos, uzavřený investiční fond, a.s.	Dlouhá 34, č. p. 713, Prague 1, PSČ 110 15, Czech Republic	100.00
Bastion European Investments S.A.	Place du Champ de Mars 5, Bastion Tour, 1050 Brussels (Ixelles), Belgium	100.00
SG Equipment Finance Czech Republic s.r.o.	Antala Staška, 2027/79, Prague 4 – Krč, 140 00 Czech Republic	100.00
KB Real Estate, s.r.o.	Politických vězňů 1419/11, 111 10, Prague 1, Nové Město, Czech Republic	100.00

The information on the relations between KB and these subsidiaries is stated in the reports on the relations of the individual subsidiaries of KB with the exception of the company Bastion European Investments S.A.

II. Arrangements with Related Entities

A. CONTRACTS AND AGREEMENTS WITH THE CONTROLLING ENTITY AND OTHER RELATED ENTITIES

Banking Transactions
During the reporting period, KB entered into the following contractual arrangements with controlled entities that were subject to banking secrecy restrictions:

Deposit Arrangements
In the deposit segment, KB entered into arrangements with 33 branches and subsidiaries of the SG Group at the end of the reporting period. As of 31 December 2011, KB maintained a total of 59 accounts, of which 30 were loro accounts for branches and subsidiaries of the SG Group, 23 were current accounts and 6 overdraft accounts opened for non-banking entities of the SG Group. The average monthly overdraft balance on loro accounts (borrowing) was CZK 105.9 million, the average monthly credit balance (deposit) was CZK 539 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 39.6 million; the average monthly overdraft balance on these accounts was CZK 99.8 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 1 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 4.6 million. For the year ended 31 December 2011, KB paid CZK 0.3 million to clients arising from deposits on current and overdraft accounts.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, B.R.D, SG New York, SG Warszawa, SG Express Bank, Rosbank and SG China. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 5 million; the average monthly overdraft balance on nostro accounts was CZK 56.8 million. Interest income on nostro accounts for the reporting period was CZK 0.033 million; interest expenses amounted to CZK 0.027 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 10.5 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 1.8 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 1.6 million. Interest expenses paid by KB on loro accounts amounted to CZK 0.2 million and interest income amounted to CZK 2 million in the reporting period.

Two SG subsidiaries held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 643.1 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 4.3 million for the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan Arrangements
In the loan segment, KB provided 183 loans in the aggregate amount of CZK 2,712.6 million to two SG Group subsidiaries at the end of the reporting period. The average monthly balance of the loans during the reporting period was CZK 4,492.9 million. The aggregate amount of interest income was CZK 149.1 million.

At the end of the reporting period, KB provided 1 entity from the SG Group with confirmed export letters of credit in the aggregate amount of CZK 2.1 million, 6 entities were provided with bank guarantees (payment, non-payment) in the amount of CZK 309.3 million, and the statement of guarantee was provided to one entity in the amount of CZK 38.7 million. The aggregate amount of income arising from the fees for the issued guarantees was CZK 0.4 million in the reporting period. As of 31 December 2011, commitments to extending loans, opening letters of credit and unutilized overdraft limits were provided to two entities in the amount of CZK 305.8 million.

At the end of the reporting period, KB received guarantees from 7 SG Group entities as collateral for the loans provided to clients in the aggregate amount of CZK 3,286.3 million. The aggregate amount of expense fees for guarantees received in the reporting period amounted to CZK 10.1 million.

Investment Banking Arrangements
In the investment banking segment, KB carried out transactions with 16 branches and subsidiaries from within the SG Group.

The total number of transactions was 15,655 (2,705 on-balance sheet transactions and 12,950 off-balance sheet transactions) in the aggregate amount of CZK 1,574,146.1 million. The income from the investment banking transactions amounted to CZK 23,404.5 million and the costs were equal to CZK 26,282.1 million.

The aggregate amount of on-balance sheet transactions was CZK 741,756.5 million, of which:
- depository transactions – a total of 2,106 transactions in the aggregate amount of CZK 723,116.0 million;
- securities held for trading – a total of 599 transactions in the aggregate amount of CZK 18,640.5 million.

