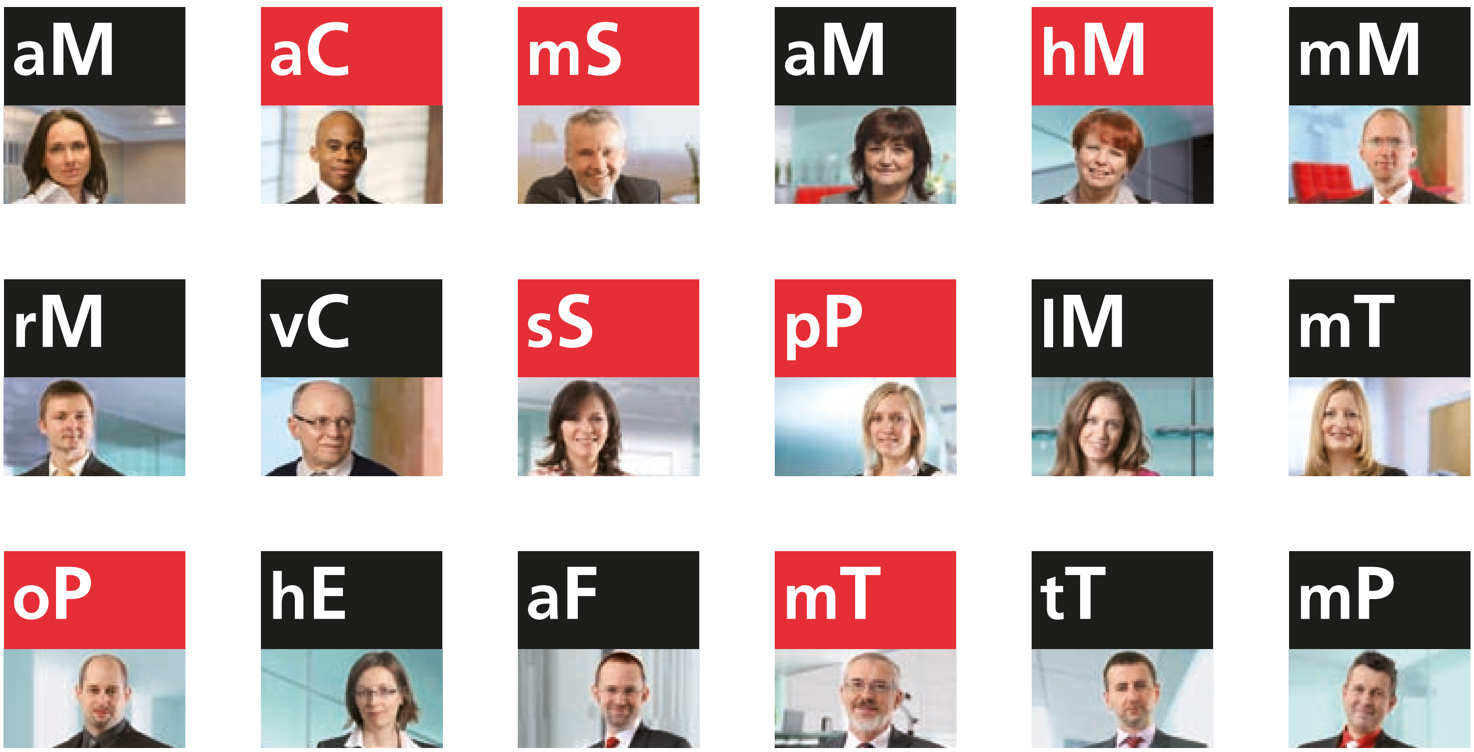
Our employees are
precious elements – our business
is built on them and they form
the basis of Komerční banka's success.



KB

Annual Report 2010 Komerční banka, a.s.

SURVEY OF RESULTS 2006–2010

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2010	2009[1]	2008[1]	2007[1]	2006[1]
Financial results					
Net banking income	**32,662**	32,195	32,927	29,670	26,421
of which Net interest income	**21,431**	21,242	20,474	18,790	16,274
of which Net fees and commissions	**8,038**	7,839	8,119	7,756	8,769
Total operating costs	**(12,942)**	(13,521)	(14,024)	(13,629)	(12,400)
Attributable net profit	**13,330**	11,007	13,161	11,188	9,214
Net profit per share (CZK)[2]	**350.70**	289.59	346.26	294.35	242.41
Balance sheet					
Total assets	**698,014**	695,075	699,083	661,819	598,090
Loans to customers, net	**384,593**	372,303	364,040	304,938	252,505
Amounts due to customers	**538,051**	551,809	554,570	540,229	481,294
Total shareholders' equity	**76,078**	68,792	63,013	50,654	50,257
Ratios (%)[3]					
Return on average equity (ROAE)[4]	**18.73**	17.01	23.61	22.54	18.25
Return on average assets (ROAA)[5]	**1.91**	1.58	1.93	1.78	1.66
Net interest margin	**3.30**	3.29	3.21	3.21	3.14
Cost/income ratio	**39.62**	42.00	42.59	45.94	46.93
Capital[6]					
Capital adequacy (%)	**15.27**	14.08	12.13	10.10	11.87
Tier 1 ratio (%)	**13.95**	12.72	10.77	8.87	10.35
Tier 1	**49,363**	44,677	37,624	33,945	32,084
Tier 2	**6,000**	6,000	6,000	6,008	6,000
Total regulatory capital	**52,405**	47,913	40,776	38,658	36,809
Total capital requirements	**27,459**	27,226	26,884	30,611	24,800
Other data					
Number of employees, average	**8,619**	8,815	8,804	8,534	8,266

Credit ratings[7]	Short-term	Long-term
Fitch	F1	A
Moody's	Prime-1	A1
Standard & Poor's	A-1	A

1) After reclassification (years 2008 and 2009 restated according to the methodology of 2010), data for 2008 not audited
2) Profit/loss attributable to shareholders/total number of issued shares
3) According to the Komerční banka methodology
4) Profit/loss attributable to shareholders/average shareholders' equity excl. minority interest
5) Profit/loss attributable to shareholders/average assets
6) According to the Czech National Bank methodology based on Basel I for 2006–2007, Basel II since 2008.
7) As of end of March 2011

According to International Financial Reporting Standards (IFRS)

Unconsolidated data (CZK million)	2010	2009[1]	2008[1]	2007[1]	2006[1]
Financial results					
Net banking income	**28,531**	28,795	29,073	26,231	24,631
of which Net interest income	**17,610**	17,609	16,842	15,864	14,858
of which Net fees and commissions	**7,742**	7,548	7,794	7,520	8,691
Total operating costs	**(11,703)**	(12,064)	(12,553)	(12,307)	(11,590)
Net profit	**12,035**	10,369	11,795	10,170	8,747
Balance sheet					
Total assets	**607,106**	605,086	610,001	588,692	512,250
Loans to customers, net	**334,834**	321,734	318,534	267,525	223,171
Amounts due to customers	**441,285**	456,759	461,105	453,762	398,137
Total shareholders' equity	**69,014**	62,690	59,016	49,236	48,654
Ratios (%)[2]					
Return on average assets (ROAA)[3]	**1.99**	1.71	1.97	1.85	1.74
Return on average equity (ROAE)[4]	**18.28**	17.04	21.79	20.78	17.68
Net interest margin	**3.12**	3.14	3.08	3.17	3.23
Cost/income ratio	**41.02**	41.90	43.18	46.92	47.05
Capital[5]					
Capital adequacy (%)	**16.67**	15.69	14.19	11.04	13.08
Tier 1 ratio (%)	**15.19**	14.17	12.66	9.78	11.46
Tier 1	**48,162**	44,259	39,471	36,575	33,814
Tier 2	**6,000**	6,000	6,000	6,000	6,000
Total regulatory capital	**51,243**	47,473	42,705	41,287	38,589
Total capital requirements	**24,594**	24,201	24,072	29,921	23,595
Other data[6]					
Number of employees, average	**7,747**	7,958	7,981	7,764	7,552
Number of points of sale	**395**	398	394	386	378
Number of clients (thousands)	**1,590**	1,620	1,629	1,577	1,515
Number of ATMs	**677**	685	673	661	649

1) After reclassification (years 2008 and 2009 restated according to the methodology of 2010), data for 2008 not audited. Unconsolidated data do not comprise operations in the Slovak Republic.
2) According to the Komerční banka methodology
3) Net profit/average assets
4) Net profit/average shareholders' equity
5) According to the Czech National Bank methodology based on Basel I for 2006–2007, Basel II since 2008.
6) KB in the Czech Republic

In 2010, the Bank attended to

1,590,000

clients

Shareholders' equity in 2010 totalled

CZK 76.1

billion

The Group's capital adequacy stands at

15.3

percent

Net profit reached

CZK 13.3

billion

CONTENTS

2010

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

Komerční banka and KB Group in 2010

The Bank’s almost 1.59 million clients can access its banking services through 395 branches and using 677 ATMs across the Czech Republic, as well as via internet, telephone and mobile phone banking channels. The Bank’s branch network includes 20 specialised business centres designed for medium enterprises and municipalities, as well as 4 centres dedicated to large corporations. In 2010, services on the Slovak market were provided through the subsidiary Komerční banka Bratislava. Today, they are offered by KB’s own branch dedicated to serving corporate clients.

Modrá pyramida stavební spořitelna, a.s. (hereinafter “Modrá pyramida”) served some 691,000 clients, while Penzijní fond KB had 501,000 participants registered in its pension schemes. The number of active clients at the consumer finance company ESSOX rose to 316,000.

The average number of employees in KB Group was 8,619 during 2010. As of the end of 2010, KB’s long-term credit ratings stood at A1 in both foreign and domestic currency terms from Moody’s Investors Service, A from Standard & Poor’s, and A from Fitch Ratings. Penzijní fond KB held a national scale rating of Aa1.cz from Moody’s Investors Service, which is the highest possible rating for a pension fund in the Czech Republic.

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, as well as in the RM-System, since its inception. 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, in addition to building on its traditionally strong position in the enterprises and municipalities market. Part of the development of retail activities was its purchase of the remaining 60% of shares in Modrá pyramida in 2006. Thereby, Komerční banka attained full control over the Czech Republic’s third largest building society. Effective as of 31 December 2010, KB was combined in a cross-border merger with Komerční banka Bratislava. As the successor bank, KB assumed all assets and liabilities of its former subsidiary and continues operations in Slovakia through a branch.

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 financial services groups in the euro zone. The Group’s three key businesses comprise:

– Retail Banking, Specialised Financing & Insurance

– Private Banking, Global Investment Management & Services

– Corporate and Investment Banking

In 2010, some 157,000 employees of SG Group were serving 32 million clients in 83 countries. SG Group’s net profit totalled EUR 3.92 billion for 2010. Its Tier 1 ratio under Basel II standards stood at 10.6% at the end of 2010, of which the core Tier 1 ratio was 8.5%. As of the same date, SG was rated Aa2 by Moody’s, A+ by Standard & Poor’s, and A+ by Fitch.

In 2001, Société Générale became the first publicly traded French bank to commit itself to the United Nations Environment Programme Finance Initiative’s Statement by Financial Institutions on the Environment and Sustainable Development. A member since 2003, each year Société Générale Group renews its commitment to the United Nations Global Compact in the areas of human rights, labour standards, environment and anti-corruption.

hH

Hana Halíčková

Credit Products Specialist

Upon graduating in Finance from the Tomas Bata University in Zlín, Ms Halíčková joined Komerční banka in September 2009 as Processing Specialist in the Credit Products Centre in Ostrava. She successfully completed the employee development programmes Connecting and Connecting+ which allowed her to learn in detail about the operations of the Bank and the work of her colleagues across the entire organisational structure. She worked more than half a year with her colleagues in a team preparing the "Handbook for the 21st Century Manager". Her reward for her success in the Connecting+ programme was an internship at Komerční banka's parent company Societé Générale in Paris in early April 2011. Hana's job focuses on consumer and business loan products. Processing specialists for credit products take the loan process to its very closing using various banking applications. As part of her employment duties, Hana co-operates especially with banking advisors and business loans specialists.

"Performing this job requires attention to detail, persistence and responsibility," says Hana Halíčková. "Communication is equally important. Each employee can be viewed as a piece forming the mosaic that is Komerční banka's success."

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Henri Bonnet
Chairman of the Board of Directors

Dear Shareholders,

Having closed the books on 2010, a year which had begun in a shadow of macroeconomic uncertainty, the world economy, including that of the Czech Republic, is now looking for new paths to growth and prosperity in the wake of the crisis.

I am pleased to say that Komerční banka demonstrated its stability and resilience even through that difficult time. Our universal banking model proved its fundamental qualities in the conditions of an economic downturn.

Indeed, the Czech banking sector as a whole proved its stability and robustness during that period. The Czech market thus maintained its high level of competition in financial services, and we can expect this competition to grow even more keen going forward.

Komerční banka's management is well aware that the global crisis and the maturity of the Czech market are bringing about changes that must be taken into account in identifying new paths towards prosperity and growth. We want to bring new, better and more valuable services to our clients. We want, and indeed must, introduce innovations and improve the quality of our products and services. On this course, we want to be the best and most assiduous contender. We want to be the trendsetter. We want, and must, outperform our competitors, and we can achieve this only if we offer superior quality and long-term relationships to our customers. Our ambition is to be the most competitive bank, the bank that leads the market, a bank that is rightly seen as an unchallengeable authority in banking services.

As one of the consequences of the financial crisis, financial markets will need to cope with new regulatory requirements. These will influence also the Czech banking sector, albeit with more limited impact than in some other markets. Owing to its high liquidity and capital strength, Komerční banka is well prepared to fulfil the Basel III requirements. By the same token, it stands ready to meet any additional demands that may come from regulatory authorities in response to the economic crisis.

For Komerční banka, 2010 was a successful year in terms of its results. At the same time, however, it was a year that challenged us with new tasks as regards the further development of our business activities.

The course of the Czech economy will obviously depend upon Europe, which continues essentially to be the "domestic" market for the Czech Republic. Growth in the Czech market is accompanied by a number of risks, such as the debt problems of the euro zone, fiscal restraint at home and abroad, rising commodity prices, and the direction in which Asian markets, and in particular that of China, will develop. Last but not least, we also see new risks arising from the dramatic developments in North Africa and the Middle East, which most likely will affect oil prices, and, in turn, developments on world markets. We expect moderate growth of the Czech economy at around 2.0% in 2011.

In 2011, Komerční banka will make investments with a view to enhancing its clients' satisfaction and reinforcing its position in lending and financial advisory. The new investments will be channelled mainly into employee development, and we will focus also on further improving our distribution network: branches, ATMs, and electronic banking. With a view to attaining these goals and improving the services for all of our customers while enhancing their comfort and satisfaction, we have launched a number of projects, the common denominator of which is our ambition to be the most respected bank in the Czech market, to outperform all competitors.

At the same time, we will maintain a prudent approach to liquidity, capital and credit risk management. We must continue to be a strong and stable bank, because this will make it possible for us to build long-term relationships with clients. The economic crisis has clearly shown that only long-term relationships based on mutual trust create stable relationships. All the investments that we are planning for the medium term are intended to underpin these long-term relationships, for we are convinced that such relationships are beneficial to the clients, to the bank and, ultimately, to you, our shareholders.

I would like to express my sincere thanks to all our clients, employees and shareholders, who did not lose their confidence in Komerční banka even during the time of economic turbulence. Now, thanks to your confidence, we are ready to set out on the path to growth from a propitious starting line position.

MAJOR EVENTS IN 2010

01

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

The new Guaranteed Fund Forte 2 expanded the portfolio of investment strategies under the Vital Invest life insurance programme of Komerční pojišťovna. The fund combines the potential to participate in the growth of equity markets with the certainty of increased investment returns at maturity.

02

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

03

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

In the first quarter, Modrá pyramida became the second largest building society in the Czech Republic by volume of loans provided. Meanwhile, Komerční pojišťovna became the second most important insurance company on the Czech life insurance market according to premiums written. Both companies maintained these positions through the rest of the year.

The KB – Jistota Foundation provided a contribution of CZK 250,000, obtained mostly from a staff collection, for the reconstruction of SOS children's villages in earthquake-stricken Haiti.

04

At Komerční banka's General Meeting, held on 29 April 2010, the shareholders approved a dividend payment of CZK 170 per share. The General Meeting approved the Board of Directors' Report, the annual financial statements, as well as the proposals for the 2009 profit distribution and the discretionary component of remuneration to Board of Directors members. In addition, the General Meeting made amendments to the Bank's Articles of Association. Dividend rights accrue to shareholders owning shares on the seventh calendar day prior to the date of the General Meeting at which a decision on the dividend payout is made. The AGM prolonged KB's authorisation to acquire shares into treasury representing up to 10% of its share capital within the price range of CZK 500 to CZK 5,000.

Komerční banka was the first bank on the Czech market to launch an investment calculator on its website. This simple application proposes a portfolio of investment and savings products with respect to the client's appetite for risk, financial possibilities, and investment horizon.

Komerční pojišťovna's newly upgraded website makes it possible on-line to arrange travel insurance, easily pay premiums, and monitor current performance in policies' underlying funds.

05

Komerční banka introduced the new KB Bonus Savings Account, which is a demand-deposit account offering attractive interest earnings with the possibility of immediate access to the deposited funds. Deposits earn interest at a double-component rate comprised of a basic interest rate and a bonus rate for the duration of the savings.

The KB – Jistota Foundation concluded a co-operation agreement with LINET, a leading global manufacturer of hospital beds. The Jistota Foundation shall provide a grant to cover the cost of beds for palliative care providers up to the aggregate amount of CZK 1 million. At the same time, the manufacturer shall provide a discount on the price of those beds up to the amount of CZK 1 million.

Komerční banka offered in co-operation with Komerční pojišťovna the Guaranteed Fund Forte 3 as part of the Vital Invest product. The investment offers a guaranteed return of up to 13% at maturity.

06

KB's Chief Executive Officer Henri Bonnet introduced the 'Ambition 2015' strategic plan at a management meeting of KB Group. Ambition 2015's goal is to strengthen KB's position as the reference bank on the Czech market.

Miloslav Kukla was appointed Chairman of the Board of Directors at Factoring KB.

07

Komerční banka introduced several innovations in on-line services. Among others, KB became the first bank in the Czech Republic to enable clients to arrange meetings with relationship managers on-line via a direct banking application.

Penzijní fond Komerční banky launched its upgraded website with a new design and a number of new functionalities. A calculator makes it possible for visitors to PF KB's website to plan their savings for retirement according to different objectives. On-line access to individual accounts for pension scheme clients is an important part of the website.

KB introduced a new guaranteed fund, KB Akcent 2. The new fund seeks the best growth potential among stocks in Europe, Asia, and America, as well as in commodities.

Komerční banka extended to 160 countries and 110 currencies the numbers of countries and currencies for which the option exists to execute standard payment orders. Moreover, clients can set up standing orders for payments abroad in all currencies included in KB's exchange rates list.

08

KB introduced MojeOdměny, a new concept to reward clients for such behaviour and activity that are both convenient and advantageous for clients and at the same time bring the Bank additional valuable business volumes. After a pilot stage, in the first phase starting in January 2011 every client obtains one free withdrawal from a KB ATM for each payment made at a retailer using his or her payment card. Additional rewards will follow over the course of 2011.