The aggregate amount of off-balance sheet transactions was CZK 832,389.6 million, of which:
- foreign currency transactions (spots, forwards, swaps) in the total number of 5,726 transactions in the aggregate amount of CZK 502,875.2 million;
- interest rate derivative transactions (interest rate swaps and futures) in the total number of 725 transactions in the aggregate amount of CZK 233,099.3 million;
- option transactions with currency instruments in the total number of 5,290 transactions in the aggregate amount of CZK 73,164.1 million;
- commodity transactions were realised only with SG Paris; KB implemented 942 transactions in the aggregate amount of CZK 17,053.3 million;
- emission allowance transactions – KB realised a total of 267 transactions in the aggregate amount of CZK 6,197.7 million with SG Paris and ORBEO during the reporting period.

All of the banking products were provided under standard terms and conditions, according to KB's price list, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

Other Arrangements

I. Contracts and Agreements Entered into during the Reporting Period

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Separate VoIP Agreement No. 1	ALD Automotive s.r.o	Provision of voicemail	Contractual fees	None
Amendment No.4 to the Cooperation Agreement	ALD Automotive s.r.o.	Takeover of the obligations and liabilities arising from the Cooperation Agreement with KBB	Takeover of the obligations and liabilities arising from the Cooperation Agreement with KBB	None
Accession to the rules of cooperation between KB and Group members in the area of sourcing and acquisitions	ALD Automotive s.r.o.	Provision of services	Payment of price and cooperation	None
Custodian services agreement	B.R.D.	Fees according to the price list	Provision of securities custody services to KB	None
Service Level Agreement	B.R.D.	Fees according to the price list	Provision of securities custody services; inclusion of further conditions in the Custodian services agreement	None
Contract for the provision of office premises in case of an emergency (terror, disaster)	ESSOX SK s.r.o.	Provision of office premises	Contractual fee	None
Amendment No. 2 to the "PROGRAM VITAL and PROGRAM VITAL PLUS" brokerage agreement	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 5 to the "Vital Premium" brokerage contract	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Framework agreement to make deals in the financial market	Komerční pojišťovna, a.s.	Making deals secured by a securing transfer of securities	Contractual fee	None
2x Contract to issue and use a company certificate	Komerční pojišťovna, a.s.	Issuance and use of a company certificate	Fees according to the price list	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
2x Contract for the provision of direct banking services	Komerční pojišťovna, a.s.	Provision of direct banking	Fees according to the price list	
	None			
Agreement to reduce the commission for the one-off and extraordinary VITAL INVEST insurance premium	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts for a reduced commission	Commission	None
Contract for the collective insurance of "Profi pojištění plateb"	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the collective insurance of "Moje pojištění plateb"	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
2x Contract for the lease of non-residential premises, 2x Amendment to Contracts for the lease of non-residential premises made in past years	Komerční pojišťovna, a.s.	Lease of non-residential premises	Rent	None
Partial contracts No.1–4 regarding the Framework agreement for the provision of IT services	Komerční pojišťovna, a.s.	Provision of services in the area of technical infrastructure	Contractual fee	None
Amendments No. 12, 13 and 14 to the Contract for the mediation of sale of "VITAL INVEST"	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Agreement for reduction of commission for extraordinary insurance premium on Brouček, Vital and Vital Invest	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the collective insurance of the "A KARTA" and "LADY" credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Agreement for reduction of commission for sale of travel insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts for a reduced commission	Commission	None
Contract of cooperation in the organisation of a competition	Komerční pojišťovna, a.s.	Organisation of a competition for tellers	Contractual fee	None
Amendment No. 4 to the contract for the collective insurance of consumer loans	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 2 to the Contract for the mediation of sale of "VITAL"	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 4 to the Contract for the mediation of sale of "Vital Premium"	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Agreement for reduction of commission for extraordinary insurance premium on Brouček, Vital and Vital Invest	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts for a reduced commission	Commission	None
Amendment No. 2 to the Contract for the mediation of sale of "VITAL GRANT"	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 3 to the Contract for the mediation of sale of "VITAL"	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 1 to the Contract for the mediation of sale of "Brouček"	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Novation agreement	Newedge UK Financial Limited	Free of charge	Broker's services	None
Novation agreement	ORBEO + Société Générale	Free of charge	Representation of KB by SG in the settlement of derivative transactions	None
Termination Agreement	ORBEO	Free of charge	Agreement to terminate a Framework Agreement dated 2009	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Agreement on meaning and maintaining correspondent account on non-resident-credit Institution, including amendments no.1 and 2.	Rosbank	Fees according to the price list	Maintenance of and payments from and to KB's nostro account denominated in RUB.	None
Agreement on transfer of ownership interest, Side Agreement, Shareholders Agreement	SG Equipment International GmBH + GEFA-Leasing GmBH	Purchase of a 50.1% stake in SGEF s.r.o. Czech Republic	Sale of a business stake of the company SGEF s.r.o. Czech Republic	None
Cross-Border RMB Agent Settlement Agreement	SG China Limited	Fees according to the price list	Maintenance of a nostro account denominated in yuan	None
Appointment of process agent for Komerční banka, a. s.	SG London	Free of charge	Transmission of information as to whether an action has been filed against KB with a court in GB	None
Appointment of process agent for Komerční banka, a. s.	SG London	Free of charge	Transmission of information as to whether an action regarding the ISDA Master Agreement has been filed against KB with a court in GB	None
Bankers Blanket Bond	SG Paris	Insurance premium	Banking risks insurance	None
Custody contract	SG Paris	Custody services	Fees according to the price list	None
Professional Indemnity	SG Paris	Insurance premium	Liability insurance	None
Business Interruption	SG Paris	Insurance premium	Business interruption insurance	None
Directors & Officers Liability	SG Paris	Insurance premium	Liability insurance for the board of directors	None
Protection agreement	SG Paris	Contractual fees	Protection of personal information within the appraisal system (APE)	None
16x Contract for organisation of periodic audits including 13 amendments to these contracts	SG Paris + the competent SG group company	Provision of internal audit services	Contractual fee	None
Contract for organisation of periodic audits	SG Paris + SGEF s.r.o. Czech Republic	Provision of internal audit services	Contractual fee	None
Sub-Custody & Brokerage Service Agreement	SGBT Luxembourg	Contractual fee	Custody services	None
Confidentiality Agreement	Sogeprom Česká republika s. r. o.	Protection of information and banking secret	Protection of information and banking secret	None
Accession to the rules of cooperation in the area of sourcing and purchases between KB and group members	Sogeprom Česká republika s. r. o	Provision of services	Payment of price and cooperation	None

II. Consideration Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

Type of agreement (or the subject matter of the agreement if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the other party to the contract	Damage incurred by KB
Framework agreement to rent cars	ALD Automotive s.r.o.	Lease instalments	Full service lease, finance lease, sale of cars	None
Contract for cooperation	ALD Automotive s.r.o.	Mediation of the finance lease as part of "KB Fleet Lease"	Contractual fee	None
Service Level Agreement	European Fund Services S.A.	Mediation of the purchase of securities	Settlement of securities transactions	None
Amendments No. 7, 8, 9,10 and 11 to the Contract for mediation of the sale of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Amendment No. 3 to the Contract for mediation of the sale of VITAL PLUS	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract of cooperation	Komerční pojišťovna, a.s.	Organisation of a competition for tellers	Contractual fee	None
Agreements for the reduction of the commission for the extraordinary insurance premium on Brouček, Vital and Vital Invest	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the provision of services – outsourcing (HR services)	Komerční pojišťovna, a.s.	Provision of HR services	Contractual fee	None
Contracts to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Framework agreement to make deals in the financial market	Komerční pojišťovna, a.s.	Making deals secured by a securing transfer of securities	Contractual fee	None
Agreement for reduction of commission for sale of travel insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 1 to the Contract for the mediation of the sale of MERLIN and PROFI MERLIN	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 1 to the Contract of mutual cooperation	Komerční pojišťovna, a.s.	Provision of services	Provision of services	None
Amendment No. 2 to the Contract for the collective insurance of MERLIN and PROFI MERLIN	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Custody contract	Komerční pojišťovna, a.s.	Administration and settlement of securities transactions	Contractual fee	None
Confidentiality Agreement	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 3 to the Contract for the mediation of the sale of VITAL PREMIUM	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Framework contract for the provision of services	Komerční pojišťovna, a.s.	Provision of services in the area of information technologies infrastructure	Contractual fee	None
Accession to the rules of cooperation between KB and Group members in the area of sourcing and acquisitions	Komerční pojišťovna, a.s.	Provision of services	Payment of price and cooperation	None
Custody contract for VITAL INVEST FORTE	Komerční pojišťovna, a.s.	Securities administration	Contractual fee	None
Amendment No. 2 to the Contract for the collective insurance of KB credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 4 to the Contract for the collective insurance of the MC, VISA and American Express payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None