The new Premium Loan, launched especially for more affluent clients, is an unsecured, general purpose cash loan of up to CZK 2.5 million. Moreover, it comes with an attractive interest rate. The loan can be repaid early at any time and with no penalty, and clients receive free insurance against the inability to repay the loan.

09

Komerční banka introduced a number of innovations in the mortgages area, including the possibility to make an extraordinary payment of up to 20% of the initial amount of a Flexible Mortgage with no penalty.

Komerční banka and CzechTrade, the national export promotion agency, signed a co-operation agreement for 2011 on the occasion of the Brno International Engineering Fair. The collaboration focuses in particular on organising a number of educational events, publishing technical articles, and joint support for clients during trade missions and fairs abroad.

10

Komerční banka launched its redesigned website. The website is now more accessible for visually handicapped and motion-impaired users. User-friendliness is the essential principle underlying the new website.

The Forte 4 Guaranteed Fund became another investment opportunity within Komerční pojišťovna's Vital Invest life insurance programme. This fund guarantees clients 100% return of their investment at the fund's maturity and offers a yield of up to 10% per annum.

11

Modrá pyramida was named "Building Society of the Year 2010" for the sixth time in a row in Fincentrum's prestigious Bank of the Year 2010 competition. Komerční banka placed second in the "Bank of the Year 2010" competition as well as in the public vote for the designation "Most Trustworthy Bank of the Year".

The last event of KB Group's 2010 blood drive took place in November. More than 300 employees participated in the project during 2010, donating 138 litres of blood.

The number of KB clients using direct banking channels (such as internet and telephone banking) surpassed the 1,000,000 mark.

12

KB employees auctioned the 24 best rated photographs from the Bank's internal photography competition entitled "The World in Green". Proceeds from the auction totalled CZK 64,411 and were donated to the Paediatric Haematology and Oncology Clinic of University Hospital Motol in Prague.

The cross-border merger by acquisition between Komerční banka and Komerční banka Bratislava took effect on 31 December 2010, with Komerční banka as the acquiring company. The purpose of the cross-border merger was to strengthen business activities and optimise operations in the Slovak Republic. The KB branch in Slovakia will focus especially on large and medium-size corporations.

The number of Penzijní fond clients crossed the half million mark.

2011

Events after the Balance Sheet Date

Effective as of 1 January 2011, the Supervisory Board appointed Mr Aurélien Viry as a new member of Komerční banka's Board of Directors in charge of risk management. He replaces Didier Colin, who, after more than six years on the Bank's Board of Directors, assumed other responsibilities within the Société Générale Group.

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

KOMERČNÍ BANKA SHARE PRICE

Trading in Komerční banka Shares

Komerční banka shares trade under ISIN CZ0008019106 on exchange markets in the Czech Republic organised by the Prague Stock Exchange and the company RMSYSTEM Czech Stock Exchange. KB shares rank among the most liquid issues listed on the Prague Stock Exchange's Main Market. Global depositary receipts (GDRs) represent shares of Komerční banka in the proportion of 3:1 and are traded on the London Stock Exchange.

Development of KB share price in 2010 (% change)

Development of KB share price vs. PX Index during 2004–2010

Share Price Development

In 2010, KB's share price once again fluctuated more than in previous years, with the exception of 2009, due to continued uncertainty regarding economic and market developments and strong reactions to news about the state of the world economy. The share price was unstable at the start of the year, but in mid-February investors favourably received KB's reported results for the full year 2009 and the share price entered a growth trend. Towards the end of April, financial markets were affected by several negative reports on the economy. At the same time, concern increased about the spread of Greece's fiscal crisis to other countries and its impact on European banks and economic growth. Not even EU aid to Greece was able immediately to offset those fears. The share price lost 24% in one month's time, reaching its lowest level for the year on 25 May 2010 at CZK 3,250. Fears began to recede thereafter on the back of improving macroeconomic data and corporate profitability. KB's share price responded positively to the results announced for the first half of 2010, and during the summer it returned to its level from the beginning of the year. Investors' waning risk aversion amid the continuing recovery in Western economies and steps taken to alleviate the debt crisis on the EU's periphery, coupled with KB's good results reported in early November, helped the Bank's share price to regain stability at the end of the year and to reach its 2010 high of CZK 4,583 on 22 December.

Komerční banka shares closed out 2010 at a price of CZK 4,435, higher by 12.9% compared to the end of 2009. The gross dividend of CZK 170 per share represents a dividend yield of 4.3% at the closing price for 2009, and thus the total return before tax from holding KB shares in 2010 was 17.2%. During the same period, the PX index rose by 9.6%. The Dow Jones Stoxx Eastern Europe 300 Index, of which KB is a constituent, ended 2010 almost where it had begun the year, decreasing by 2.4% after conversion to the Czech currency.

Information on Komerční banka Shares	2010	2009	2008	2007	2006
Number of shares issued[1]	**38,009,852**	38,009,852	38,009,852	38,009,852	38,009,852
Market capitalisation (CZK billion)	**168.6**	149.3	112.9	166.1	117.8
EPS (CZK)[2]	**350.7**	289.6	346.3	294.4	242.4
BVPS (CZK)[3]	**1,967.4**	1,777.8	1,628.0	1,304.8	1,307.0
Share price (CZK)					
maximum	**4,583**	4,000	4,475	4,509	3,663
minimum	**3,250**	1,545	2,185	3,119	2,815
closing price at end of period	**4,435**	3,929	2,970	4,371	3,099

1) Nominal value per share CZK 500
2) Earnings attributable to shareholders per share (IFRS consolidated)
3) Shareholders' equity excl. minority equity per share (IFRS consolidated). Data for 2008 not audited.

Dividend Payment

In April 2010, the Komerční banka Annual General Meeting (AGM) approved a dividend payment for 2009 of CZK 170 per share before tax, which amounted to 59% of consolidated net profit. The dividend was payable on 31 May 2010.

	2009	2008	2007	2006	2005
Dividend (CZK)[1]	**170.0**	180.0	180.0	150.0	250.0
Payout ratio (%)[2]	**58.7**	52.0	61.2	61.9	106.1

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

MACROECONOMIC DEVELOPMENT IN 2010

The year 2010 was the first post-crisis year for the global as well as Czech economy. While in 2009 the world economy as a whole had registered a seldom-seen decline of 0.7%, in 2010 it grew by 4.9%.

For such a small and open economy like that of the Czech Republic, the unexpectedly strong recovery in external demand had surely to be reflected in better output than anticipated. After slumping by 4% in 2009, the Czech economy returned to growth in the amount of 2.2% for 2010. The Czech economy's rebound had begun halfway through 2009, and the trend accelerated thereafter until reaching 2.6% year on year in the final quarter of 2010. Strongly increased economic activity was particularly apparent in 2010's second half. From a structural viewpoint, strong foreign demand was evident and was reflected especially in growth of manufacturing output while domestic demand, by contrast, was very weak.

Economic expansion among the Czech Republic's most important trading partners – Germany, Slovakia and Poland – brought heightened interest in Czech exports. Exports increased by 17.7% for the year as a whole after dropping by 17.3% in 2009. Imports, however, grew by an even more significant 20.3%, which meant a decrease of the foreign trade surplus to CZK 124.5 billion from CZK 149.6 billion in 2009. The main reason was deterioration in the commodity balance due to higher prices for imported commodities and the boom in solar power installations, which weighed heavily on the import side of the balance. If photovoltaic equipment imports would be factored out, the trend of an increasing foreign trade surplus would have continued in 2010 and have broken the 2009 record. Additional improvement on the plus side was seen for trade in miscellaneous manufactured goods as well as in machines and transport equipment.

Increased demand from abroad gave a boost to manufacturing, and especially in the traditional export-oriented segments. As measured by creation of gross value added, chemical and rubber manufacturing industries were among the most successful in 2010, followed by engineering, metal production and the manufacture of transport and electrical equipment. For the whole of 2010, industrial production, after adjustment for seasonal and calendar influences, improved by 10.0%. The services sector as a whole has not yet followed manufacturing, registering a yearly decrease of 1%. Within this sector, however, developments were very much mixed. The manufacturing-related transport and warehousing segment registered growth of 3.7%. In other sectors, however, including accommodation, catering, hospitality, or the information and telecommunication sectors, among others, the decline continued. Unfavourable, too, was the situation in construction, which faces large oversupply, especially in residential construction, and limited financing, particularly from the banking sector. Construction output after adjustment for seasonal and calendar influences thus declined by 8.0% in 2010. Meanwhile, building construction fell by 8.4% and civil engineering construction by 6.8%. The number of apartments started in 2010 dropped by 24.6%, and the number of completed apartments was lower year on year by 5.3%.

Weak domestic demand was caused by fiscal restriction, continuing decline in investment, and minimal growth in household consumption. In response to the crisis year of 2009 and the unsustainable state of public finances, the government adopted a fiscal package that brought increase in some (indirect) taxes and spending cuts in, for example, social transfers. The outcome was a decrease in the state budget deficit from the record CZK 192.4 billion in 2009 to CZK 156.4 billion for 2010. The continuing decline in investment activities was influenced in 2010 especially by low utilisation of the existing production capacities. Were it not for the investment boom in solar power plants, the decline in investment spending for the year would have been even sharper.

Domestic fiscal restraint, a nervous labour market, and tightened credit conditions are factors due to which Czech households were cautious about spending in 2010. This was reflected especially in a weakly performing retail sector. As a whole, retail sales in 2010 increased by just 1%. Moreover, this feeble growth was exclusively attributable to motor vehicle sales and services. Excluding this factor, retailers registered a decline of 1.1%.

Economic growth of about 2% appears to be insufficient for generating new jobs. Producers are able to ensure higher output for the recovery in demand with their current employees, which is reflected in productivity growth and a certain revival in wages development. Overall, 2010 was marked by a stabilisation in the unemployment rate. That rate nevertheless remains high, standing at 9.6% in December. A big problem for the labour market are the high costs related to the creating of permanent jobs and a high proportion of long-term unemployed workers. This not only increases the burden on public finances, it also decreases the quality of labour as a production factor. In 2010, overall employment decreased on average by 0.7%. In the year's final quarter, however, a certain improvement was apparent, as employment grew by 0.5% compared to the third quarter and year on year it was higher by 0.2%.

The weak domestic demand also was reflected in inflation. Inflation gradually increased through the year from the previous extremely low levels but for most of the year remained under the CNB's 2% inflation target. While early in 2010 the consumer price index was up 0.7% year on year, at the end of the year it stood 2.3% higher. Average inflation for the full 2010 reached 1.5%. The moderate increase of inflationary pressures was solely a matter of factors outside the central bank's control. There were increases in prices of fuels and food, as well as in regulated and administratively established prices. Adjusted inflation remained in the red for the whole year due to an absence of demand-driven inflationary pressures. For this reason, the central bank has kept its key interest rate at historically low levels. The CNB started out 2010 with its 2-week repo rate at 1.0%, then, partly as a reaction to the Greek debt crisis, lowered that further to 0.75% in May. The rate was held at this level for the remainder of the year. That interest returns were minimal was reflected also by an absence of hot money inflow into the economy and a decrease of the CZK/EUR exchange rate volatility. The Czech crown returned to its long-term trend of strengthening against the euro.

The economy grew in 2010 thanks especially to the manufacturing industry.

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
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 to tailor its offer to suit specific clients.

To Create Value for Clients, Shareholders and Employees
KB focuses on continuously developing its business activities. Co-operation with other members of the KB Group, with companies from the 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.

Strategy

Komerční banka's strategy is founded on an assumption of long-term convergence of the main trends in the Czech Republic's society, economy and banking system towards levels similar to those of Western European countries. In the long term, this convergence will be manifested in relatively faster growth in economic output accompanied by gradual change and development in business and consumer attitudes and requirements. In the financial services area, the Bank expects a growing importance of financial intermediation driven by a rise in consumer wealth and sophistication with respect to requirements for financial services. It is expected that banking clientele from both the corporate and retail segments will become more demanding, and it will thus be necessary to offer to various client segments more differentiated services corresponding to their distinct requirements.

KB expects only moderate growth of the Czech economy in 2011 and a still relatively cautious attitude toward borrowing among clients both in retail and corporate segments. Over the medium-term horizon, however, KB remains convinced there is significant growth potential for retail market products, including mortgage and consumer lending and alternative investment products. In the corporate market, the currently low credit product penetration suggests a potential for further lending, especially in the small and medium-size business sector, while the rising sophistication of clients should support demand for such products as hedging and trade finance instruments. Some revenue sources, on the other hand, are expected to be substantially limited in future, such as, for example, income from foreign currency conversions upon introduction of the euro.

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. The Bank 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. Superior client knowledge and level of services as well as operational efficiency and prudent risk management remain cornerstones of KB's strategy.

The Group's strategy in the retail segment focuses on taking advantage of the potential in lending, with the ambition to outperform market growth in the areas of consumer loans, mortgages, and loans to small business clients. KB aims to achieve profitable growth in the volume of assets under management, especially by developing a value-added advisory approach to clients that focuses on comprehensive solutions to their financial needs. In the corporate segment, KB aims to reinforce its position as the reference bank for businesses as well as its strategic partnerships with clients, along with increasing the Group's share in total financing drawn by the clients and in servicing their financial needs.

Clients will continue to have access to a full range of distribution channels, although the branch network, where a dedicated relationship manager is appointed to assist each client, will remain the main base for building mutual relationships. The service model assigned to each client will be adjusted according to proper client segmentation.

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 risk of its Structural Book while excluding speculation on short-term fluctuations in market conditions. Credit risk procedures and limits are set prudently. Risks accepted into the Market Book are confined by strict trading limits that are regularly reviewed.

Ensuring the Bank's long-term stability of course remains one of the tasks of financial management. Komerční banka plans to maintain a solid capital position which will allow it to reinforce its standing in the lending market and potentially to take advantage of selected and attractive acquisition opportunities, should these present themselves in future.

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

Ambition 2015

During 2010, Komerční banka's management revised its business strategy in order to better adapt the Bank to the rapidly changing banking sector environment and to take advantage of the status KB has achieved for its successful development in the period after the economic recession. At the level of Société Générale Group, meanwhile, the Ambition SG 2015 transformation programme was launched. As an important foreign member of the Group, KB is naturally involved in that as well.

Komerční banka's primary aim is to become the reference bank on the Czech market and surpass the expected market growth by increasing the Bank's net profit and improving operational efficiency. Fulfilment of KB's newly formulated strategic ambition will be underpinned by targets set in four key areas:

– customer satisfaction;

– employee satisfaction;

– efficiency of Group processes;

– efficiency of Group synergies.

Long-term relationships with clients are feasible when the customers are satisfied with their bank. KB works intensively to ensure that each customer's experiences in dealing with the Bank are always positive and that the customer perceives Komerční banka as a trustworthy advisor in the world of finance. Understanding the needs of customers will support an increased emphasis on improving the approach to advisory at the Bank's branches. KB will also work on the transparency of products and processes, on enhancing staff qualification and motivation, and, last but not least, on improving the quality of the environment in the branch network while also redesigning internet banking.

Good quality, loyal, committed and satisfied employees are able to effectively address customer needs and questions that arise as banking services develop. KB Group will invest significant efforts into proper education and professional growth of individual employees so that the Group's staff becomes a team of top specialists who outperform the competition. Prerequisites for developing the corporate culture at all levels of management include leading by example, open and fair dealing with employees, and honouring commitments.

Although Komerční banka has traditionally shown an excellent level of operational efficiency, as in every large organisation there is always room for improving the efficiency of processes. This includes creating the right structure of specialist employees while eliminating duplicate and unnecessary work by finding simpler means to achieve the desired ends. Every motivated employee who views the entire Group as his or her team can make a personal contribution to increasing overall effectiveness.

The KB Group provides its clients a wide range of services the likes of which very few competitors on the Czech market can boast. KB's ambition is to ensure that employees in any department – be it of the Bank or any subsidiary – offer customers the best solutions for their needs, regardless of which company is providing the product. The Group also promotes the notions of identifying processes in whichever group company has the most effective solution and of sharing best practices in meeting the needs of both clients and the group operations.

In financial terms, fulfilment of Ambition 2015 will result in accelerating KB Group's revenue growth while maintaining cost efficiency and keeping cost of risk at an optimal level. In meeting the objectives of Ambition 2015, KB's market positions will strengthen in lending to individual customers as well as to small and medium-sized enterprises, and in several aspects of long-term savings and investment products like mutual funds, direct investments in financial instruments, life insurance, and retirement savings.

Main Challenges and Risks for the Bank and Group in 2011 and Expected Developments in the Financial Situation

Despite KB's strong capital and liquidity position, the Bank's results in 2011 will be influenced by developments in the Czech and broader economic environment. KB has identified a number of risks to economic growth, including the government debt problems of some European countries, impacts of fiscal restriction in the Czech Republic and abroad, rising prices for commodities and food, and problems – such as inflation – resulting from the rapid growth of some Asian countries. Any worsening of the situation in some of these areas or a significant slowdown in the economy for other reasons could influence clients' demand for credit and other financial products, as well as negatively impact development in the cost of risk. Nevertheless, the Group's sound position will enable it to continue in supporting its clients and to expand its lending portfolio and product offer.

The Czech banking market is becoming ever more competitive, as some competitors have announced their intentions for 2011 to increase investments in client acquisition, distribution networks and product development. In order to further strengthen its position in selected segments and to maintain a leading role in others, KB will focus on improving client satisfaction, the quality and loyalty of its employees, operational excellence, and extracting synergies within the Group and with Société Générale.

KB expects consumers will remain cautious during 2011 in their appetite for new loans, as the unemployment rate is anticipated to remain at relatively high levels and disposable income will decrease for certain consumer groups while increasing only modestly for others. The rate of growth in deposits from individuals in the banking system will further decrease. The macroeconomic context suggests that corporate deposits will grow slightly faster than will those from individuals. Due to the still uncertain economic outlook, businesses will probably not fully replenish their investments into new production capacities. Volumes of outstanding loans to corporations are nevertheless expected moderately to increase.

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Štěpán Čepela

Head of Telesales and Help Desk – Liberec Call Centre

Mr Čepela joined Komerční banka in 1999 as a telephone banker. He went on to work in other positions at the Help Desk as team leader, technical support team leader, and head of the department. Since 1 January 2010, he has held the position as head of Telesales and Help Desk. He manages the department's operations and its 140 employees working in 13 independent teams to provide a broad range of services, from active sale of KB's and its subsidiaries' products through telemarketing, to support for KB's clients and internet banking users within client line services. Štěpán is a business academy graduate, but, as he says, Komerční banka itself is also his school. During his career here he has attended a number of professional training courses and internships, both at home and abroad, and in KB he is able to co-operate with many professionals both on the product and management levels. In 2010, he successfully completed the Bank's managerial programme ChallenginG.

"I enjoy the dynamics of my job – its everyday changes," says Štěpán Čepela. "I try to persuade my colleagues that changes need to be perceived in their overall context and that they are necessary for us to be able to move ahead. To achieve demanding objectives requires enthusiasm and a positive approach from everyone involved."