Type of agreement (or the subject matter of the agreement if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the other party to the contract	Damage incurred by KB
Amendment No. 5 to the Contract for the mediation of the sale of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Amendment No. 8 to the Insurance contract for group insurance of persons	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Amendments No. 2 and 3 to the Contract for the mediation of the sale of Risk life insurance of mortgages	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Amendments No. 1 and 2 to the Contract for the collective insurance of consumer loans	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Cooperation agreement	Komerční pojišťovna, a.s.	Cooperation in the development of products and in other business activities	Cooperation in the development of products and in other business activities	None
Agreement to send electronic notifications of clearing	Komerční pojišťovna, a.s.	Sending electronic notifications of clearing	Fees according to the price list	None
Licensing contract	Komerční pojišťovna, a.s.	Provision of KB's trade mark	Contractual fee	None
Insurance contract – insurance of risks arising form abuse of payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance and of insurance premium	None
Insurance contract for group insurance of persons	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Framework distribution contract including its amendments	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Framework contract to negotiate term deposits with individual interest rates	Komerční pojišťovna, a.s.	Negotiation and maintenance of term deposits	Contractual fee	None
Framework contract for personal data processing	Komerční pojišťovna, a.s.	Personal data processing	Provision of information	None
Framework contract for the Spektrum insurance program in the wording of amendment No.1	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Service Level Agreement	Komerční pojišťovna, a.s.	Internet services sharing	Contractual fee	None
Contract for the collective insurance for payment cards including Amendments Nos. 1 and 2	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for investment advisory	Komerční pojišťovna, a.s.	Investment consulting	Contractual fee	None
Contract for the collective insurance for MC, VISA and AMERICAN EXPRESS payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the collective insurance for loans	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the collective insurance of purchase of goods for credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the PATRON collective insurance in the wording of amendment No. 1	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the collective insurance of MERLIN and PROFI MERLIN including Amendment No. 1	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the provision of call centre services	Komerční pojišťovna, a.s.	Provision of call centre services	Contractual fee	None
Contract for provision of services in the system of short-term bonds	Komerční pojišťovna, a.s.	Provision of services in the system of short-term bonds	Contractual fee	None
Contract for acceptance of electronic payments through the Mojeplatba service	Komerční pojišťovna, a.s.	Acceptance of electronic payments	Fees according to the price list	None
Contract for the acceptance of payment cards – internet	Komerční pojišťovna, a.s.	Acceptance of payment cards	Fees according to the price list	None

Type of agreement (or the subject matter of the agreement if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the other party to the contract	Damage incurred by KB
Cooperation Contract	Komerční pojišťovna, a.s.	Valuation of investment instruments	Contractual fee	None
Contract for cooperation in providing insurance of EC/MC and VISA payment cards including amendments	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Contract for cooperation in providing insurance of AMERICAN EXPRESS payment cards including amendments	Komerční pojišťovna, a.s.	Mediation of insurance	Commission	None
Contract for the cooperation in the group registration for VAT including Amendment No. 1	Komerční pojišťovna, a.s.	Representation of group members in respect of VAT payments	Contractual fee	None
Contract for the issuance and use of the company certificate	Komerční pojišťovna, a.s.	Issuance of the company certificate	Fees according to the price list	None
Contract for mutual cooperation	Komerční pojišťovna, a.s.	Provision of services	Provision of services	None
Contract for the mediation of MERLIN and PROFI MERLIN	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the mediation of PATRON and PROFI PATRON	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for mediation of the sale of VITAL INVEST including its amendments	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the mediation of sale of VITAL PREMIUM including Amendment No.1	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the mediation of the Brouček product	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the mediation of Risk life insurance of mortgages including its amendments	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the mediation of VITAL PLUS including Amendments Nos. 1 and 2	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the mediation of TRAVEL INSURANCE	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the mediation of VITAL, VITAL GRANT and VITAL PLUS	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contracts for the lease of non-residential premises (Jihlava, Brno, Ostrava) including their amendments	Komerční pojišťovna, a.s.	Lease of non-residential premises	Rent	None
Contract for business representation in the sale of products under the VITAL and VITAL PLUS programme	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract for the maintenance of payroll records	Komerční pojišťovna, a.s.	Maintenance of payroll records	Contractual fee	None
Contract for the mediation of RISK LIFE FOR MORTGAGE LOANS	Komerční pojišťovna, a.s.	Mediation of insurance contracts	Commission	None
Contract Bank Agreement	LIAM	Mediation of the sale of participation certificates	Commission	None
Distribution Agreement	LIAM	Mediation of the sale of participation certificates	Commission	None
Global Terms of Business	Newedge Group (UK branch)	Contractual fees	Maintenance of clearing accounts and brokerage services	None
Transfer of Futures Accounts	Newedge Group (UK branch)	Contractual fees	Futures operations in an organized market	None
Global Terms of Business	Newedge Group (UK branch)	Contractual fees	Maintenance of clearing accounts and brokerage services	None

Type of agreement (or the subject matter of the agreement if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the other party to the contract	Damage incurred by KB
Agreement – Framework contract regulating contractual relations regarding emissions trading	ORBEO	Making transactions	Contractual fees	None
Credit Support Annex	ORBEO	Transactions with financial collateral to secure transactions with emission allowances	Contractual fee	None
ISDA Master Agreement	ORBEO	Transactions with emission allowances	Contractual fee	None
Brokerage Conformity Agreement	SG Asset Management Alternative Investments	Distribution of securities issued by SGAM FUND in the Czech Republic	Contractual fee	None
Contact Bank Agreement	SG Asset Management Alternative Investments	Mediation of the sale of securities	Contractual fee	None
Distribution Agreement	SG Asset Management Alternative Investments	Mediation of the sale of securities	Contractual fee	None
EURO Medium Term Note Master Purchase Agreement	SG Asset Management Alternative Investments	Contractual fees	Securities transactions	None
Introduction Broker Agreement	SG Asset Management Alternative Investments	Mediation of purchases of SGAM funds	Contractual fee	None
Amendment to a Contract for the mediation of sale or purchase of securities	SG Equipment Finance Czech Republic s.r.o	Mediation of the purchase or sale of securities traded in markets in the Czech Republic or abroad	Contractual fee	None
Agreement on KB Call centre services	SG Equipment Finance Czech Republic s.r.o	Provision of Call centre services	Contractual fee	None
Master Guarantee Agreement	SG Equipment Finance Czech Republic s.r.o	Provision of a guarantee	Contractual fees	None
Contract for cooperation	SG Equipment Finance Czech Republic s.r.o	Mediation of finance lease as part of "KB Leasing"	Mediation fees	None
Contract for the lease of non-residential premises (Pilsen, Ústí nad Labem, Ostrava)	SG Equipment Finance Czech Republic s.r.o.	Lease of non-residential premises	Rent	None
Contract for the mediation of purchase or sale of securities	SG Equipment Finance Czech Republic s.r.o.	Mediation of the purchase or sale of securities traded in markets in the Czech Republic or abroad	Contractual fee	None
Terms for Business for Treasury Equities, Derivates and Fixed Income Products	SG London	Free of charge	Business conditions for provision of investment services	None
Appointment of process agent for Komerční banka, a. s., including an amendment	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the UK	None
Service Level Agreement	SG New York	Fees according to the price list	Processing of payments	None
Amendment to the sub-custodian services agreement	SG Paris	Contractual fee	Custody services	None
Amendment to the sub-custodian services agreement	SG Paris	Contractual fee	Custody services	None
Custody contract	SG Paris	Administration of securities traded on a stock exchange	Fees according to the price list	None
Amendment No. 1 to the Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	Mediation of the sale of derivatives	Contractual fee	None
Amendment to the ISDA Master Agreement	SG Paris	Adjustment of conditions	Adjustment of conditions	None