Based on its knowledge of state of preparation of the Basel III framework at the start of 2011, KB is well prepared to fulfil the increased regulatory requirements on capital and liquidity.

The pace of growth of the Group's net interest income in 2011 will be determined by business volumes, but also by the development of market interest rates. KB's hedging policy mitigates to a significant extent the impact of interest rate fluctuations, but a prolonged period of low interest rates is still weighing on the Bank's net interest margin. Certain components of fee income will benefit from sales of investment and insurance products, loan syndications, and financial solutions in trade finance. Income from account maintenance fees and fees for simple transactions, however, will continue under pressure due to gradually declining prices. KB does not expect rapid growth in the remaining revenue areas.

KB's management intends to increase expenditures in 2011 to support commercial performance and gain a competitive edge in the post-recession environment. Areas obtaining greater investments will include training of the sales force, marketing, branch network refurbishment, development of direct channels including ATMs, and information technologies. Several long-term projects boosting the Group's efficiency will be launched or continued, including the project for centralising certain back office and support functions from various locations in Prague to a new building acquired in Prague and which will be completed in 2013.

Prudent risk management continues to be a priority component in the Bank's operations. The Group will continue to refine its procedures and limits in order to achieve an optimum balance between risks taken on and development of business activities. The actual cost of risk will depend to a large extent on the macroeconomy, with the main risks in the retail segment connected to real estate price developments and in the corporate segment to foreign demand for production of Czech businesses.

Management expects the Bank's operations will generate sufficient profit to cover the Group's capital needs ensuing from the growing loan portfolio and to pay dividends, even if the macroeconomic situation becomes worse than anticipated. As of the start of 2011, KB is well prepared to implement the newly approved and expected regulatory requirements in the area of capital management that are to be applied in the coming years. These requirements should not represent a substantial burden for the Group. It should be noted, however, that several aspects of the amended regulatory framework are not yet clear as of the time of preparing this Annual Report.

Comments on the IFRS Consolidated Financial Results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 13,330 million for 2010 under International Financial Reporting Standards (IFRS). This represents 21.1% growth in comparison with 2009. The increase was driven by a slight rise in revenues, further savings on operating expenditures, and a significant reduction in the cost of risk.

Data marked with * are based on management accounting and they are not audited.

Profit and Loss Statement

Net Interest Income

In spite of the low interest rate environment and increased statutory contribution to the Deposit Insurance Fund, net interest income grew by a slight 0.9% to CZK 21,431 million. The gain was supported by growth in loans and non-term deposits, and in September market interest rates began rising again.

Standalone KB's share in the consolidated net interest income was 82%. Within KB Group, net interest income grew fastest at ESSOX (by 14.0%) and followed by Penzijní fond (+10.4%) and Modrá pyramida (+10.1%). Net interest income from loans increased by 6.1%,* which was underpinned by increased lending volumes (as gross loans rose by 3.5% year on year) while lending spreads remained stable. Net interest income from deposits decreased by 3.2%.* Increased statutory contribution to the Deposit Insurance Fund influenced this item negatively by CZK 120 million compared to 2009. On the other hand, this item was underpinned by increased volumes of current accounts with higher spreads. Net interest income from investment banking grew by 9.2%.*

The average net interest margin for the whole of 2010 remained at 3.3%.

Net Fees and Commissions

Income from net fees and commissions was higher by 2.5% year on year, totalling CZK 8,038 million. Transaction fees decreased by 1.0%* due to continuing pressure on pricing and despite solid growth of income from use of payment cards. Maintenance fees declined by 5.4%* as a result of continuing price erosion and a slight decline in the number of accounts. Fees from cross-selling, on the other hand, rose by a dynamic 26.1%,* due especially to Komerční pojišťovna's excellent sales performance. Loan fees increased by 10.9%,* driven by large deals with corporations and by the contribution from ESSOX. Growth in other fees by 12.8%* was driven by dynamic sales of added-value products and services in the corporate clients segment. These included, among others, trade finance products, loan syndications, custody services and credit line commitments.

Net Profit From Financial Operations
Net profit from financial operations increased by 2.4% to CZK 3,098 million, which was a positive result given the high comparative base from the first half of 2009. Investment banking revenues were underpinned by clients' increased demand to hedge interest rate and foreign exchange risks, and the share of client business from investment banking in the overall income more or less returned to the level usual before the crisis.

Net profit from foreign exchange operations totalled CZK 2,317 million, which represents a decrease of 16.1%. From this, net fees and provisions for foreign currency payments and conversions declined by 6.0% to CZK 1,370 million.

Net profit from commodity derivative operations fell by 5.9% to CZK 16 million. Net profit from interest rate derivative operations reached a profit of CZK 350 million compared to the loss of CZK 192 million in 2009.

Other Income
Other income grew by 5.6% to CZK 95 million. Property rental income accounted for much of this item.

Net Banking Income
Total net banking income for 2010 increased by 1.5% from 2009 to reach CZK 32,662 million. All the major components of income contributed to that growth.

Operating Costs
Komerční banka's operating efficiency was boosted further by optimisation and rigorous control of operating costs. In addition, the Bank recorded for 2010 extraordinary savings in the area of personnel costs. This related to the release of reserves for social and health insurance and for restructuring in the total amount of CZK 164 million. The line "Depreciation, impairment and disposal of fixed assets" was influenced by a CZK 71 million positive result from sales of unused buildings, although that amount was less than the CZK 122 million in 2009. Total reported operating costs declined by 4.3% year on year to CZK 12,942 million. Personnel costs were reduced by 5.6% to CZK 6,076 million, while the average number of employees decreased by 2.2% to 8,619. General administrative expenses were cut by 6.7% to CZK 5,242 million. Depreciation and disposals of fixed assets increased by 10.6% to CZK 1,624 million, mainly as a result of implementing new software.

Gross Operating Income
Gross operating income rose in 2010 by 5.6% to CZK 19,720 million.

Cost of Risk
A reduction in the cost of risk, by 39.0% to CZK 3,100 million, was enabled by continuously improving risk management standards as well as by gradual improvement in the Czech Republic's macroeconomic situation. The progress was less significant in retail segments, which were affected by a persisting high unemployment rate and subdued real estate market. The development in the corporate segment, on the other hand, confirmed that a solid performance by the export industries had contributed to stabilising and reviving activity in the broader economy. As a result of the aforementioned developments, the total cost of risk in terms relative to the average volume of loans and off balance sheet irrevocable commitments amounted to 55 basis points. That compares with 88 basis points in 2009. For standalone KB, the corresponding values stood at 46 basis points and 84 basis points. Nevertheless, KB is cognizant of a number of risks to future macroeconomic development.

Net creation of provisions for loan losses amounted to CZK 3,115 million, a figure 37.7% less than the CZK 5,005 million as of the end of 2009. Creation of provisions for impairment of securities grew from CZK 6 million in 2009 to CZK 8 million in 2010. Creation of provisions for other risks – mainly related to legal disputes and to selected operational risks – reached a positive value of CZK 7 million in 2010 compared to a negative value of CZK 85 million in 2009.

Share of Profit of Pension Scheme Beneficiaries
The share of profit of pension scheme beneficiaries increased significantly to CZK 620 million from a low level of CZK 65 million in 2009, which was primarily caused by the realised losses and impairment of securities discussed under the line "Net profit from financial operations". This line represents an amount for which participants in PF KB pension schemes are eligible under Czech regulations and is calculated as 85% of the pension fund's net profit. The fund's general meeting may decide to distribute among participants an even higher share.

Profit before Taxes
Consolidated profit before income taxes grew by 18.6% year on year to CZK 16,075 million.

Income Taxes
Income taxes rose by 8.6% to CZK 2,665 million.

Net Profit
KB Group's net profit for 2010 reached CZK 13,410 million, which is 20.9% higher than in the previous year. From this amount, CZK 80 million was attributed to the minority interest holders and the profit attributable to the Bank's shareholders was CZK 13,330 million (up 21.1% 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 320 million. That was down 78.7% in comparison with 2009.

Comprehensive Income for the Period
The Group's comprehensive income for 2010 amounted to CZK 13,730 million, higher by 9.0% year on year.

Balance Sheet

The volume of KB Group's total assets as of 31 December 2010 increased by 0.4% relative to the end of 2009 to CZK 698.0 billion.

ASSETS

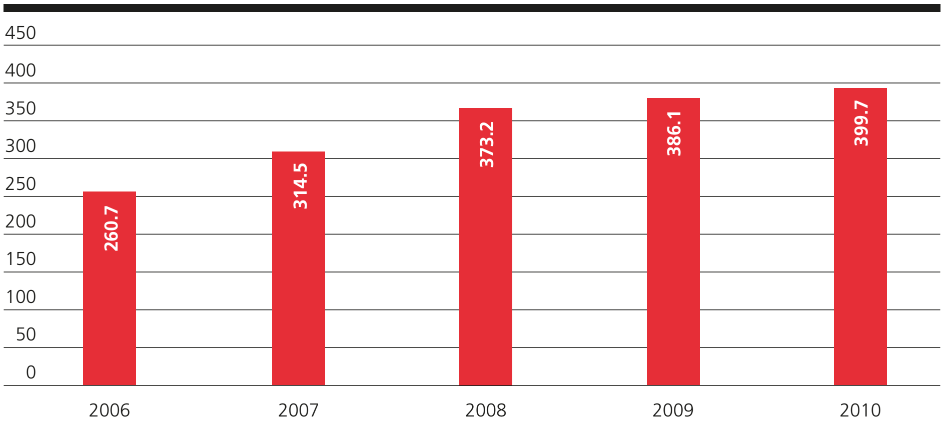
Amounts Due from Banks
Amounts due from banks declined by 14.5% to CZK 112.2 billion. The largest component of this item is represented by loans provided to central banks as part of reverse repo operations, which diminished by 25.4% to CZK 71.0 billion.

Financial Assets at Fair Value through Profit or Loss
Financial assets at fair value through profit or loss increased by 39.1% to CZK 34.0 billion. The portfolio comprises proprietary trading positions of the Group.

Loans and Advances to Customers
Total net loans and advances expanded by 3.3% to CZK 384.6 billion. The gross amount of client loans and advances grew by 3.5% to CZK 399.7 billion. Standalone KB had an 87% share in the loan portfolio. Modrá pyramida had a share of 12% in the consolidated portfolio.

Of the total amount of loans, credits to individual clients comprised 47%, increasing by 6.9% from the year earlier. Year-on-year growth in the volume of mortgages to individuals reached 9.0%, bringing the total to CZK 109.3 billion. New sales of mortgages in 2010 increased by 14.5% in comparison with the previous year. At building society Modrá pyramida, the loan portfolio expanded by the same 9.0% to reach CZK 49.7 billion. In 2010, Modrá pyramida became the second largest building society according to volume of loans. For the sixth time in a row, the quality of Modrá pyramida's products and services was recognised with the title "Building Society of the Year". Reflecting 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 3.4% to CZK 28.3 billion.

Loans provided by KB Group (gross, CZK billion)



The Group's business loans reached CZK 211.0 billion, which represents an increase of 2.3%. Within this segment, lending to small businesses and entrepreneurs grew by 2.1% to CZK 25.6 billion. Loans to corporations (provided by KB and KB Bratislava) increased by 2.3% to CZK 183.5 billion. The volume of receivables financed through factoring increased by 6.3% to CZK 1.9 billion.

The loan portfolio's quality has improved compared to 2009. The share of standard loans within that total represented 90.3% (CZK 360.9 billion), while the proportion of watch loans was 3.3% (CZK 13.0 billion) and loans under special review (substandard, doubtful, loss) comprised 6.5% of the portfolio with a volume of CZK 25.8 billion. The volume of provisions created reached CZK 15.3 billion, which is 10.5% more than at the end of 2009.

Securities Available for Sale

The portfolio of securities available for sale expanded by 2.1% to CZK 116.4 billion. The major part of this portfolio consists of debt securities issued by state and financial institutions. The investment portfolio of Protos is included in this line, and securities available for sale include KB's shareholding in ČMZRB (the Czech–Moravian Guarantee and Development Bank). The book value of shares and participation securities in the portfolio totalled just CZK 0.7 billion.

Investments Held to Maturity

The volume of securities in the held to maturity portfolio decreased by 1.1% to CZK 6.7 billion. That entire portfolio consists of bonds.

Tangible and Intangible Fixed Assets

The net book value of tangible fixed assets diminished by 8.5% to CZK 7.1 billion, and intangible fixed assets grew by a slight 0.9% to CZK 3.8 billion.

Goodwill

Goodwill, which primarily derives from the acquisition of Modrá Pyramida, remained at the same level of CZK 3.6 billion.

LIABILITIES AND SHAREHOLDERS' EQUITY

Total liabilities declined by 0.7% to CZK 621.9 billion.

Amounts Due to Banks

In 2010, amounts due to banks increased by 55.1% to CZK 29.1 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 538.1 billion, which is 2.5% lower compared to the end of 2009. The decline was driven mainly by the decrease in deposits from business clients, where signs of improvement were recorded only in the second part of the year. Penzijní fond KB recorded solid growth of 5.6% in the volume of clients' assets to CZK 28.8 billion. Deposits at the building society Modrá pyramida grew at a steady 2.9% pace to CZK 69.0 billion. In contrast, deposits from individuals at the Bank were stable at CZK 153.7 billion. Deposits of business clients at KB and KB Bratislava declined by 4.8% to CZK 281.1 billion.

Volumes on current accounts rose by 1.3% to CZK 300.5 billion. On the other hand, term and saving deposits decreased by 2.8% to CZK 186.5 billion.

Securities Issued
The volume of debt securities issued decreased by 4.1% to CZK 17.4 billion. The majority of this item is comprised of mortgage bonds issued during 2005–2007.

Provisions
Provisions declined by 47.1% 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 10.6% to CZK 76.1 billion. The growth was driven primarily by retained earnings from 2009, higher generation of net profit in 2010, and a positive change in fair value of hedging derivatives by CZK 1.5 billion. On the other hand, revaluation of the portfolio of securities available for sale had a negative value of CZK 1.2 billion. KB also paid out the dividend of CZK 6.5 billion in the second quarter of 2010. 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 64.1% from CZK 2.4 billion at the end of 2009 to CZK 3.9 billion at the close of 2010. In contrast, revaluation of securities available for sale decreased by 35.3% in the same period from CZK 3.4 billion to CZK 2.2 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 52.4 billion. The Group's capital adequacy ratio reached 15.3% as of the end of 2010, while its Tier 1 ratio climbed to 14.0%.

Acquisition of Treasury Shares in 2010

Komerční banka held 54,000 of its own shares as of 31 December 2010. These shares were purchased during 2006 in accordance with decisions made by the Bank's general meetings of 28 April 2005 and 26 April 2006 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.

Based on the consent of the General Meeting held on 29 April 2010, 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 5,000 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 Section 161a (1)(b), (c) and (d) of the Commercial Code.

– For the term of validity thereof, the Bank can buy and sell shares repeatedly with no further restrictions.

Komerční banka shares in treasury	Number/nominal value as of 1 January 2010	Proportion of share capital as of 1 January 2010	Number/nominal value as of 31 December 2010	Proportion of share capital as of 31 December 2010
	(pcs/CZK thousand)	(%)	(pcs/CZK thousand)	(%)
Trading book	0	0	0	0
	0		0	
Banking book	54,000	0.142	54,000	0.142
	27,000		27,000	

Komerční banka's intermediation for clients in its own shares during 2010	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 book	16,428	16,428	62,031	3,355	62,108	3,355
	8,214	8,214		4,340		4,340
Banking book	0	0	0	0	0	0
	0	0		0		0

Corporate Social Responsibility

Komerční banka is acutely aware of the responsibilities that ensue from the Group's substantial market position and its desire to build long-term relationships with its clients and stakeholders. Corporate social responsibility is therefore an inseparable part of KB's strategy. At Komerční banka, that responsibility does not end with sponsoring, charity and volunteer activities. Rather, its integral parts include also rigorous internal control, prudent risk management, and adherence to all regulatory requirements established for KB Group companies by the Czech National Bank, laws of the Czech Republic, and rules of the European Union.

The principles of corporate social responsibility also overlap into other areas, such as rules on corporate governance, risk management, and human resources management. The following paragraphs are therefore devoted to describing activities primarily directed to carrying out KB's corporate social responsibility. Other processes for which corporate social responsibility is also an important aspect are described in their respective chapters of the annual report.

Corporate Governance and Organisation, Internal Control
KB Group operates in markets and regions in which a number of risks are present. Stringent control over risk parameters, development of in-depth risk management expertise, and implementation of highly effective risk management structures are therefore key for the Group. Besides the Board of Directors, the Audit Committee is specifically responsible for examining the consistency of the Group's internal risk management framework and compliance with applicable law and regulations.

Rigorous internal control encompasses all processes and resources that enable the Group's management to ascertain whether the transactions carried out and the organisation and procedures within KB Group are compliant with the valid legal and regulatory measures, professional and ethical practices, and internal regulations and policies defined by the Bank's executive bodies.

First-level controls have been set up across the entire Bank and are monitored on a regular basis by Internal Audit and the Audit Committee. Komerční banka has established compliance standards and rules of ethical conduct corresponding to the financial sector's most demanding standards. Professional and banking secrecy are not only a legal obligation, but also key aspects of KB's operations.

Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism
Komerční banka has long followed and applied modern rules and practices that are clearly in accordance with the regulatory and recommended measures of state and international institutions and with the standards of Société Générale Group and upon the basis of which KB can effectively curb its being misused for legitimising the proceeds of crime and financing terrorism.

This system of rules and procedures aims not only to detect cases related to possible legitimisation of proceeds of crime and financing of terrorism, it essentially limits potentially risky persons' access to Komerční banka's products and services. The Bank continually updates its rules and procedures for establishing business relationships with clients and continuously verifies and monitors the Bank's existing clients.

Komerční banka does not collaborate with clients and counterparties not providing proper co-operation in verifying identification or in conducting in-depth control. At the same time, KB also does not co-operate with untrustworthy persons or persons whose transactions do not meet standards of transparency or carry high reputation risk. KB applies a prudent approach also to business partners or other business activities of the Bank that are not directly related to the provision of banking services and products. In 2010, KB's system of rules and procedures directed against the legitimisation of proceeds from crime and financing of terrorism was updated in the context of newly confirmed risks specific to this area.

sK

Stanislava Králová

Head of Credit Products Centres Management

After her studies at a sports high school and the University of Economics in Prague, Ms Králová began her banking career – while still an active top athlete – at the Czechoslovak State Bank. In 1990, she started working at a KB branch, where she advanced through various positions from rank-and-file employee, through department head, up to branch deputy. Since 2001, she has worked at headquarters in positions dealing with support. She has participated in many projects in this area including, for example, the back office centralisation project – one of the largest in recent periods and a result of which, among others, was formation of Credit Products Centres especially for processing credit transactions. Stanislava now manages these centres and their 450 employees. Moreover, she leads one of the Ambition 2015 teams focused on optimising costs and network processes.

"I respect honest, hard work and fair and open co-operation," says Stanislava Králová. "I believe that without its good salespeople, KB would have no business and then there would be no need for those of us in support. The reverse is also true – without good support, we at KB would not have satisfied clients, and there would be no one to sell to."

Corporate Responsibility in Human Resources Management
Among the priorities in human resources management is to utilise the potential of individual employees in such way as to cultivate personal development, professional opportunities, and improvement in professional qualifications while maintaining a balance between professional and private life.

KB respects the diversity of its employees. Variety of personalities, backgrounds, attitudes and opinions among employees creates an environment that advances both individual workers and the results of entire teams and of the Bank.

In the human resources field, Komerční banka also includes among its priorities the creation of a favourable environment for the population of employees whose possibilities are limited in some way. The Bank thus creates measures to support and employ people with disabilities, as well as parents on maternity or parental leave and with children, among others.

Ethical Requirements for KB Group Employees
Employees and representatives of KB Group must adhere to strict principles, both in terms of professional conduct and risk prevention. Professional demeanour and employees' contribution to preventing dishonest business practices are key assets of the Group.

The Ethical Code defines general rules of behaviour and conduct for all of the Bank's employees. The KB Ethical Code follows the ethical code of SG group. KB expects every employee to know and adhere to these established rules.

The management of the Bank decided last year to inform the public about these policies through the KB website. The public version of the KB Ethical Code was developed in pursuit of strengthening Komerční banka's social responsibility. Visitors to the website can judge for themselves whether the Bank and its employees actually act in accordance with that to which they have committed.

KB's subsidiary and associated companies in the Czech Republic have been inspired by KB's Ethical Code and have created their own rules that are adapted to their particular conditions.

Sustainable Development
An integral part of KB's corporate responsibility strategy is a responsible approach to the environment. In the context of sustainable development, the Bank monitors a number of environmental indicators and emphasises reducing CO_2 emissions. As the provision of banking services is traditionally associated especially with generating large quantities of paper documents, paper consumption has joined energy consumption as a main area upon which Komerční banka has been focused since 2007.

Thanks to printing on both sides and employees' responsible behaviour, the Bank managed to reduce annual paper consumption per employee in 2010 compared to 2007 from 67 to 49 kilograms. Based on the amount of paper consumed by Komerční banka, its paper supplier planted almost 14,000 trees for the last 4 years in the Bank's name under the "Trees for Life" programme. In order to reduce paper consumption, in 2010 customer statements began to be printed on both sides.

In buying Green Energy, KB has contributed for several years to research and development of renewable energy sources. Based on the findings of a buildings energy audit, KB introduced in 2010 a number of measures that effectively reduce total energy consumption. Appliances and equipment are used that have low energy demand.

Responsible behaviour is expected from all KB employees and managers. They are kept informed on measures being taken and emphasis is given to their personal involvement.

Sponsoring
Komerční banka takes a long-term perspective in developing relationships with its clients and employees. The same principle applies to its sponsorship policy. Like the parent company, Société Générale, KB focuses on three main areas: culture, amateur sports, and education. Because KB operates primarily on the Czech market, its sponsorship activities are directed to local institutions and projects implemented in the Czech Republic.

In 2010, Komerční banka and the National Theatre entered into their ninth year of co-operation. Continuing in 2010 was the project of hosting first stagings in the regions, which the National Theatre had implemented as a direct result of its collaboration with KB.

Komerční banka was for the fifth time the main partner of Smetana's Creative Litomyšl, a series of art exhibitions accompanying the traditional music festival Smetana's Litomyšl. The past year brought a unique selection of paintings and drawings of Theodor Pištěk, who in the minds of the Czech public is regarded primarily as an exceptionally successful costume designer.

It was Komerční banka's sixth year to be the Prague Zoo's main partner. KB also continued in its partnership with the regional zoos in Ostrava and Jihlava.

Through the project "Sport without Prejudice", KB has long supported children's sport. This gives children possibilities to get acquainted with both popular and less traditional sports and actively to try them out. Also in 2010, Komerční banka was a partner to athletes with disabilities, including wheelchair-bound athletes and rugby players with disabilities.

KB continued to develop its traditional partnership with universities. In supporting university education of new professionals, the Bank also sees the promise of developing the future quality of the Czech banking system. In 2010, Komerční banka was a partner to the University of Economics, Prague, to Masaryk University in Brno, and to the Czech Technical University.

Komerční banka is aware of the responsibilities stemming from its position as a leading Czech financial institution.

KB – Jistota Foundation

During the 15 years of its activities, the KB – Jistota Foundation has supported several hundred projects. Last year alone, the KB – Jistota Foundation's projects helping people in need distributed more than CZK 5 million.

The Foundation focuses on the areas of social services, support for medical institutions, aid to children in social institutions, and disaster relief. An obvious part is also help to individuals living in poverty. The Foundation's main mission is not just to make financial contributions but to endeavour especially to help those who have found themselves in difficult life situations to return to normal life. Both Komerční banka itself as well as its employees and clients contribute to the KB – Jistota Foundation.

Also in 2010, KB – Jistota Foundation supported the building of an additional two Baby Boxes. Secure boxes in Jablonec nad Nisou and Karviná increase the chances of saving the lives of children whose mothers are unable or unwilling to care for them.

The Foundation's gift of CZK 900,000 helped professionals from the Medical Faculty of Masaryk University in Brno in mesenchymal stem cell research. Among other achievements, results of the expert team's work introduced at the beginning of 2010 include a new method for treating burns, chronic wounds, and poorly healing wounds. The Foundation contributed more than CZK 660,000 to Prague's University Hospital Motol for the purchase of special equipment and accessories, as well as CZK 150,000 to the Merciful Brothers' Hospital in Letovice for the purchase of mattresses to prevent bedsores and therapeutic aids.

Money from the Foundation also went to help children. SOS Children's Villages received a donation for the reconstruction and development of villages in Haiti and to equip SOS Villages in the Czech Republic. The Daneta kindergarten, primary and practical school received a gift to purchase equipment and operate its facilities for disabled students.

A contribution from KB – Jistota Foundation was directed to repair of flood damage in the north of Bohemia. The Foundation contributed to clearing acute damage after the August floods in the villages Raspenava and Bílý Kostel nad Nisou.

Debt Advisory Center – Counselling in Stringency
Komerční banka has been a partner of the Debt Advisory Center – Counselling in Stringency (hereinafter the "Advisory Center") since 2008, when the Advisory Center was established. Komerční banka makes financial contributions to the Advisory Center each year, and 2010 was no exception. In 2010, Komerční banka donated CZK 1,174,292 to the Advisory Center. The donation is not designated for a specific purpose, i.e. the funds were used to finance generally beneficial services provided by the Advisory Center and to support its operations during 2010.

The Advisory Center is a public benefit organisation oriented to providing free independent credit consultancy for consumers. The main goal of the Advisory Center is to support consumers in their efforts in actively dealing with insolvency, to influence consumers to prevent their becoming insolvent, and, when needed, to mitigate its impacts.

The general goals of the Advisory Center are to contribute to increasing the financial literacy of the general public, to be a repository for in-depth legal knowledge, and to approach the issue of indebtedness more prudently. At the same time, creditor financial institutions are becoming more socially responsible in providing their financial products. All these factors together will lead to fulfilling the Advisory Center's main goal: a more stable society and increased public well-being.

Volunteer Activities
Voluntarily and above and beyond their work obligations, the employees themselves joined in on projects expressing social responsibility organised both by the Bank and by KB – Jistota Foundation.

The annual collection of food for the Czech Federation of Food Banks continues to develop dynamically. From 14 to 17 June 2010, the employees of KB and its subsidiaries and affiliates gathered 2,933.5 kilograms of food. The collection took place not only in Prague, but also across all the regional KB branches. The food collection was arranged as part of Social Responsibility Week that is organised worldwide by the Société Générale Group.

In 2010, Komerční banka also worked to increase young people's awareness of financial products and the risks of overindebtedness. Early in the year, KB welcomed young people about to leave children's homes to the Na Příkopě 33 branch in co-operation with the Letní dům civic association. Trainers acquainted the young people with banking products and their use in the household and showed them the operation of a bank branch. A similar programme was prepared by KB in March for students of the Jedlička Institute included in the Transition programme that prepares them for independent lives.

Volunteer assistance at KB also focuses on nature. In June, about 50 employees from KB Group joined forest maintenance efforts in the Jizera Mountains under the patronage of the Čmelák Friends of Nature Society. Only a few weeks later, employees of the Top Corporates Arm participated in a project of planting linden trees. The Bank has long participated in the ČEZ Group's Green Energy project, supporting, among other things, the research and utilisation of renewable energy sources.

A December exhibition and especially the ensuing intranet auction of photos from the employees' summertime competition, The World in Green, greatly interested and was highly appreciated by the employees. All 24 photos exhibited and which were created by the Bank's employees were sold. The proceeds from the auction in the amount of CZK 64,411 were donated by KB to the Department of Paediatric Haematology and Oncology at Prague's University Hospital Motol.

As traditionally the case, the "KB Group donates blood" project was highly acclaimed. In 2010, KB employees again donated blood on two occasions, in spring and in autumn. Across the Czech Republic, 307 donors gave more than 138 litres of blood. Apart from acquiring much-needed blood, this initiative also has one substantial effect much appreciated by haematologists – as new donors enter their list, it helps to turn back the republic-wide trend of decreasing blood donor numbers.

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Michal Ventruba

Business Intelligence Director

A graduate of the Faculty of Nuclear Sciences at the Czech Technical University, Mr Ventruba is the director of the Business Intelligence Department, the unit that processes and provides information necessary for the Bank's management at all levels. In 2010, Komerční banka's team earned the BI Excellence Award in the most prestigious competition in the field, conducted by the GARTNER analytical company, in which teams from Europe, Africa and the Middle East from all sectors including finance are evaluated. Michal has worked in banking for 19 years, both on the business side as well as in the internal support area. Before joining BI, he was director of the Controlling and Planning Division and Deputy Executive Director for Corporate Banking for three years. As manager, he oversaw large projects during bank privatisation and even before. He also performed the function as head of Marketing and Controlling in Corporate Nanking.

"In my field, it is necessary to understand businesspeople as well as IT specialists. Our department basically is positioned between the two," says Michal Ventruba. "We must be able to communicate and at the same time to think analytically."

Clients and Markets

KB has introduced a new fees policy concept dubbed MojeOdměny that rewards clients for such activity as is both convenient for clients and at the same time cost-optimal for the Bank.

MojeOdměny

The key values of Komerční banka and the Société Générale group – flexibility, innovation and team spirit – are also reflected in how long-term relationships are built with the KB Group's clients. In 2010, KB faced cautious signs of economic recovery. Building on its excellent reputation and strong position in the market, it offered clients further notable improvements in its products and services. The strategy for its approach to clients remained unchanged: in providing its services, the KB Group keeps the emphasis on the customers and their needs, on support to long-term relationships, on transparency, and on increasing efficiency.

The Bank implemented several important operational changes with the aim of increasing quality and efficiency of support services for internal and external clients across all client segments. In mid-2010, therefore, KB began via its new Product Administration Department to provide comprehensive services for its most substantial clients in the Czech Republic and Slovakia in the areas of credit services, documentation processing for all types of accounts, and cash pooling services. The new department also provides services to issuers in managing primary issues, dividend payments, as well as custody of securities and gold bars. It also processes in two liabilities product centres documentation relating to deposit products delivered from the branches. In 2010, approximately 3.4 million documents were processed in the centres.

The branch network remains the primary place for building client relationships, complemented by the ever-evolving modern forms of on-line bank account administration.

KB opened three new branches in 2010, one of which was a kiosk branch. As of the end of 2010, the total number of branches was thus 395. Within the KB Group, 20 business centres specialise in serving medium enterprises and municipalities while four divisions have been created for serving large corporations. Four branches were completely renovated in 2010, while another four were relocated. The number of KB ATMs was 677. The Bank also improved service for foreign clients through the specialised EXPAT Premium Branch in Prague and the Foreign Customer Desk at selected branches.

An important event in 2010 was the introduction of a new fees policy concept dubbed MojeOdměny. The aim of this innovative concept is to financially reward such client behaviour as is both convenient for the clients and at the same time cost-optimal for the Bank. MojeOdměny is designed around the idea that every client is able by his or her own activity to influence the final amount of fees that he or she pays to KB for a given period. The new concept automatically creates advantages for clients without their needing to sign up or register. In the first phase, all owners of KB payment cards are able to take advantage of the MojeOdměny concept. In 2011, it will be extended to other groups of banking operations.

A very important project in relation to KB Group's clients in Slovakia was the transformation of Komerční banka Bratislava to an organisational branch of the Komerční banka parent company. Activities on the Slovak market now focus especially on large and medium-sized companies. The KB branch in the Slovak Republic holds an especially strong position in that area, having at its disposal the know-how of the KB parent and synergies within the KB Group and the entirety of the Société Générale Group, through which it can provide to clients comprehensive financial solutions. Among other services, the Slovak branch offers cash management, electronic banking, payment cards, financing, investment banking products, and trade finance products. The KB branch in the Slovak Republic does not offer cash operations.

Co-operation with partners both within and beyond the KB Group were reinforced during 2010. Property insurance for individuals and businesses from Česká pojišťovna became a standard part of the offer to the Bank's clients at all its points of sale. Reciprocally, Česká pojišťovna's clients now have the possibility to apply for KB mortgage loans with the sales representatives of Česká pojišťovna, who thus now comprise yet another network for distributing KB mortgages. The Bank continued in co-operation with mobile provider T-Mobile on the project for the co-branded T-Mobile Bonus credit card, which is linked to the T-Mobile loyalty programme. As of the end of 2010, more than 64,000 clients had activated the card.

Client Services

In a competitive environment, the Bank focused on active customers, maintaining and growing client assets under management, and developments in lending.

Also in 2010, Komerční banka made use of the time-tested fundamental segmentation of its client base into the following groups:

– Individuals;

– Small Businesses (the indicative criterion being annual turnover up to CZK 60 million);

– Medium Enterprises and Municipalities (annual turnover roughly up to CZK 1.5 billion);

– Top Corporates (with annual turnover exceeding CZK 1.5 billion).

While preserving the basic model, client segmentation continued to be developed in 2010. KB improved sub-segmentation within the individual client segments while aiming to ensure a long-term individual approach to each client, to offer a range of key products corresponding to the real needs of the individual sub-segments, to satisfy clients' continually increasing demands, and in a more active manner to provide individual financial advisory.

In developing its "know your client" approach, KB endeavours for the relationship managers to be truly acquainted with the client's profile and his or her needs, and thus to ensure differentiation of client services. A relationship manager has personal responsibility for the client portfolio entrusted to him or her, for the business results, and for building client relationships. Each client has a dedicated contact person within the Bank.

KB (Bank) – Individuals segment	2010	2009	Change
Number of mortgages	89,900	82,700	8.7%
Volume of mortgages (CZK billion)	109.3	100.3	9.0%
Number of consumer loans	219,000	225,100	(2.7%)
Volume of consumer loans and overdraft loans (CZK billion)	14.7	15.8	(6.5%)
Volume of credit card loans (CZK billion)	2.6	2.6	(0.5%)
Number of active credit cards	168,700	182,100	(7.3%)
Number of packages with current account	981,700	987,800	(0.6%)

Individuals

Komerční banka further optimised its offer of financial products and services for individuals and continued in supporting an individual approach to all clients. The year 2010 also saw introduction of a number of new products across the entire spectrum of clients' financial needs.

KB has retained its position as the third largest bank on the Czech market in the Individuals segment. The overall number of clients at the end of 2010 reached 1.32 million, a decrease by 1.7%. In keeping with the Bank's strategy, however, there was a rise in the number of active clients intensively using KB's services. During the year, more than 105,000 new clients chose Komerční banka. With over 351,000 accounts for children and youth, KB retains its leading position in the children and youth segment.

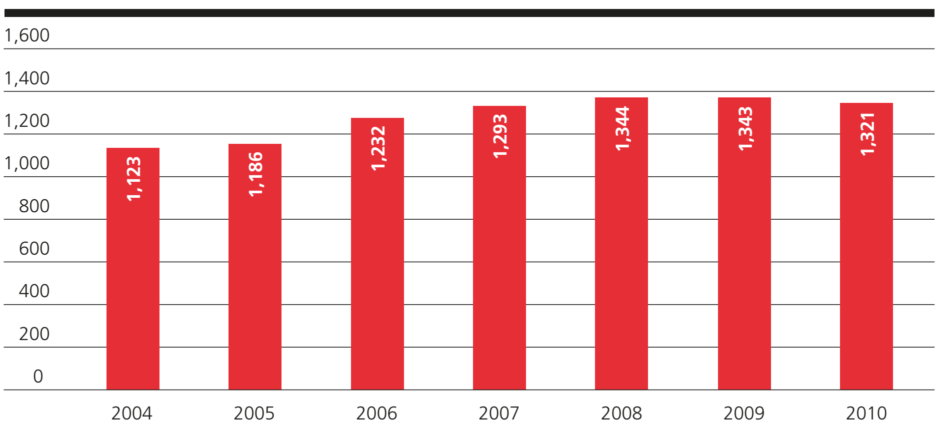
Despite the prevailing difficult economic situation, the Bank recorded favourable outcomes for most lending products. KB increased its market share in mortgages for individuals, the volume of which grew by 9.0% to CZK 109.3 billion in 2010.

Flexibility of mortgage parameters, which is supported by a new communication concept, contributed to the growth in mortgage market share. For its Flexible Mortgage, Komerční banka now offers an early repayment option for a part of the loan at no charge. Also new is the possibility to draw a mortgage for construction to the client's current account without the client's needing to document invoices. Sales were also supported by low market interest rates, which allowed for decreasing the minimal interest rates for mortgage loans during the year. With all mortgages, KB offers the option to include insurance against the inability to repay.

The unique Premium loan is a new general purpose, unsecured loan available in cash and ranging from CZK 300,000 to CZK 2,500,000. It offers the possibility for early repayment with no penalty and free insurance against the inability to repay. Clients with pre-authorised credit lines may complete the application process wholly on-line in the Mojebanka internet banking environment.

Among other developments, the Bank further improved loans for university students to acquire notebook computers. It also offered quick solutions to individuals who suffered from flooding by cancelling the penalty for early withdrawal of term deposits, providing the possibility to obtain advantageous flood loans, and customising individual repayment schedules for loans already drawn.

KB (Bank) – Number of clients – Individuals during 2004–2010 (in thousands)



The range of deposit products was expanded by the new KB Bonus Savings Account, with favourable two-level interest earnings that reflect not only the deposit amount but also the duration of the saving.

With the KB Akcent 2 guaranteed mutual fund, the Bank broadened its assortment of investment products. This actively managed fund searches for the best growth potential among stocks in Europe, Asia and America, as well as in commodities. In co-operation with Komerční pojišťovna, KB offers recurring investments into guaranteed funds via the Vital Invest product. Clients' substantial interest has progressively led to offering the tranches Forte 2, 3 and 4. During 2010, total subscriptions exceeded CZK 2.6 billion.

In April 2010, KB became the very first bank on the Czech market to launch the Investment Calculator on its website. This helps consumers to avoid fundamental errors when investing and saving. Later in the year, there followed a new design of KB's website. This brought greater convenience, a clear and consistent structure for the wide range of information, and substantial improvement in the site's accessibility for visually or physically impaired users.