Type of agreement (or the subject matter of the agreement if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the other party to the contract	Damage incurred by KB
Bankers Blanket Bond	SG Paris	Insurance premium	Banking risk insurance	None
Professional Indemnity	SG Paris	Insurance premium	Liability insurance	None
Business Interruption	SG Paris	Insurance premium	Business interruption insurance	None
Directors & Officers Liability	SG Paris	Insurance premium	Liability insurance for the board of directors	None
2x Contract for temporary assignment of employee	SG Paris	Assignment of employee	Provision of know how	None
ACPI – subscribing product of SG at KB's points of sale	SG Paris	Mediation of the sale of selected SG products	Contractual fee	None
Agreement	SG Paris	Contractual fee	HR-related consulting	None
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	Mediation of the sale of derivative instruments	Contractual fee	None
Agreement relating to the use of the Class Custody Tool	SG Paris	Contractual fees	Custody activities	None
Cash letter service agreement	SG Paris	Payment of cheques	Issuance of cheques	None
Contingency agreement	SG Paris	Free of charge	Adjustment of conditions of the payment operations in the case of accident or failure of SWIFT	None
Credit Support Annex	SG Paris	Transactions with financial collateral to secure transactions with emission allowances	Contractual fee	None
Custodian Services Agreement	SG Paris	Contractual fees	Custody services	None
Custody contract	SG Paris	Administration of securities traded on stock exchange	Fees according to the price list	None
Amendment to the Sub-Custodian service agreement KB Ametyst 2 and KB Ametyst 3	SG Paris	Contractual fee	Custody services	None
Amendment to the Sub-Custodian service agreement KB Kapitál konzervativní and KB Kapitál růstový	SG Paris	Contractual fee	Custody services	None
Agreements and contracts relating to the provision of management and advisory services "Management Support Agreement" (including Amendments Nos. 1 and 2)	SG Paris	Contractual fee	Provision of management and advisory services	None
EUR Account Maintenance & Clearing Service Agreement	SG Paris	Fees according to the price list	Conditions and terms for the maintenance of and payments related to KB's NOSTRO account denominated in EUR and maintained by SG Paris	None
Global Master Repurchase Agreement	SG Paris	Contractual fee	Framework contract to make repo and buy-and-sell-back transactions	None
Hosting contract	SG Paris	Contractual fee	Data processing	None
ISDA Master Agreement	SG Paris	Fees	Mediation of transactions with all types of derivative financial instruments on the interbank market	None
ISDA Master Agreement	SG Paris	Mediation of transactions with emission allowances	Contractual fee	None
LABO Agreement	SG Paris	Contractual fees according to the price list	Review of reporting in terms of money laundering activities, funding of terrorism and other restrictions (embargoes)	None

Type of agreement (or the subject matter of the agreement if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the other party to the contract	Damage incurred by KB
Service Agreement – SNAP services	SG Paris	Fees	Transfer of SWIFT reports	None
Service Level Agreement	SG Paris	Fees according to the price list	Contract for the mediation of foreign payments	None
Service Level Agreement	SG Paris	Administration of benefits of expatriates	Administration of benefits of expatriates	None
SG – LABO Agreement	SG Paris	Fees	Review of SWIFT reports in terms of money laundering activities, funding of terrorism and other restrictions (embargoes)	None
SG Paris – Pay Away	SG Paris	Free of charge	Mediation of foreign payments at the payer's order to selected African countries	None
SG Paris – Sure Pay	SG Paris	Free of charge	Contract for the mediation of payments to selected Euro zone countries	None
SG Paris – Word Pay	SG Paris	Fees	Processing and transfer of payments	None
Contract for the provision of communication services	SG Paris	Fees	Provision of communication services	None
Contract for Cooperation	SG Paris	Definition of framework conditions of cooperation in the internal audit area	Definition of framework conditions of cooperation in the internal audit area	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Administration of securities traded in France	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Custody for mutual funds	None
Subordinated Loan Agreement	SG Paris	Interest	Provision of the subordinated debt	None
Agreement on the Organization of Periodic Control	SG Paris a MPSS	Internal audit services	Contractual fee	None
Custody Agreement	SG Splitska Banka	Custody services	Contractual fees	None
Custody Account Agreement	SG Warszawa	Fees according to the price list	Custody services (administration and settlement of securities)	None
Service Level Agreement	SG Warszawa	Fees according to the price list	Custody services (administration and settlement of securities)	None
Novation Agreement	SGAM AI	Contractual fees	Regulation of the conditions to trade in securities	None
ISDA Master Agreement	SGBT Luxembourg	Framework contract to make derivative transactions	Contractual fee	None

B. OTHER LEGAL ACTS IMPLEMENTED BY THE BANK IN THE INTEREST OF THE CONTROLLING ENTITY AND OTHER RELATED ENTITIES

Pursuant to a decision of the General Meeting held on 21 April 2011, the shareholder, SG Paris, received dividends for the year 2010 in the aggregate amount of CZK 6,227,736,300.00.