KB draws upon the synergies and potential of the client bases among all members of the KB Group. The clients of subsidiary or affiliated companies have begun using Komerční banka's advantageous offers, which are introduced in acknowledgment of their utilising the KB Group's services. Co-operation among members of the Group permitted preparing comprehensive and readily accessible solutions to meet client's financial needs "under one roof".

Private Banking

KB offers private banking services in Prague, Brno and Ostrava to clients whose financial assets exceed CZK 20 million. Selected private banking services and investment advisory are provided to clients with assets over CZK 8 million at 20 regional branches.

In 2010, KB Private Banking again recorded double-digit growth both in the number of customers and total assets under management. Komerční banka thus confirmed its strong position on the market for high quality private banking services and investment solutions for high-net worth individuals in the Czech Republic.

Development of KB Private Banking is founded on two main pillars: the solid internal knowledge base and potential within KB, as well as direct co-operation with the Expert Centres of Société Générale Private Banking in the area of investments and analysis. The client offer is based on an open architecture model, whereby experts from KB optimise financial solutions for clients by including products of selected world renowned financial groups – always in a fully transparent manner.

Investors continued to prefer conservative products in 2010, mainly quality corporate bonds from primary offerings, as well as investment and barrier certificates. Also in great demand was the guaranteed savings deposit provided in co-operation with Komerční pojišťovna. The gradual recovery from the financial crisis and expected potential returns from the capital markets translated into increased demand for balanced solutions.

Small Businesses

In 2010, Komerční banka upheld its leading market position in the Small Businesses segment, in which it serves some 255,000 clients.

Segmentation adjustments helped in allocating clients to relationship managers' portfolios in a manner that is efficient and at the same time straightforward for ensuring high standards while attending to the needs of clients of different sizes, business segments, and breadth of demand for banking services. The Ambition 2015 programme has further sharpened KB's focus on products and services for small businesses.

Development of financing remains a strategic objective in the small businesses segment. As the economy has recovered, entrepreneurs' demand for operating and investment loans has grown. The Profi loan remains a crucial product, preferred for its minimal administrative demands, speed, and parameters such that it corresponds to the needs of entrepreneurs and small businesses. The Profi loan FIX also remains a favourite. Its fixed interest rate and annuity payment offer the entrepreneur the certitude of constant monthly instalments for the entire loan term as well as insurance against inability to repay.

Interest grew for loans secured by guarantees from Czech-Moravian Guarantee and Development Bank (ČMZRB) and the Support and Guarantee Agricultural and Forestry Fund (PGRLF). In particular, programmes to support operational financing of small businesses met a positive response among both business clients and banks. The interest in funds from ČMZRB programmes and for financing apartment building renovations to improve energy efficiency under the Ministry of the Environment's Green Savings programme exceeded the funds available under these programmes.

KB (Bank) – Small businesses segment	2010	2009	Change
Volume of drawn loans, credit card receivables, overdraft loans (CZK billion)	**25.6**	25.1	2.1%
Number of loans	139,700	145,800	(4.2%)

The overall loan amount drawn in the Small Businesses segment surpassed CZK 25.6 billion in 2010, even as the cost of risk in this segment diminished.

The new Profi Bonus savings account offered entrepreneurs an attractive saving option without a notice period for withdrawal and with two-level interest earnings. Thus, it conveniently complemented the banking services in everyday use.

The Bank has focused on targeted and precise solutions to meet the needs of narrower client groups. Examples include new interest-bearing custody accounts for notaries, and, on the other hand, accounts bearing no interest but also no fees that are designed for specific purposes of clients in the public sector. The offer was broadened under the Optimum Medicum package for physicians and pharmacies, even as this attractive account has now been made available also to dental practitioners.

Dynamic growth continues in the area of payment cards acceptance. The new Profi payment terminal offer includes transparent conditions for obtaining a payment terminal quickly and with minimal administrative requirements.

In 2011, KB will introduce innovations in financing as well as everyday banking services and insurance. The primary focus of all the Bank's activities will remain on the client and his or her needs. The objective is for relationship managers to be true financial services advisors and partners to entrepreneurs.

Enterprises and Municipalities

Komerční banka maintains its leading position on the banking services market for large and medium-sized enterprises and municipalities. The Bank benefits from its stability, broad services range, reliability, and individual approach. Renewed interest during 2010 for financing within this segment was related to both developments in the economy and the possibility to receive grants from EU structural funds.

The volume of loans provided by standalone Komerční banka in the segment of Enterprises and Municipalities increased by 5.7% year on year to CZK 93.9 billion. Deposits declined by 0.9% to CZK 118.5 billion.

In the area of financing renewable energy resources, especially active were clients with photovoltaic projects. KB prepared and successfully introduced new approaches for financing biogas stations. The year 2010 provided confirmation that clients appreciate being served by specialised teams, and the Bank's experts are helping clients to achieve the most economical financing.

The clients' needs for advice in financing projects supported by EU funds have been developing. While previously clients had requested more general information on grant programmes and help in finding the most advantageous grants, KB's EU Point specialists were more frequently asked in 2010 to help with specific problems and non-standard situations that arise while implementing grant-funded projects. The number of EU projects for which advice was given was approximately the same as in 2009, but the clients drew substantially more loans for pre-financing or co-financing grants.

Komerční banka expanded clients' access to obtaining loans under advantageous conditions under a European Investment Bank (EIB) programme to support independent small and medium-sized entrepreneurs and also under the Guarantee programme of the Czech-Moravian Guarantee and Development Bank (ČMZRB) on the basis of contracts with these institutions.

iK

Irena Klimešová

Manager of the Business and Marketing Department
Factoring KB

Ms Klimešová joined KB's service precisely two decades ago after graduating from an economics high school. Along her career path, she has experienced business positions in various segments. Her return from parental leave in 2004 meant a switch to the subsidiary Factoring KB, a.s., where she is responsible for the business results of the South-west Bohemia division. Irena is also responsible for co-operation with Komerční banka, training its business advisors, leading joint acquisition negotiations, as well as for her clients' subsequent service requirements. She has achieved long-standing excellent business results, and last year she performed at more than double her original plan.

"In communicating with the client, my foremost thought is not a business plan but to have a personable meeting," says Irena Klimešová. "Customer relations undoubtedly add value in factoring, so good numbers sort of naturally come out of negotiations – especially when KB colleagues are involved."

In the municipalities and public sector segment, KB increased its financing during 2010 of projects to improve the appearance of cities and towns and to enhance quality of life throughout the Czech Republic. The Bank also developed expert advisory services in the areas of public contracts, budgets, optimal financing of development projects, and possibilities for safely earning returns on available funds.

Clients who use investment banking products obtained broader possibilities for on-line communication with the Bank through new functions of the KB eTrading application. The range of functions in the direct banking applications Mojebanka and Profibanka also was expanded.

A new client magazine directed especially to exporters, Export Journal, is keeping clients better informed. It brings them sector perspective, opinions of reputable experts on export-related matters, information on Komerční banka's products and services, as well as lighter, travel-related features.

As has become a tradition, KB organised a number of advisory and consultation events for its clients. It became a general partner to several republic-wide and regional professional conferences focused on using alternative energy sources, support to exporters, and corporate financing options. Traditional events included the annual export conference and regional export seminars held in co-operation with the agency CzechTrade, the topics of which focused on export and trade finance products. KB had a significant participation also at the International Engineering Fair in Brno.

The Ambition 2015 programme has set several important targets for corporate banking, including to increase efficiency in the process of providing loans, develop investment banking products, and support synergies between the KB Group and Société Générale.

Komerční banka in Slovakia

As part of the project to transform Komerční banka Bratislava, a.s. (KBB), a cross-border merger of Komerční banka and KBB, previously a subsidiary of KB, was executed. As of 1 January 2011, the branch was entered into the Commercial Register under the name "Komerční banka, a.s., pobočka zahraničnej banky" ("Komerční banka, a.s., branch of a foreign bank").

The purpose of the cross-border merger was primarily to strengthen business activities and to optimise operations in the Slovak Republic. The branch has shifted the focus especially to large and medium-size corporations. The position of KB's branch in Slovakia is strong in this area. It is able to call on the know-how of Komerční banka as parent company as well as the synergies within the KB and SG groups, thus enabling the branch to provide its clients comprehensive financial solutions. Toward this end, the product range also was modified. KB's branch in Slovakia offers standard banking services, including cash management, electronic banking, payment cards, financing, and investment banking products, as well as trade finance products, for which KB is the leading bank within the Czech Republic. An individual personal approach and products tailored to the requirements of the specific client are integral aspects of the services offered. The Slovak KB branch does not offer cash operations.

Top Corporates

The Top Corporates segment also perceived the economy's gradual stabilisation during 2010. KB saw rejuvenated activity among top corporate clients but also increasing competition. Nevertheless, Komerční banka managed to retain its leading position on the corporate clients market.

The Top Corporates Arm recorded moderate year-on-year decline in the areas of loans and deposit products, especially due to reduced activity in the investment banking products area. In the financing area, both the top corporate clients and the Bank remained cautious. The segment achieved a significant decrease in the cost of risk.

Komerční banka participated in a number of prestigious transactions. As a reference project, we would point to the settlement of ownership interests for the MND oil and gas group through an escrow account. This became the largest transaction of its kind in the modern history of banking in the Czech Republic.

The offer of cash management products was expanded. A new cash pooling solution permits clients unlimited, real-time use of the entirety of their funds on their interconnected accounts. This arrangement brings significant optimisation in managing the client's cash flow and reduces the need for financing from external sources.

The popularity of trade finance products continued to grow. In particular, KB saw an increase year on year in revenues especially from export financing and bank guarantees. Documentary payments also showed good development. The electronic service TF OnLine, which is in operation for more than a year, acquired hundreds of corporate users.

As a result of the intensive co-operation within the KB and Société Générale groups, a number of interesting transactions in financial leasing of movable property and in operational leasing were successfully completed.

KB works intensively to ensure that the customers perceive Komerční banka as a trustworthy advisor in the world of finance.

Investment Banking

Positive macroeconomic developments in the first year following the crisis were reflected in the situation on financial markets. While the global financial crisis and subsequent recession had brought great volatility to the markets in 2008 and 2009, we witnessed a notable calming in 2010. The Czech currency's volatility returned to its pre-crisis levels, and the CZK/EUR exchange rate returned to its long-term trend of moderate strengthening. Due to the low inflation and enduring uncertainties, the CNB held key interest rates more or less stable at their historically lowest ever levels. Thanks to the parliamentary election outcome, which raised hopes of implementing necessary reforms in the areas of pensions, health care and the labour market (and consequently improved the fiscal outlook), the Czech government bond market remained relatively immune to the mounting debt crisis in some European countries.

The results from proprietary trading ended slightly below the original expectations. Considering the low volatility and continuing signs of low liquidity on the markets, however, the outcome in this area can be seen as successful.

Despite continuing uncertainty at the beginning of 2010, transactions with clients returned to their anticipated volumes through the year. In the FX area, clients remained rather more cautious than previously in their use of hedging, which will only change with time. In the area of interest rate derivatives, by contrast, KB recorded significant growth in demand for hedging that was supported by the record low interest rates.

The KB Debt Capital Markets team reinforced Komerční banka's leading position in the area of structured financings and syndicated loans. In total, 21 loan financings and 4 bond financings were successfully executed in 2010. The list includes a number of transactions where KB took on roles as mandated lead arranger, facility agent, or club co-ordinator. KB DCM has been able to draw on the know-how of Société Générale in specific areas of expertise, such as project finance and leveraged financings.

After the rather successful 2009, M&A advisory performed rather poorly in 2010. As the Czech M&A market declined by ca 40% in volume terms and in a relative absence of large transactions, the M&A department did not succeed to participate in any big transaction. Continuing caution among bidders as well as still often excessive expectations of sellers contributed to only a minimal number of smaller transactions being closed. Early in 2011, there appeared to be slight upturn in the M&A business.

Direct Banking

In 2010, Komerční banka crossed the threshold of 1 million clients using at least one direct banking channel. Direct banking is thus used by 63.3% of all the Bank's clients. The largest increase, by nearly 18%, was recorded for the Expresní linka plus service, which reached the number of 69,000 clients. As of the year's end, Mojebanka internet banking was being used by some 722,000 clients and their number had increased by 12% in the full 2010.

KB's direct banking also contributes to sales of products of other companies within the KB Group. In addition to expanding the offer of Modrá pyramida building savings products, supplementary pension insurance from Penzijní fond KB, and the life insurance of Komerční pojišťovna, there successfully continued in 2010 telephone selling of the co-branded credit card from ESSOX. In the context of the new strategic partnership with Česká pojišťovna, KB also introduced a clients acquisition offer including advantageous account maintenance and other banking advantages.

An interesting innovation was the launch of a hitherto unique application permitting a client to arrange a meeting on-line with one's own relationship manager via internet banking. Scheduling a meeting through internet banking always includes up-to-date information as to the availability of the relationship manager. The client may thus plan the meeting according to his or her own preference and time availability.

KB has also provided a video guide on the website that helps clients in setting up their computers for purposes of direct banking, with setting up products and services, and with arranging those on-line.

In both telephone and internet banking, the direct channels have reinforced their positions as active selling tools. Within the whole of KB, 38% of pre-authorised credit cards and 10% of pre-authorised consumer loans were sold through direct banking channels.

During 2011, KB will focus especially on increasing user convenience of direct channel services and on further broadening the parameters for the individual products (such as for on-line set-up of payment card parameters in internet banking.

Payment Products and Operations

The trend toward growing use of payment cards for retailer transactions continued in 2010. The number of these transactions executed with the use of payment cards expanded year on year by 15%, and the overall volume reached nearly CZK 40.5 billion. The number and volume of ATM transactions moderately decreased for 2010 in comparison to 2009, with KB clients withdrawing CZK 118.5 billion.

Internet payments by payment cards comprise the fastest growing area. The number of KB card payments at internet merchants increased year on year by 41%. Correspondingly, the growth in issuing virtual payment cards, which are designed solely for internet payments, was 13% compared to 2009.

As of 31 December 2010, KB recorded 1.67 million active payment cards in its portfolio. Most of these (86%) are still debit cards. KB significantly expanded its network of merchants for accepting payment cards. As of the year's end, the Bank was accepting cards in over 20,000 establishments of more than 12,000 merchants (an increase of 8%).

KB has successfully completed the transition to the new, safer type of payment cards with the so-called DDA chip. From 1 January 2011, the Bank only issues cards with this chip. KB also has commenced activities in using contactless chip technologies. In September, KB introduced a mobile ATM at the International Engineering Fair in Brno. Hitherto, it was only the second bank in the Czech Republic to do so.

dP

David Peška

Director of the Transformation Programme Modrá pyramida

Mr Peška began working for Société Générale already in his second year of studies at the University of Economics. For two years he gained experience in banking as assistant to the sales director for top corporate clients. Still in the fourth year of his studies, he joined Komerční banka in 2000 first as a capital transactions employee, then switched to a branch in Prague as head of sales support and subsequently became head of Quality Development. Upon transferring to Modrá pyramida, he became head of external distribution. Today, David is director of transformation in Modrá pyramida. His task is to co-ordinate all projects directed to the company's new orientation. David is working on transforming Modrá pyramida into a company oriented toward financial advisory with an emphasis on residential financing. This includes projects related to changes in the distribution network – an innovated recruitment, training and motivation system and development of points of sale. But it also takes in expansion of the product portfolio, changes in communication strategy, and the new role of Modrá pyramida's distribution network within KB Group.

"In my current position, I use all the experience I have acquired to date, including, for example, negotiation skills," says David Peška. "Resistance to stress, a pragmatic approach to problem solving and a desire to innovate are also advantageous. I also call upon my sportsmanship, due to which I am resilient, persistent and have a will to succeed."

In the area of domestic interbank cashless payments, KB successfully automated and accelerated the continuous crediting of all payments following payments processing in the Clearing Centre of the Czech National Bank. Komerční banka now credits priority payments after 10 minutes and standard payments after 1 hour. A so-called second round for debiting of SIPO direct debit payments has been introduced. KB now automatically includes clients whose SIPO was not debited from their accounts at the first time of debiting due to insufficient funds into the second debiting round, which generally takes place 10 days later. More than 60% of payments not executed in the first round are made in the second round.

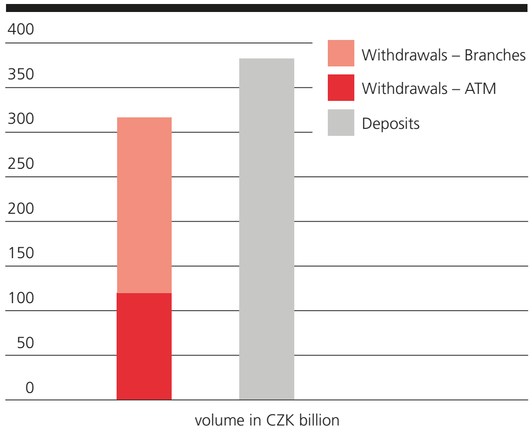
In its foreign payment operations, KB newly introduced the execution of foreign payments in other currencies not listed among those on the Bank's table of exchange rates. Payments can now be performed in 110 currencies to more than 160 countries. Also new is the possibility to set up standing orders in foreign currencies and in CZK abroad, as well as in foreign currencies to another bank within the Czech Republic.

As part of its Cash Centres payment operations project, Komerční banka has boosted the number of its branches from which cash containers from clients and cash counters at individual branches are sent for processing to a centralised cash-processing department in Prague. The number of Cash Centres will increase in 2011, and that will free up the branches' capacities for business activities while optimising cash processing.

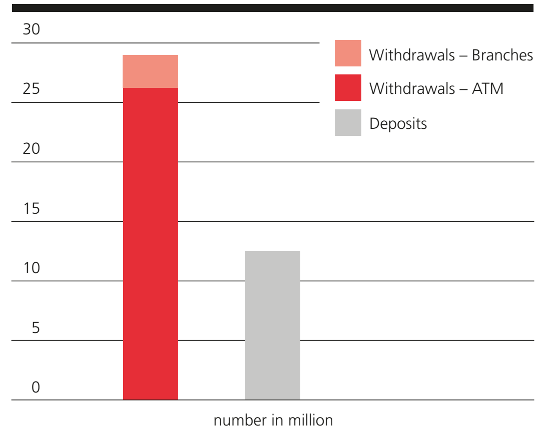
Komerční banka has joined a new project of the Czech National Bank, known as "multinominal banknote processing", which increases the quality of cash payment operations for the Bank and its clients.

The volume of cash deposits carried out by clients across the Bank's cash counters was CZK 380.3 billion (a decline of 5.8% compared to 2009). The total volume of withdrawals over the counter and by ATM reached CZK 314.7 billion (an increase of 3.8%). The total number of cash withdrawals over the counter and by ATM in 2010 was 28.9 million, representing a year-on-year decline of 2.7%. Withdrawals from ATMs account for 90.7% of all cash withdrawals at KB.

Volume of cash transactions in 2010



Number of cash transactions in 2010



Employees

An uneven development in unemployment characterised the Czech labour market in 2010. The unemployment rate was gradually decreasing from March to September, when it dropped to 8.5%. At the end of the year, the positive development gave way to a leap to 9.6% that was largely due to traditional seasonal factors.