On the basis of an agreement to purchase bonds entered into with SG Paris, KB received interest of 4.2719 percent p.a., that is, CZK 223.3 million, for the year 2011.

C. MEASURES TAKEN OR IMPLEMENTED BY THE BANK IN THE INTEREST OF OR AT THE INITIATIVE OF THE CONTROLLING ENTITY AND OTHER RELATED ENTITIES

During the reporting period, KB did not take or implement any measures that would be in the interest of or at the initiative of the related entities.

III. Conclusion

The Bank's Board of Directors has reviewed all arrangements put in place between the Bank and the related entities during the 2011 reporting period and states that the Bank incurred no damage as a result of any contracts, agreements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

In Prague on 28 February 2012

Henri Bonnet
Chairman of the Board of Directors
Komerční banka, a.s.

Peter Palečka
Member of the Board of Directors
Komerční banka, a.s.

Ivana Králová

MANAGER OF U ZLATÉHO HADA

"I've been working with KB since I started to run the business 12 years ago. I established a business account with the bank at that time and 3 years later I took out my first loan for renovations. Since then, we already have taken several more loans – for example, for kitchen equipment, restroom improvements and new doors to the garden."

Café and restaurant U Zlatého Hada

The café and restaurant U Zlatého Hada has a celebrated history, as it was the first coffee house in Prague. It now also is home to a restaurant and often hosts graduation and wedding receptions. Guests appreciate the café's proximity to the Clementinum and the beautiful surroundings of old Prague.

Mrs Králová is currently preparing to promote the establishment's interesting history, heightening the orientation towards the café operations. To better attract potential customers and open the café to the street, the bar will be moved from one of the back rooms to a space opposite the front door. Previously the café was open only in the afternoon, but now guests will be able to visit all through the day. In summer, it will offer breakfast daily from 9:30. Food will of course remain an important part of what is on offer, and lunch specials will be prepared for guests from abroad as well as Czech visitors. Of course, guests are also welcome to stop in for just a coffee or beer.

Identification Bank Details as of 31 December 2011

Komerční banka, a.s., entered in the Commercial Register maintained with the Metropolitan Court of Prague Section B, File No. 1360

Date of registration:
5 March 1992

Registered office:
Prague 1, Na Příkopě 33, building identification number 969, postal code 114 07

Identification number:
45317054

Legal form:
Public limited company

Business objects:
I. The Bank shall carry on business pursuant to Act No. 21/1992 Sb., the Banking Act, as amended. The business activities of the Bank shall include:
a) acceptance of deposits from the public,
b) granting of loans,
c) investing in securities on the Bank's own account,
d) financial leasing,
e) making and receiving payments and administration of clearing system,
f) issuing of payment instruments, such as payment cards and traveller's cheques,
g) provision of guarantees,
h) issue of letters of credit,
i) provision of collection services,
j) provision of investment services including:
- main investment services of reception and transmission, on behalf of investors, of orders in relation to one or more investment instruments,
- main investment services of execution of orders on behalf of investors in relation to one or more investment instruments,
- main investment services of dealing in investment instruments for the Bank's own account,
- main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more investment instruments,
- main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues,
- ancillary services of safekeeping and administration in relation to one or more investment instruments,
- ancillary services of safe custody,
- ancillary services of granting credits or loans to an investor to allow him to carry out a transaction in one or more investment instruments, where the firm granting the credit or loan is involved in the transaction,
- ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings,
- ancillary services related to underwriting,
- ancillary services of investment advice concerning one or more investment instruments,
- ancillary services of foreign exchange service where these are connected with the provision of investment services;

k) dealing on the Bank's own account or on the client's account in foreign currencies and gold,
l) financial brokerage,
m) foreign exchange operations (purchase of foreign currency),
n) provision of depository services,
o) provision of banking information,
p) rental of safe-deposit boxes,
q) issue of mortgage bonds,
r) activities directly related to those mentioned in paragraphs a)–q)