This situation was reflected also in the turnover rate of employees, which, similarly to in 2009, remained on a low level at KB. The Bank's development dynamics were thus supported by the internal mobility of its employees.

At the end of 2010, Komerční banka had a total of 7,883 employees. Of these, 3,687 (47%) worked at the headquarters and 4,196 (53%) in the distribution network. KB was employing 881 people in the Brno region, while 840 were in South-west Bohemia, 817 in Hradec Králové, 806 in Ostrava, 785 in Prague and 67 in Slovakia. Compared to the end of 2009, the overall number of the Bank's employees increased by 35, due to the cross-border merger. Compared to the same period from the previous year, the number of employees at KB's subsidiary companies decreased by 54. As of 31 December 2010, these companies employed a total of 806 people.

Komerční banka devotes great effort to bringing onto its team talented employees with the necessary skills and development potential. Toward that end, KB uses modern communication means and seeks diverse opportunities to present itself in the labour market. One interesting project, for example, was to participate in the first virtual Czech and Slovak job fair.

Ambition 2015 in the Human Resources Area

In 2010, Komerční banka launched a number of human resources initiatives under the umbrella of KB Ambition 2015. These were conceived based upon results of employees´ surveys and also expert studies. Projects of KB's Human Resources Department involved, among others, the areas of corporate culture, motivation, and employees´ development and career growth. Great efforts were devoted to improving the quality of managerial work, enhancing the individual approach towards employees´ needs and supporting staff mobility between the headquarters and distribution network. Moreover, the Bank further improved the Talent Management Programme and worked to enhance its desirability on the labour market.

The first output from the Ambition 2015 programme in the human resources area was an innovative training course for the entire sales team named "KB, the Clients' Bank" in late 2010. The purpose of the extensive training was to strengthen the selling skills of the banking advisors while improving the clients' experiences with KB. Also part of the training was a section for managers dedicated to supporting their subordinates in using new processes and tools.

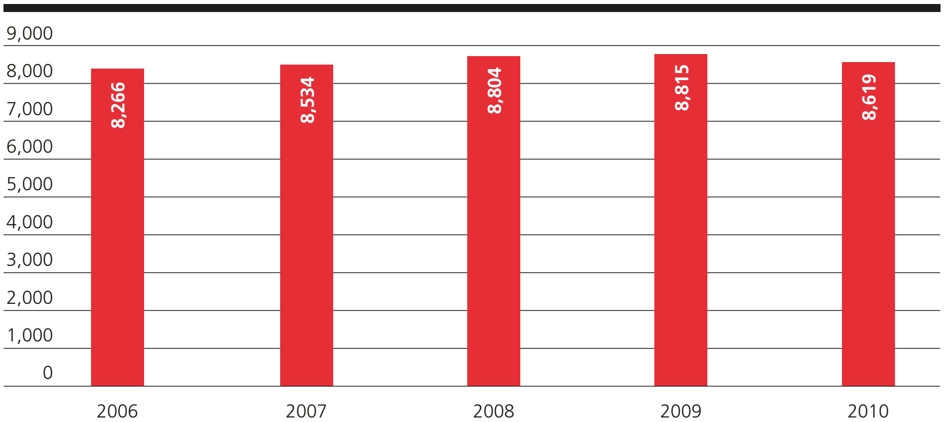
KB as an Equal Opportunity Employer: Programmes for Specific Populations

KB's fundamental vision in the human resources area is to create a long-term partnership with the employees, a prerequisite for which is to offer attractive professional and career development. With the aim to provide equal career opportunities for all employees, including those populations disadvantaged in the labour market, Komerční banka initiated in 2008 the CARMEN career management programme. In 2010, KB addressed improving the quality of its offer to individual employee groups within this programme.

For those on maternal and parental leaves, the Bank launched an information and communication portal. Komerční banka continued its active support of flexible working arrangements with the intention of increasing the recovery back to KB of employees taking parental leave and to facilitate their integration into the working process. Since 2008, the recovery rate of employees from parental leave has improved by more than 7%.

One of the groups upon which KB focuses when acquiring new employees are students and graduates of tertiary education institutions. In 2010, the Bank offered them participation in the fourth season of the international game Citizen Act, as well as recruitment for the position of inspectors (Inspecteur Géneral) in Société Générale. For new graduates who became KB employees, the Bank organises the integration development programmes ConnectinG and ConnectinG+.

Average number of KB Group employees



KB pays close attention to the development of talented employees. Based on feedback from employees, in 2010, the Bank worked to improve the tools it offers for talent development and also on extending the Talent Management Programme across the Group. In 2010, 289 employees were included into the Talent Management Programme.

In the area of employing persons with disabilities, Komerční banka maintains its established policy. It attends and conducts events for the disadvantaged with the aim of supporting them in realising their potential in the labour market. In 2010, KB welcomed students of the Jedlička Institute's secondary vocational school to the Na Příkopě 33 branch. Managers acquainted the students with financial issues and prepared a lecture on job searching and conducting oneself in job interviews.

Employee Training and Personnel Development
Komerční banka follows the principle that its employees' education and development should correspond to actual needs related to their performance in a given position. KB considers internal knowledge transfer a natural part of employee development, both in the forms of training courses and internships. The Bank also is continuously expanding the range of its e-learning programmes, for both instruction and testing. The average number of training days per employee increased year on year in 2010 from 4.5 to 5.1.

Komerční banka has created a coherent system of developmental and integration programmes which comprehensively covers the education of key employee groups. The programme StartinG is designed for all incoming employees. All fresh graduates from tertiary institutions are included in the ConnectinG programme, the purpose of which is to facilitate their integration into KB. ConnectinG+ is a follow-up programme, whereby graduates with the greatest potential gain deeper insight into the functioning of the entire KB Group. The development programme system culminates in the ChallenginG programme for future managers.

Training courses focused on strengthening and broadening professional skills and improving client satisfaction are conducted under the heading Ambition 2015. The individual training courses are continuously being prepared as the product and services offer to clients is innovated.

Remuneration, Commitments to Employees
Komerční banka fulfilled its obligations to employees regarding basic wages and provision of employee benefits under the collective agreement and its amendments in effect for 2010.

Employees of KB and subsidiary companies were for the seventh time offered the possibility to subscribe shares in the Société Générale Global Employee Share Ownership programme. The Bank also expanded its co-operation with the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry, which consists of providing and paying for preventive medical care beyond the medical care covered by public health insurance. In addition, the company Kardia offered to the employees new medical care, the so-called PREVENT INDEX, which screens for a number of health risk indicators.

Risk Management

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. In its policies, the Bank takes into consideration developments regarding all types of risk, i.e. credit, market and liquidity risks, as well as regulatory, legal, concentration, operational and environmental risks.

Credit Risk Management

Risk management units closely co-operate with the business units in order to support the Bank's business activities and to make the credit process more efficient while closely monitoring the quality of KB Group's risk portfolio. The continuous strengthening of credit risk management takes in all its components, including policies, tools, processes and staff expertise.

The credit risk audit activity was transferred to the Bank's Internal Audit in April 2010 to further strengthen its independence and to integrate internal control processes in line with Société Générale Group principles.

Loan origination and credit risk monitoring

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.

Principal activities in 2010 were focused on:

– optimising approval and monitoring processes to support business activities;

– proactively preventing credit fraud;

– supporting KB Group synergies; and

– integrating Basel II components and results.

Optimising approval and monitoring processes to support business activities

In 2010, the Bank focused mainly on the following areas: updating models for credit risk management so that they optimally reflect both current developments in the macroeconomic environment and KB's stipulated business targets, regularly analysing profitability with the aim to optimise granting criteria for the Bank's credit products, and further improving the efficiency of regular monitoring while focusing on risk profile development and the quality of risk tools and models. As in previous years, the results of regular stress testing played a substantial role in all these areas.

In the individual clients segment, the Bank focused especially on further improving behavioural models and procedures that enable fast and simple granting of basic credit products. The current model evaluating clients' KB and Modrá pyramida data has been significantly extended by evaluating data from other Group entities, Penzijní fond KB and Komerční pojišťovna, as well as the IKS KB asset management company. This adjustment further increased the precision and potential of the behavioural approach to providing credit. Furthermore, the Bank implemented a new behavioural model for granting prestigious Platinum credit cards to affluent clients that is based on assessing a wider spectrum of information.

In the small business segment, the Bank initiated a process to update all rating models with the aim to reflect both the crisis experience and expected development in the macroeconomic environment. The updated models will be implemented in the first half of 2011.

The Bank has also improved the LGD (Loss Given Default) models for both aforementioned retail segments to reflect the latest developments in recovery efficiency and improvements in the model for recovery costs allocation.

Structure of KB Group loans to clients

- Building savings loans (12%)
- Mortgages to individuals (27%)
- Consumer loans (7%)
- Small business loans (6%)
- Business loans (48%)

Based upon results from back-testing and stress testing of rating and LGD models, the Bank initiated a regular process of risk–profitability assessment with the aim to optimise the setup of granting criteria for credit products. The adjusted criteria will be implemented in the first quarter of 2011.

In the corporate segment, KB implemented updated rating models reflecting experience from the economic crisis and hence more precisely assessing clients' risk profiles. In addition, an existing rating model for municipalities was recalibrated to provide results that are consistent with the long-time expert assessment of this segment.

All KB scoring, rating, LGD and EAD models were back-tested quarterly, their quality was carefully monitored, and any deterioration triggered corrective measures. KB intensively monitored its portfolio in order to maintain the Bank's capacity to efficiently control developments for particular risk characteristics.

Proactively preventing credit fraud

During 2009, KB had conducted an extensive project with the aim to develop an automated system for identifying and co-ordinating reaction to suspicion of credit fraud. The new system had been implemented at selected branches (pilot mode) in the last quarter of 2009. In 2010, that system was successfully extended to the entire distribution network. The new system is fully integrated into the Bank's key applications, and its use across the entire KB Group is planned.

Supporting KB Group synergies

The Bank extended its behavioural scoring model so that it evaluates not only data from KB and Modrá pyramida but also clients' data from IKS, Penzijní fond KB, and Komerční pojišťovna. That improved and extended the possibility to grant consumer loans or credit cards to the clients of the Group.

As in previous years, KB supported several of the Group's entities in developing rating models (Modrá pyramida, Factoring KB and SGEF), and it also advised on optimising granting processes (Modrá pyramida).

Integrating Basel II components and results

KB Group uses two advanced approaches for calculating risks: the "Advanced Internal Rating Based" (AIRB) approach for credit risk and the "Advanced Measurement Approach" (AMA) for operational risk. During 2010, ESSOX implemented new AMA model for operational risk measurement.

There was slight improvement in KB Group's capital adequacy ratio during 2010, mainly due to increase of regulatory capital. Capital was increased by undistributed profit from 2009.

In 2010, KB focused on a deeper integration of Basel II components and results into its business processes – both within the Bank itself and in its subsidiaries. The Group will continue this integration in 2011 in order to optimise its capital allocation and profitability measurement.

Capital adequacy (as of 31 December 2010 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	15.27%	13.95%	27.5	23.3	0.7	3.5
Standalone KB	16.67%	15.19%	24.6	20.9	0.7	3.0

jH

Jana Hanušová

Advisor to the CEO for Synergies

An international relations graduate from the Faculty of Social Sciences of Charles University, Ms Hanušová joined Komerční banka's marketing team in 1999. From 2000 to 2004, she was head of segment management within retail banking, strategically responsible for the offer to the "Individuals" segment and for preparing new client segmentation. She was involved in the 2004 conception of ESSOX, s.r.o, the subsidiary specialised in financial services. She worked there as head of marketing until August 2006. As from September 2006, she was appointed marketing director for the company Rusfinance/Rusfinance Bank (SG Russia) responsible for consolidating marketing activities in the area of specialised financial services in Russia. Jana returned to the Czech Republic in January 2010 to the position of advisor to the CEO for synergies within the KB and SG Groups.

"Three pillars essential to performance in my position...? I would have to say the ability to listen, empathy and a great deal of creativity," says Jana Hanušová.

Komerční banka closely monitored the proposed changes in legislation on capital requirements known as Basel III. According to the first estimates, the new regulation will have only limited impact on KB due to its already solid capital position.

The Bank continues in regular stress testing as an integral part of its risk management. Stress testing results in 2010 confirmed that KB would meet the regulatory requirements on capital adequacy even in the case of an unexpected negative development in the Czech economy.

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 and financial statements) and qualitative criteria (in-depth client knowledge, as well as the 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 three levels of provisioning committees or, whenever required, by recovery specialists. Provisions are established upon 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 mass retail segment) are provisioned based on the EL (Expected Loss) and ELBE (Expected Loss Best Estimation) statistical models that reflect the specifics of the given receivables (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 2009, the provisioning models were updated with respect to updated EL and ELBE values based on the latest loss observations and new risk drivers while reflecting the phase of the economic cycle. Based on regular models back-testing on a quarterly basis, the Bank confirmed the EL and ELBE values' validity also for 2010.

Real estate valuation
In compliance with Czech and Basel II rules and regulations, 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 team of internal specialists is part of the Bank's risk division and co-operates with a broad group of external valuation experts.

The Bank focused during 2010 on monitoring the residential real estate market in order duly 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 2010's fourth quarter. In line with this activity, an annual process was established for regularly reviewing discount factors used in updating residential property values.

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 the aggravated financial situations of some clients. This put the recovery performance under pressure, as, for example, recovery periods were extended due to greater use of judicial proceedings for recovery and increasing complexity in recovering real estate collateral.

Given the increased portfolio volume in recovery, the Bank continued in optimising its recovery capacity and processes. For instance, the use of external capacities covered approximately 17% of the total portfolio exposure in recovery and represented 82% of the total number of clients in recovery. During 2010, KB also continued in regular monthly auction sales of unsecured retail receivables to selected investors in order to maximise the recovery rate. A main focus is on further automating recovery processes, including to replace the existing recovery application with a new one.

Increased attention was devoted to implementing amendments to the bankruptcy law within the Bank's recovery processes. KB also made active use of reorganisation processes for cases of client insolvency.

Capital Markets Risks Management

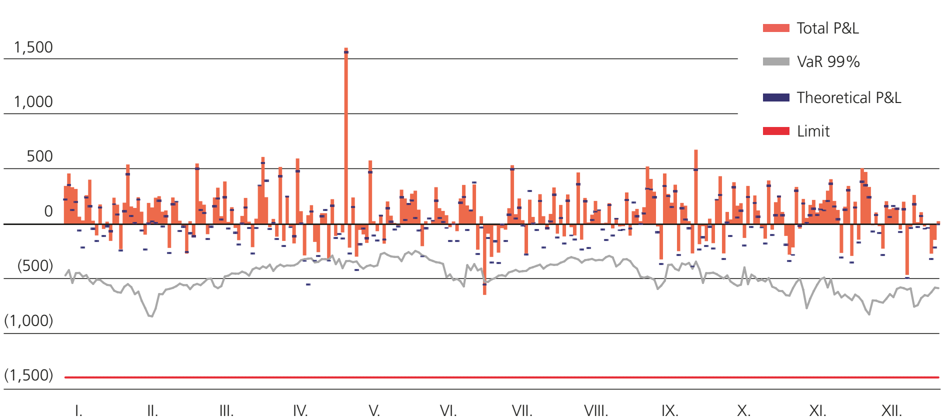
The Capital Markets Risks Department is responsible for managing market risk and counterparty risk in KB Group's capital markets activities. In order to ensure proper segregation and independence of its activities, this department reports directly to the Bank's Chief Risk Officer as well as to Société Générale Group's Market Risk Division. Market risks within Komerční banka 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 Komerční banka's 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.

VaR vs P&L – 1 year history (EUR thousand)



Investment banking new product policy

Prior to their launch, new capital market products are comprehensively analysed by all relevant units of the Bank. Following this analysis phase, and provided that all risks are deemed acceptable, formal approval is granted by the Investment Banking New Product Committee that is co-chaired by members of the Board of Directors responsible for risk and investment banking.

Market risk management methods for the trading portfolio

Assessment of market risks in the trading portfolio of KB is based on three main types of indicators that are used to quantify limits and measure corresponding exposures:

– The Value-at-Risk (VaR) historical simulation method (see details below), 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 and equity areas. Shock scenarios are calibrated based on historical studies or hypothetical analysis and are regularly reviewed.

– Additional limits are used to measure interest rate sensitivities, FX positions, and credit spread sensitivities. The system of limits provides a comprehensive picture of market risks undertaken and of investment strategies.

Value-at-Risk method

Komerční banka 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 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.

Back-testing

The 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. Inasmuch as 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 2010 exceeding the 99% VaR occurred in 2% of the days over the full year. A major project for improving the VaR calculation by implementing a more sophisticated VaR model will be launched in 2011 in collaboration with Société Générale's Market Risks Department.

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 structural and trading book operations on capital markets but also all KB subsidiaries, namely the structural book transactions of Modrá pyramida and Penzijní fond Komerční banky. Front office dealers are provided daily 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.

Asset and Liability Management (financial risks and liquidity)

ALM and ALCO in KB Group

Komerční banka's Asset and Liability Management department (ALM) designs measurement methods and manages the Bank's interest rate, liquidity and foreign exchange risks and, as an intermediary, also those of the Group. This is because KB ALM methodically oversees the processes and procedures of asset and liability management within the individual entities of KB Group, as well. ALM 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. ALM provides this optimisation of KB Group's financial performance by means of transactions approved by the Assets and Liabilities Committee (ALCO).

The ALCO, whose members are, 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. The ALCO oversees the level of risk taken on and the proposed hedging transactions that the Bank executes in order to reduce risk.

All ALM activities fully comply with rules of the Czech regulatory authorities and with relevant international banking regulations.

Funding of KB Group

Client deposits comprise a crucial part (approximately 80%) of the Group's total liabilities and shareholders' equity, and these include current and savings accounts, term deposits, and deposits of pension scheme subscribers. This figure remained stable throughout 2010. Within the Group, Komerční banka itself holds – at around 80% – the largest proportion of these accounts, followed by Modrá pyramida with more than 10% (building savings) and Penzijní fond KB with approximately 5% (deposits of pension scheme subscribers). The share of current accounts represents around 55%.

Structure of KB Group's assets

- Loans and advances to customers (55%)
- Amounts due from banks (18%)
- Securities (23%)
- Other assets (4%)

In addition to the 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 2010, which totalled CZK 1.8 billion in nominal value. As of the end of 2010, the total nominal amount of mortgage bonds and other debt securities placed reached CZK 30.5 billion, of which CZK 16.4 billion is placed outside KB Group.

The Bank's liquidity and capital adequacy continued to be increased by a subordinated loan in the amount of CZK 6 billion with an interest rate tied to 1M PRIBOR, which was taken at the end of 2006 in order to support the Bank's long-term growth potential while optimising its capital structure.

KB Group's liquidity – monitoring and management

Liquidity risk management is primarily designed to ensure that KB and the entire Group can meet their payment obligations at all times. This includes maintaining adequate volumes of cash 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 way of managed coverage of 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 on two levels of market behaviour: normal and stressed scenarios. Sufficient liquidity is controlled 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). Both normal and stressed liquidity scenario methodologies are updated as needed in order to achieve more precise liquidity measurement with the goal of maximising correspondence – and especially in the key deposits area – between the modelled estimated product maturities and actual payments.