II. Furthermore, the business purpose comprises activities carried out for another as long as these activities relate to the operation of the Bank and to the operation of other banks controlled by it, of financial institutions and of businesses which provide ancillary banking services in the scope specified below:
a) accounting consultants activities, book-keeping, tax record keeping
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real property,
e) organisation of specialized courses, training, and other educational programs including teaching,
f) business, financial, organisational, and economic consultants activity.
g) data processing, database services, network (web) administration

Authorised body – Board of Directors:
- Chairman of the Board of Directors: Henri Bonnet, born on 6 July 1949, date of entry into office of Chairman: 10 September 2009*, member of the Board of Directors since: 10 September 2009*
- Member of the Board of Directors: Vladimír Jeřábek, born on 7 April 1968, member of the Board of Directors since: 1 June 2008*
- Member of the Board of Directors: Peter Palečka, born on 3 November 1959, member of the Board of Directors since: 7 October 2009*
- Member of the Board of Directors: Aurélien Gérard Étienne Viry, born on 2 November 1966, member of the Board of Directors since: 1 January 2011*

- Member of the Board of Directors: Patrice Taillandier-Thomas, born on 12 November 1958, member of the Board of Directors since: 1 February 2008*
- Member of the Board of Directors: Jan Juchelka, born on 19 September 1971, member of the Board of Directors since: 2 July 2010*

* with reference to the current term

Acting on behalf of the Bank:
The Board of Directors, as the Bank's authorised body. shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.

Signing on behalf of the Bank:
Either all members of the Board of Directors jointly or any two of its members jointly shall sign on behalf of the Bank.

Supervisory Board:
- Chairman of the Supervisory Board: Didier Alix, born on 16 August 1946, date of entry into office of Chairman: 30 April 2009, member of the Supervisory Board since: 30 April 2009
- Vice-Chairman of the Supervisory Board: Jean–Louis Mattei, born on 8 September 1947, date of entry into office of Vice-Chairman: 30 April 2009, member of the Supervisory Board since: 30 April 2009
- Member of the Supervisory Board: Ing. Bořivoj Kačena, born on 24 February 1943, member of the Supervisory Board since: 29 April 2008
- Member of the Supervisory Board: Petr Laube, born on 8 July 1949, member of the Supervisory Board since: 30th April 2009
- Member of the Supervisory Board: Christian Achille Frederic Poirier, born on 30 November 1948, member of the Supervisory Board since: 30 April 2009
- Member of the Supervisory Board: Ing. Pavel Krejčí, born on 8 November 1963, member of the Supervisory Board since: 29 May 2009
- Member of the Supervisory Board: Dana Neubauerová, born on 7 May 1964, member of the Supervisory Board since: 29 May 2009
- Member: PaedDr. Karel Přibil, born on 14 December 1954, member of the Supervisory Board since: 29 May 2009
- Member of the Supervisory Board: Bernardo Sanchez Incera, born on 9 March 1960, member of the Supervisory Board since: 22 April 2011

Shares:
38,009,852 pieces of uncertificated listed ordinary bearer shares, each of a nominal value of CZK 500

Registered capital:
CZK 19,004,926,000; of which paid up: 100%

Other facts:
Komerční banka Bratislava, a.s., identification No. 31395074, with its registered office at Hodžovo námestie 1A, postal code 811 06, Bratislava, Slovak Republic, registered with the Register of Companies maintained with the District Court of Bratislava I, in Section Sa, File No. 835/B, as the company ceasing to exist, has merged into the company Komerční banka, a.s., as the successor company, by a cross-border merger by consolidation. The assets and liabilities of the company ceasing to exist have devolved upon the successor company.

Method of the Company's establishment:
In accordance with the privatisation project of the state financial institution Komerční banka, with its registered office at Prague, Na Příkopech 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole promoter, established the public limited company styled Komerční banka, a.s., based on the Deed of Incorporation of 3 March 1992 under S. 172 of the Commercial Code.

Branches of the business:
Komerční banka, a.s., pobočka zahraničnej banky

Registered office:
Bratislava, Hodžovo námestie 1A, postal code 811 06, Slovak Republic

Head of the structural division:
Katarína Kurucová, born on 14 June 1974

Notes

Consultancy, design and production: ENTRE s.r.o.

KB

www.kb.cz