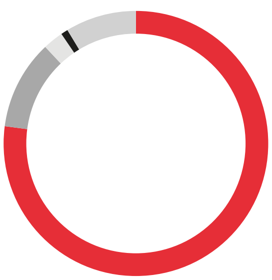
The Group continually records high liquidity. During 2010, it covered all its liabilities from its internal resources without problems, and thus it had no need to obtain secondary funding in financial markets (e.g. by issuing securities). The ratio of client loans to client deposits was below 72% at the end of 2010. This level of liquidity reflects, among other facts, a preference for assets with shorter maturities when reinvesting client deposits. By using interest rate derivatives, the Bank achieves greater independence between liquidity management and managing interest income (interest rate risk) even as it achieves a stable interest margin while holding assets with short maturities. The level of liquidity is clearly demonstrated by the Bank's ability to cover an approximate 30% outflow of all client liabilities during the course of one year without great problems. The Czech National Bank adopted a provision at the end of 2008 that KB perceives as strengthening the banking sector's liquidity. The central bank implemented delivery repo operations through which it lends cash to banks against a pledge of specifically enumerated securities.

Structural interest rate risk of KB Group – monitoring and management

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, Modrá pyramida and KB 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 in 2010 did not exceed this limit, and thus it can be considered that structural interest rate risk was minimised.

Structure of KB Group's liabilities and shareholders' equity



- Amounts due to customers (77%)
- Shareholders' equity (11%)
- Securities issued (2%)
- Subordinated debt (1%)
- Other liabilities (9%)

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 in 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 them 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 more appropriate in terms of accounting (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 and therefore it is the strategy of the SG Group overall to minimise use of the HTM portfolio. The 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 also in Penzijní fond KB, because, in the Group's opinion, the use of HTM and related accounting better reflects the corresponding long-term nature of investing the pension participants' funds.

As the overall aim of ALM is to ensure stable interest income into the future, these hedging transactions are acquired mainly against 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, and the Bank's aim, moreover, is to put together assets so 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 profit and loss statement. Only in the case of a sale of these instruments or the termination of a hedging relationship (for derivatives) would such an impact occur. As a result of the accounting treatment for bonds in the AFS portfolio and of hedging derivatives, the shareholders' equity account will be affected by the impact of revaluation of 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 about 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 of instruments for which there exists general agreement on how to measure their market values) is represented in this account and the remaining part of the statement of financial position is exempt from revaluation on the mark-to-market principle and continues to be recorded according to the accrual principle.

Because only a single 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.

Structural foreign exchange risk of KB Group – 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. The Group's 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 2010 was less than 0.15% of the Bank's capital and thus essentially negligible.

Price setting
Client interest rates and the methodology for setting them in accordance with external conditions are established by the Commercial Committee, in which members of the Bank's senior management are represented. ALM provides for issuing KB's foreign exchange rate list, sets or proposes the external interest rates used for deposit products, and determines the Bank's base lending rates from which loan rates are derived.

By means of a special intranet application, ALM also supports the distribution network in carrying out KB's internal loan-pricing. This application provides the Bank's relationship managers with a direct connection to ALM experts who provide them with exact pricing for individual loan transactions.

The price-setting strategy is to offer clients products bearing competitive interest rates while always taking into account costs connected with the price of liquidity and hedging against interest rate risk and so that the margins and financial stability are preserved even despite possible changes in market conditions.

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, thanks to which it did not invest funds into so-called "toxic assets". Consequently, it was unaffected by the immediate impacts arising from the first phase of the financial crisis. The Bank has preferred investments in assets bearing low risk. Government bonds have always been considered 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. KB's exposure to more endangered sovereigns in the euro zone is limited and does not affect its financial stability. Potential impacts could be expected in the case of restructuring the government debt of those countries whose debt is held by the Bank. The impact would take the form of a decrease in the Bank's profit for the respective accounting period.

Deterioration in the market environment creates another form of impact from the crisis. The Bank must face up to that just as do all other economic entities. This means mainly increased instability in the market and its diminished functionality, as only short-term trading still prevails. The Bank, however, remains independent of secondary financial resources, and it therefore does not expect material negative impacts in relation to the aforementioned situation.

The manner chosen for resolving indebtedness of the imperilled countries of the euro zone will significantly influence the future of the financial sector. The amount of the potentially affected exposures is limited, however, and the conceivable impacts are restricted at a level which cannot jeopardise the Bank and does not influence its level of liquidity and market risks.

KB Group is generally overcoming the impacts of the crisis without substantial problems. Komerční banka's liquidity is at a very good level, which is manifestly documented by its ratio of client loans to client deposits that is less than 72%.

To a large extent, increase in 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, increase of banks' capital adequacy and liquidity, and implementation of the new leverage ratios.

Since the structure of KB's capital is not complicated, the expected decrease due to the new calculations for regulatory capital is very limited and this arises mainly from limits on the inclusion of minority capital from the consolidated subsidiaries and from other deductible items. KB meets also the newly defined minimal capital levels, because its current level of capital adequacy is well above the increased regulatory requirement.

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 the regulators are still contemplating what will be the target level of the required leverage ratio, at the time of preparing this report a level of 3% has been indicated. The healthy position of the Bank 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 probably not have significant negative consequences for Komerční banka.

Compliance Risk

Compliance risk is the risk of breaching regulatory rules and standards of ethical conduct, including such standards to which the Bank has made a specific commitment. The potential negative consequences include litigation with regulatory institutions and clients, monetary damages (fines or compensation for damage), and injury to the reputation of Komerční banka. The responsibility for compliance risk management in KB is dual in nature: It is the responsibility of the Compliance Department as the central unit for managing compliance, but it also is the obligation of all managers and employees to know and comply with the legal regulations and standards that apply to them.

Key tasks in the compliance area include to define principles and processes for the compliance function, for preventing the risk of money laundering and financing of terrorism, and for ensuring compliance with legal regulations related to financial markets, banking law, consumer protection, consumer data protection, and fair competition. The Compliance Department is also responsible to create rules guiding employees in their ethical behaviour. The Bank advises its subsidiaries in these areas and ensures that the compliance risk management is efficient.

The main objectives which the Bank established for 2010 in this area were achieved. As its first priority, KB successfully adopted the requirements of the new law on consumer credit which incorporates the obligations set out by a European Union directive into Czech law. These obligations relate mainly to providing information to consumers before conclusion of the consumer loan contract, as well as during its duration. New and forthcoming regulations, primarily EU requirements for capital management and credit exposures also were closely monitored.

At the beginning of 2010 the process of validation of new retail and corporate products was modified as the New Product Committee for Corporate and Retail Banking was established. The objective of the Committee is to ensure that before the launch of any new product all types of risks have been clearly identified, assessed, understood and accepted. Composition of the New Product Committee co-chaired by Executive Directors of Risks and Marketing ensure comprehensive analysis by all relevant departments. Functioning of the Committee thus effectively complements the model for validating new investment banking products.

Among the main tasks of the Compliance Department for 2011 are to focus on monitoring regulatory developments expected to include a number of new European Commission initiatives on consumer protection, assessing their impacts for the Bank, and eventually managing their implementation in practice.

mB

Martin Berdych

Head of Banking Products, Legal Department

Mr Berdych successfully completed his studies at the Faculty of Law of Charles University in Prague in 2000 and following three years of experience at a prominent law firm joined Komerční banka that same year. He has held various positions within the Bank's Legal Services and contributed to its centralisation during KB's privatisation. He has participated in many crucial projects, among them the integration of the Société Générale branch in Prague with KB. Since 2005, Martin has held the position of head of Banking Products. He focuses especially on legal support for the Bank's most important business transactions, increasing effectiveness in providing legal services, co-operation within the Société Générale Group, and advisory to KB's management. In 2009, he attained the LL.M. degree with a focus on EU Business Law. He has attended many professional seminars in the Czech Republic and abroad, is co-author of several journal articles, and has authored a publication focused on the legal aspects of acquisition financing.

"Legal advisory requires excellent knowledge of legal risks and the problems themselves, as well as the ability to use this knowledge to the client's maximum satisfaction," says Martin Berdych. "Excellent communication skills, responsibility, a sense of purpose and the ability to find an effective solution also are important."

Operational Risk

The Bank intensified interconnection of its tools for managing operational risks (including for monitoring, assessment, and operational risk control) with those used for calculating the capital requirement for this type of risk. KB has been applying the Advanced Measurement Approach (AMA) for this purpose since 2008. The aim was to increase efficiency of the operational risk processes while focusing especially on the Bank's most sensitive activities.

In addition to the standard tools utilised within the AMA approach, such as collection of data on actual operational risk losses, risk control self-assessment, key risk indicators and scenario analysis, the Bank implemented also a system of permanent supervision composed of daily and formalised controls. The system of controls was reviewed during 2010 at the level of the Bank's individual arms, to ensure that it reflects the results of risk self-assessment and the changes in KB's processes and organisation.

Active operational risk management is ensured by means of the Operational Risks Committee, which determines Komerční banka's overall strategy in the area of operational risk. The committee also adopts appropriate steps in case of any negative development and approves principal changes in the insurance programme utilised in the Bank for mitigating impacts of operational risk events.

During 2010, KB recorded 533 operational risk losses in a total gross amount of CZK 68 million. While in a year-on-year comparison the Bank recorded a significant decrease in the volume of such losses, this in fact reflects an extraordinary loss incurred in the first quarter of 2009.

The consolidated management of operational risk underwent important changes. The ESSOX subsidiary received regulatory approval to apply AMA in the consolidated operational risk management as of 1 January 2010 (on a standalone basis, ESSOX is not required under Basel II to hold regulatory capital). Closer co-operation was also developed with the remaining members of KB Group, even if they still applied the standardised approach.

Business continuity

Business continuity management is a comprehensive scheme comprising 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 the 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

KB is aware of the importance of information for its business. With regard to the importance and sensitivity of information that the Bank acquires, processes and archives, it duly secures data throughout the data life cycle.

Legal Risk

KB reduces its legal risks with the support of a team of expert lawyers when concluding and executing trades and contracts, introducing new products and processes, and preparing standard contract forms. The Legal Department provides information about currently valid, proposed and pending law, as well as about significant judicial decisions with potential to influence KB. It also represents the Bank before the courts, financial arbiter and enforcement authorities. It co-ordinates with KB's subsidiaries in the legal area.

The main events in the legal area in 2010 included establishment of the central securities depository in the Czech Republic, an amendment to the Consumer Protection Act, and the cross-border merger of KB and KB Bratislava. During 2011, the Legal Department will continue its active co-operation with the Czech Banking Association on analysing draft legislation, it will inform the Bank about new legislation and it will review all standard contract documentation in KB for compliance with Czech and EU regulations.

Internal Audit

The internal audit function in KB benefits from a flexible organisational structure implemented as of 2009. On 1 April 2010, credit risk audit became a part of Internal Audit's responsibilities, having been shifted from the Risk management unit.

The activity in 2010 focused on covering the most important risks and functions of the Bank while fully controlling all regulatory requirements. Overall, 94 audits were completed (including 32 special investigations). The audits covered both the distribution network and head office units, and they were directed also to certain companies providing KB with outsourcing services.

Within SG Group, a global division for internal audit and control was set up as of 1 April 2010. With a matrix structure based on a geographic principle, it merged internal audit departments in various companies of SG Group into regional centres. KB's Internal Audit became one of the centres, consolidating auditors from all SG Group companies in the Czech Republic. It stands ready to provide audit services also to other SG Group entities in Central Europe (the Czech Republic, Slovakia, Poland, Hungary, Lithuania, Latvia and Estonia). Operating expenses incurred in the auditing will be charged to the audited companies. Preparations commenced in 2010 for implementing the new structure after the respective contracts were to be signed at the turn of 2010 and 2011.

Environmental Risks

In its operations, Komerční banka fulfils all legal requirements for protecting the environment and it regularly monitors a number of environmental indicators as to the Bank's influence on its surroundings. Voluntary measures adopted to reduce environmental impacts are described in the Corporate Social Responsibility chapter.

KB's excellent liquidity and strong capital position will enable it to continue in supporting its clients and to expand its lending portfolio even if macroeconomic development will be worse than expected.

Komerční banka Group

As of 31 December 2010, KB Group comprised eight companies. Of these, KB held majority interests in six companies and a 49% share in Komerční pojišťovna.

In addition to its ownership interests in the Group, KB has maintained 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 develop most effectively and to maximise the use of all potential synergic effects, KB Group continued during 2010 in developing close business co-operation with individual companies within the KB Group and with other members of the Société Générale Group operating on the Czech market. Special emphasis is given to developing new products and innovating proven ones while improving joint co-ordination in business areas and in distribution. This co-operation results in an optimal and comprehensive range of products for individuals as well as for corporate clients.

Changes in Ownership Interests in 2010

In May 2010, the owners' equity was reduced in the company Bastion European Investments S.A. (hereinafter also "Bastion") by EUR 2 million (CZK 57 million). As the majority shareholder of Bastion, only the Bank participated in this decrease. The reduction in shareholders' equity had been planned.

In June 2010, the Bank's Board of Directors approved the report of the liquidator of ALL IN REAL ESTATE LEASING, a.s., v likvidaci, who had proposed distributing the expected liquidation balance of CZK 2 million and it instructed the liquidator to propose striking the company from the Commercial Register. The company was deleted from the Commercial Register as of October 2010.

In July 2010, the share capital of Komerční pojišťovna was increased by CZK 301 million from retained earnings by increasing the nominal value of the shares.

Based on a decision by the Bank's Board of Directors from July 2010, the shareholder's equity of Penzijní fond Komerční banky was decreased by CZK 300 million by paying out additional paid-in capital which had been invested in May 2008 to strengthen that company's financial position. A decrease of other capital funds is not subject to recording in the Commercial Register.

In October 2010, the Bank's Board of Directors decided to increase the shareholder's equity in Modrá pyramida by subscribing additional shares in the total value of CZK 550 million in order to strengthen its financial position. The registered shares were fully paid up in November 2010.

With 1 January 2010 as the effective date, the Bank merged with its fully controlled subsidiary Komerční banka Bratislava, a.s. (hereafter "KBB") in a cross-border merger. The merger was entered into the Commercial Register on 31 December 2010, and KBB was dissolved without liquidation. The purpose of the merger was to improve the quality of services for corporate clients on the Slovak market. At the same time, as of 1 January 2011, a branch of the Bank was established in Slovakia.

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	Consolidation method
	CZK thousand	CZK thousand	%	CZK thousand	
Domestic participation					
Modrá pyramida stavební spořitelna, a.s.	562,500	562,500	100	4,872,282	Full
Penzijní fond Komerční banky, a.s.	200,000	200,000	100	230,000	Full
Factoring KB, a.s.	1,184, 000	1,184,000	100	1,190,000	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]	Full
ESSOX, s.r.o.	2,288,086	1,165,387	50.93	1,165,387	Full
Komerční pojišťovna, a. s.	904,152	443,012	49	482,140	Equity
Foreign participation					
Bastion European Investments, S.A.	16,029[2]	16,026[2]	99.98	3,603,568[3]	Full

1) Direct share/Group share
2) According to historical exchange rate
3) CZK/EUR exchange rate 25.060 as of 31 December 2010 (CNB)

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

Société Générale

SGCF

SOGECAP

Komerční banka

Non-strategic Ownership Interest

Bastion European Investments S.A. (99.98%)
Czech Banking Credit Bureau, a.s. (20%)
Českomoravská záruční a rozvojová banka, a.s. (13%)
Protos, uzavřený investiční fond, a.s. (KB 89.64%, FKB 10.36%)

Pension

Penzijní fond KB, a.s. (100%)

Building Society

Modrá pyramida stavební spořitelna, a.s. (100%)

Corporate Services

Factoring KB, a.s. (100%)

Komerční banka Bratislava, a.s. (100 % until 31 December 2010)*

Consumer Credit

ESSOX, s.r.o. (50.93%)
ESSOX SK s.r.o.

Insurance

Komerční pojišťovna, a.s. (49%)

SOGEPROM

Development

- SOGEPROM Česká republika s.r.o.

ALD/SGEF

Business Finance

- ALD Automotive s.r.o. (including Slovak branch)
- SG Equipment Finance CR s.r.o. (including Slovak branch)
- PEMA group companies operating in the Czech and Slovak Republics

AMUNDI

Asset Management

- Investiční kapitálová společnost KB, a.s.**

Note: Percentage shares in parentheses refer to KB's ownership in the company.
ECS in 2010: From 1 Jan 2010 to 28 Oct 2010, ECS was a part of SG Group (100% in ECS). Thereafter, SG became a minority shareholder. ECS operates in the Czech Republic through the company ECS International Czech Republic, s.r.o.
*As of 31 Dec 2010, Komerční banka Bratislava, a.s. dissolved by the merger with the Bank. At the same time, as of 1 Jan 2011, KB's branch was established in Slovakia.
**As from 1 Jan 2010, IKS KB became part of the newly established Amundi group, in which SG has 25% ownership.

Modrá pyramida stavební spořitelna, a.s.

Shareholder structure
Komerční banka 100%

Core business
Building savings deposits and loans

Market position
During 2010 Modrá pyramida acquired second position on building savings market (market share 16.9% as measured by loans to clients).

Main products
– State-subsidised savings accounts
– Bridging loans
– Building savings loans

Contact
Modrá pyramida stavební spořitelna, a.s.
Bělehradská 222/128
120 21 Prague 2, P.O. Box 40
ID: 60192852
Phone: +420 222 824 111
Fax: +420 222 824 113
E-mail: info@mpss.cz
Internet: www.mpss.cz
www.modrapyramida.cz

Penzijní fond Komerční banky, a.s.

Shareholder structure
Komerční banka 100%

Core business
Pension fund

Market position
In 2010, Penzijní fond Komerční banky, a.s. moved into third position on the pension funds market as measured by the number of pension scheme beneficiaries. Market share by number of participants is 10.9% and as measured by volume of assets under management is 13.3%.

Rating
Aa1.cz according to Moody's (the highest rating among Czech pension funds)

Main products
– State-subsidised pension insurance

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
E-mail: pf-kb@pf-kb.cz
Internet: www.pfkb.cz

Financial summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	**76,715,196**	76,062,079
Total loans	**49,720,446**	45,561,104
Shareholder's equity	**5,646,322**	4,213,774
Share capital	**562,500**	500,000
Net banking income	**1,780,280**	1,567,909
Profit before tax	**1,025,890**	797,110
Net profit	**930,141**	739,668

Financial summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	**30,601,851**	28,610,680
Total volume on client accounts	**28,718,275**	27,178,729
Shareholder's equity	**1,585,835**	1,331,413
Share capital	**200,000**	200,000
Net operating income	**853,937**	226,876
Profit before tax	**726,824**	77,633
Net profit	**726,815**	74,606

Factoring KB, a.s.

Shareholder structure
Komerční banka 100%

Core business
Factoring

Market position
Fifth place on the factoring market, managing 10.5% of the factoring portfolio on the Czech market.

Main products
– Domestic factoring
– Export factoring
– Import factoring
– Modified factoring
– Receivables management

Contact
Factoring KB, a.s.
Lucemburská 7/1170
130 11 Prague 3
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Phone: +420 222 825 111
Fax: +420 224 814 628
E-mail: info@factoringkb.cz
Internet: www.factoringkb.cz

ESSOX, s.r.o.

Shareholder structure
Komerční banka 51%
SG Consumer Finance 49%

Core business
Providing consumer loans, credit cards and automotive financing

Market position
12.8% market share in the consumer finance market.

Main products
– Consumer loans
– Revolving credit (credit card)
– Automotive financing

Contact
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Phone: +420 389 010 111
Fax: +420 389 010 270
E-mail: essox@essox.cz
Internet: www.essox.cz

Financial summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	**5,464,504**	5,156,690
Factoring portfolio	**2,460,787**	2,260,531
Shareholder’s equity	**1,506,949**	1,505,428
Share capital	**1,184,000**	1,184,000
Net operating income	**142,231**	164,571
Profit before tax	**6,300**	25,319
Net profit	**9,402**	28,282

Financial summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	**10,554,883**	10,687,687
Shareholders' equity	**2,668,061**	2,435,776
Share capital	**2,288,086**	2,288,086
Loans to clients*	**7,184,245**	7,404,195
Net operating income**	**1,440,178**	1,221,609
Net profit	**232,285**	174,355

* Receivables from commercial relationships
** Non-audited

KB Pojišťovna

Komerční pojišťovna, a.s.

Shareholder structure
SOGECAP 51%
Komerční banka 49%

Core business
Insurance

Market position
12.3% share on the life insurance market (measured by premiums written for the year 2010).

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

Contact
Komerční pojišťovna, a.s.
Karolinská 1/650
186 00 Prague 8
ID: 63998017
Phone: +420 222 095 999
Fax: +420 224 236 696
E-mail: servis@komercpoj.cz
Internet: www.komercpoj.cz

Financial summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	**21,700,214**	14,498,778
Technical reserves	**19,964,136**	12,949,677
Shareholders' equity	**1,382,293**	1,225,247
Share capital	**904,152**	602,768
Gross premiums written	**8,981,639**	4,824,610
Net profit	**139,116**	71,736

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

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
E-mail: info@iks-kb.cz
Internet: www.iks-kb.cz

Financial summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	**14,028,163**	14,127,621
Shareholders' equity	**14,001,212**	14,069,984
Share capital	**5,000,000**	5,000,000
Net interest income	**582,836**	584,925
Profit before tax	**567,437**	569,547
Net profit	**539,067**	541,070

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.

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

Financial summary (IFRS, CZK thousand)	31 December 2010*	31 December 2009
Total assets	**6,574,168**	7,074,521
Shareholders' equity	**3,296,388**	3,558,480
Share capital	**16,029**	16,029
Net interest income	**122,316**	153,226
Profit before tax	**121,924**	152,829
Net profit	**121,937**	151,837

CZK/EUR exchange rate 26.465 as of 31 December 2009 (CNB), CZK/EUR average exchange rate 26.445 for the period from 1 January 2009 to 31 December 2009 (CNB)
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 2010 to 31 December 2010 (CNB)
* Non-audited

Komerční banka Bratislava, a.s.

(As of 31 December 2010, Komerční banka Bratislava, a.s. was dissolved by merger with the Bank. Meanwhile, as of 1 January 2011, a branch of the Bank was established in Slovakia through which KB has been providing services in the Slovak Republic.)

Shareholder structure
Komerční banka 100%

Core business
Complete banking services for corporate clients
Trade finance and settlement between the Czech and Slovak republics

Market position
Niche position on the Slovak market (less than 1% of that market), restructuring of client portfolios, focus on medium and large corporate clients with activities on both the Czech and Slovak markets.

Main products
– Short-term and investment loans, guarantees
– International payments
– Foreign exchange instruments (spot, forward), interest rate instruments (forward rate agreements, swaps) and other derivative products
– Money market deposits and loans
– Electronic banking

Contact as from 2011
Komerční banka, a.s.
pobočka zahraničnej banky
Hodžovo námestie 1A, P.O. Box 137
810 00 Bratislava
Slovak Republic
ID: 47231564
Phone: +421 259 277 328
Fax: +421 252 961 959
E-mail: koba@koba.sk
Internet: www.koba.sk

Financial summary (IFRS, CZK thousand)	31 December 2010	31 December 2009
Total assets	**4,631,715**	6,596,883
Loans to customers	**3,302,537**	4,781,695
Deposits from customers	**2,405,815**	2,823,950
Net banking income	**156,323**	203,781
Net loss	**(137,767)**	(337,159)

CZK/EUR exchange rate 26.465 as of 31 December 2009 (CNB), CZK/EUR average exchange rate 26.445 for the period from 1 January 2009 to 31 December 2009 (CNB)
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 2010 to 31 December 2010 (CNB)

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 voluntarily upholds the corporate governance standards in compliance with the Corporate Governance Code based on the OECD principles, issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the website of Ministry of Finance of the Czech Republic at http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/fnm_sprava_kodex.html.

Shareholder Structure of Komerční banka (according to the extract from the issuers' register taken from the Central Securities Depository as of 31 December 2010)

	Number of shareholders	Proportion of number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	42,673	100.00	91.33
of which: legal entities	478	1.12	89.16
private individuals	42,195	98.88	2.17
Legal entities	478	100.00	89.16
of which: from the Czech Republic	99	20.71	0.73
from other countries	379	79.29	88.43
Private individuals	42,195	100.00	2.17
of which: from the Czech Republic	37,708	89.37	2.02
from other countries	4,487	10.63	0.15

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, each with a nominal value of CZK 500. All the Bank's shares carry the same rights.

Major Shareholders of Komerční banka with over 3% of the Share Capital as of 31 December 2010 (According to the extract from the issuers' register taken from the Central Securities Depository as of 31 December 2010)

	Proportion of share capital (%)
Société Générale S.A.	60.35
Chase Nominees Limited	4.97
Nortrust Nominees Limited	4.59
STATE STREET BANK AND TRUST COMPANY	4.42

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.

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 the 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 ballot. 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 on. 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 on.

It is within the powers of the General Meeting to:

a) decide on amendments to and alterations of the Articles of Association, with the exception of alteration in consequence of an increase in the registered capital by the Board of Directors or on the basis of other legal facts determined by law;
b) decide on the increase in the registered capital, with the exception of the procedure specified under Section 31 of the Articles of Association, or on 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 on a decrease in the registered capital provided that a prior consent of the Czech National Bank has been given, unless the decrease to cover a loss is concerned;
f) decide on a change in the class or type of the shares;
g) decide to issue bonds of the Bank if the law so requires;

h) decide to modify 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 on distribution of the profit of other own resources or coverage of the loss, and to determine royalties;
k) decide on 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 on 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 to wind 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 to quote participation securities of the Bank in accordance with a special legal regulation and to terminate 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 on an increase in the registered capital under the conditions specified in the Commercial Code and the Articles of Association (Section 31);
r) decide to acquire the Bank's own shares in accordance with the relevant provisions of the Commercial Code;
s) decide on elimination or restriction of 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 alterations thereof;
u) approve the acquisition or disposal of assets, when the law so requires;
v) decide on 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 on appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
x) decide on the appointment and removal of members of the Audit Committee;
y) decide on the approval of the rules for the provision of discretionary compensation to Audit Committee members.

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, either 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 2010

At the General Meeting held on 29 April 2010, 166 shareholders holding shares with a nominal value representing 66.83% of the Bank's share capital were present in person or through their representatives.

The aforementioned General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its property for 2009 as well as the ordinary financial statements of Komerční banka for 2009, decided to distribute profit for 2009 in the total amount of CZK 10,368,860,504.34, and decided to pay out dividends in the amount of CZK 170 per share.

The Annual General Meeting also:

– approved the consolidated financial statements for 2009;

– approved the discretionary part of the remuneration (bonus) of the members of the Board of Directors for 2009;

– consented to acquisition of the Bank's ordinary shares into treasury under specified conditions;

– decided to make amendments to the Bank's Articles of Association;

– appointed the company Ernst & Young Audit, s.r.o. as the Bank's external auditor for 2010.

Peter Palečka Vladimír Jeřábek Henri Bonnet Aurélien Viry Patrice Taillandier-Thomas Jan Juchelka

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 maintenance of the accounting records of the Bank. 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 on 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 requirements 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 official civil charges, accusations or other sanctions have been filed against them. The stated persons were not in the past 5 years parties to any bankruptcy, receivership or liquidation.

Composition of the Board of Directors

Henri Bonnet
Chairman of the Board of Directors
(since 10 September 2009)

Didier Colin
Member of the Board of Directors (from 9 October 2004, re-elected on 10 October 2008, membership terminated as of 31 December 2010)

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
(elected as a member of the Board of Directors by the Supervisory Board on 30 November 2010 with effect 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 Bonnet is a Member of the Supervisory Board of Komerční pojišťovna and the 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. Mr Vladimír Jeřábek is also 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 Peter Palečka is also a Member of the Supervisory Board 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 Patrice 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
Degree in finance and accounting from ESCP Paris and degree in reporting and finance from DECF. His career at Société Générale began in 1990, when he began 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 a new member of the Board of Directors of Komerční banka in charge of risk management by the Supervisory Board with effect from 1 January 2011 and thus replaced Mr Didier Colin.

Activity Report of the Board of Directors

The Board of Directors shall meet 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 2010 and held three remote votes in accordance with the Bank's Articles of Association. The average meeting length was 1 hour and 50 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 2010, the Board of Directors discussed the annual financial results of KB Group for the year 2009, as well as KB's consolidated financial statements, non-consolidated financial statements, and their footnotes as of 31 December 2009 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 2009 as well.

The Board of Directors regularly reviewed the quarterly financial results of KB Group. 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 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 and dealt with the reports on monitoring of so-called sensitive clients in the retail and corporate banking segments. Within its competence, it approved loans to economically connected groups above a specified limit and limits of market risks. 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 2009 annual evaluation report for this area and the regular reports submitted on a quarterly basis. In the context of operational risk, reports on the results of the first level controls and adopted procedures in the area of information security were also discussed.

Compliance risks have been evaluated both in the Annual Report for 2009 and the quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2009 annual evaluation report on KB's anti-money laundering and terrorism financing system. Furthermore, it addressed measures adopted by KB related to compliance matters and in accordance with the Czech Banking Association's Standard No. 19 – Code of Conduct between Banks and Clients, and approved the new document "The Komerční banka Group's Rules of Behaviour and Ethical Principles of its Employees (Public Information)", which was proposed by the Bank's Ombudsman and ensues from the main principles already contained in the Ethical Code and other related internal procedures.

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 2010 and was informed of all actions carried out by Internal Audit in each quarter. Moreover, it evaluated the summary of these actions and their results for 2009. Management of corrective measures and their proper implementation were fully addressed. The Board of Directors also addressed the results of risk mapping, and based on its evaluation the annual internal audit plan for 2011 and the strategic plan for 2011–2014 were drawn up and approved. It also approved the corrective measures taken based on the Constructive Service Letter, which had been prepared and presented to the Board of Directors by the external auditor Deloitte 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 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. By decision of the Board of Directors, the Ombudsman's competences were extended to all companies of the KB/SG groups active in the Czech Republic and also to the area of corporate clients' complaints.

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, amendments to the Articles of Association, appointment of auditor and other matters. In 2010, it adopted particular decisions on finalising the transformation of Komerční banka Bratislava from a subsidiary to a foreign branch of the Bank. The merger of KB and KBB was carried out as of 31 December 2010, and since 1 January 2011 the Bank has been operating in the Slovak Republic through its foreign branch.

As part of its activities, the Board of Directors decided on many other issues related to organisational structure, approving directives within various arms, granting powers of attorney or sponsorship strategy. It dealt with the sale of land and buildings and decided on future deployment of the Bank's headquarters. In this context, it was decided to establish a subsidiary, KB Real Estate, s.r.o.

Great attention was devoted to Corporate Governance issues with regard to the new developments in Czech legislation and also in the context adopted by the parent company Société Générale. The Board of Directors evaluated its own activities in 2009 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.

Communication Committee (COCOM)
The Communication Committee makes and proposes decisions regarding internal and external communication. The committee discontinued its activity as of 30 June 2010.

Group Communication Committee (Group CoCom)
The committee took up its activity as of 1 July 2010. The committee makes and proposes decisions regarding internal and external communication within the KB Group and it 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 the risk compliance management, development of regulations, investigation of regulatory institutions, and serious compliance failures.

Internal Control Co-ordination Committee (ICCC)
The Internal Control Co-ordination Committee co-ordinates all tasks carried out by the various formations of internal control.

Card Activities Committee (CACO)
The CACO co-ordinates card activities in KB and within KB Group.

Security Committee (SeCo)
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 mandate of this committee was approved by the Board of Directors on 15 November 2010. The main activity of this committee will be to monitor and assess both past and expected developments in the KB credit portfolio on the basis of risk indicators analysis, including to monitor credit risk in subsidiaries and affiliates.

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 obtain 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 can 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 a 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 the Supervisory Board. 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 or 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;

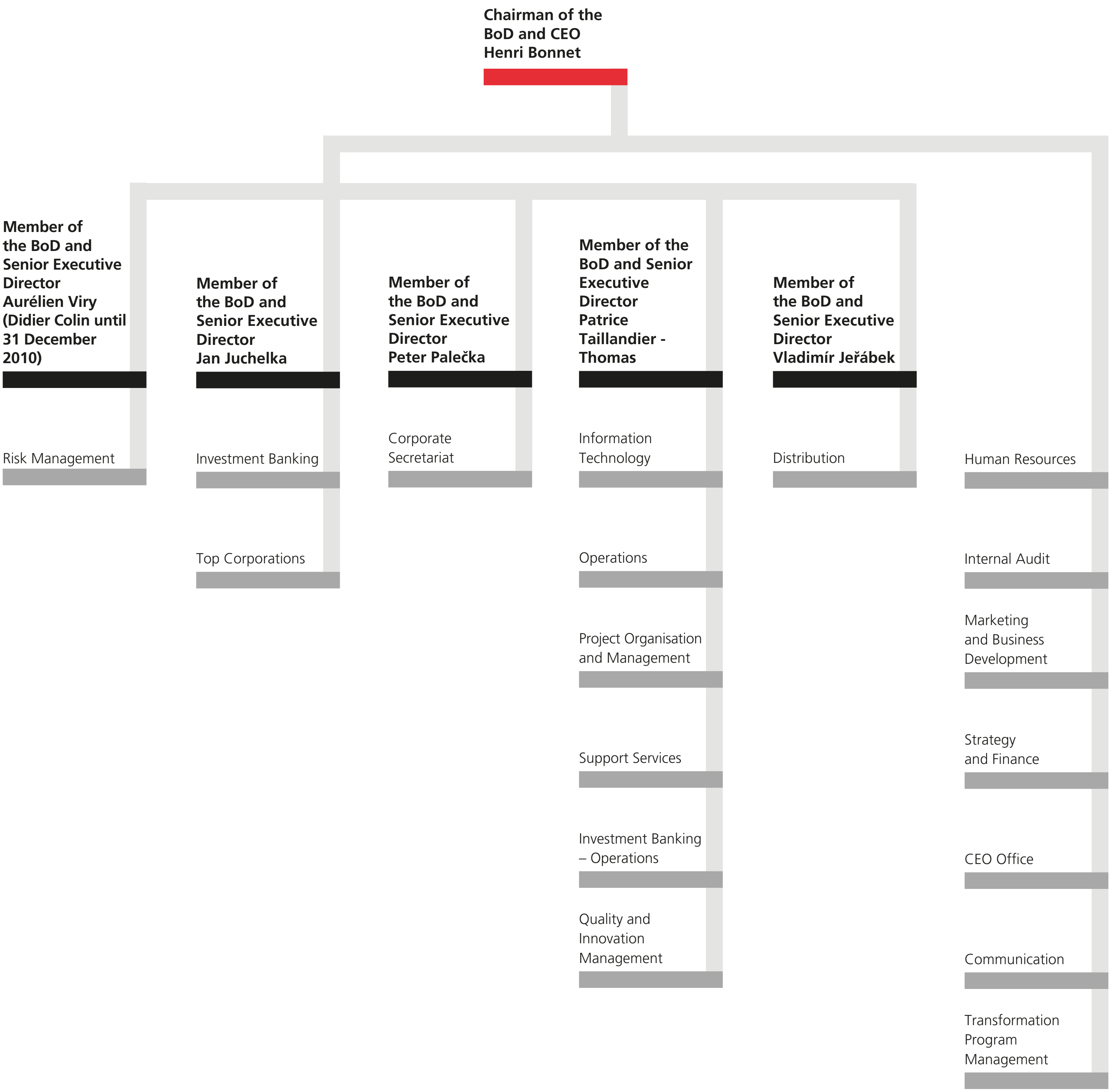
c) submit to the General Meeting proposals for amendments and changes to the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
d) submit to the General Meeting a report on the Bank's business activities and the state of the Bank's property and to do so at least once for each accounting period;
e) decide to confer and revoke power of procuration;
f) decide on 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 on 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 on 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 on an increase in the share capital if so authorised by the General Meeting;
p) enter into a collective agreement;
q) decide on 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 on 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 29 April 2010, 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 and Group's Business Activities and State of their Assets, which is part of this annual report.

ORGANISATIONAL CHART KB



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 since 1 October 2010 until the next General Meeting)
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)

Personnel Changes in the Supervisory Board during 2010:

Séverin Cabannes
(membership terminated as of 30 September 2010)

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 audit of the management 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 Havlíčkův 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 Havlíčkův 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 Havlíčkův 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 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. Since 2009, he has been a Member of the Supervisory Board of Komerční banka.

Bernardo Sanchez Incera
Graduate in economic studies at the Institute of Political Studies in Paris and holds 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 2010, the Supervisory Board held four regular meetings. The average meeting length was 1 hour and 20 minutes.

The Supervisory Board reviewed the Bank's ordinary and consolidated financial statements as of 31 December 2009 prepared under International Financial Reporting Standards (IFRS). The report of the external auditor, Deloitte 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 2009 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities in 2009 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 2009 to 31 December 2009 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 2010. 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 further improvement. Moreover, it examined the 2009 annual assessment report on KB's anti-money laundering system and the annual compliance risk management report. It discussed the developments in the areas of employee turnover, sickness rate and overtime as well as the annual analysis of the handling of all complaints sent to KB and its Ombudsman. Within its powers, the Supervisory Board discussed the election of the members of the Bank's Board of Directors, the service contracts concluded with those members, and the remuneration of KB managers who are also the members of the Board of Directors. Also, the report on the Board of Directors activities for 2009 was presented to the Supervisory Board.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market with regard to the development of the macroeconomic environment. Furthermore, it discussed the proceedings of the Internal Audit and their results in individual quarters of the year and at the same time expressed its consent to the annual internal audit plan for 2011 and the strategic plan for 2011–2014. The Supervisory Board was informed of the ongoing merger between KB and KBB, the project for optimising the new headquarters building, and the new functioning of the Internal Audit department within the SG group. It was also informed about the implementation of rules in the "know your customer" area within KB. It duly investigated four 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. 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 three regular meetings in 2010 and one decision was accepted by remote vote. 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 wording of the service contracts for the members of the Board of Directors and on the remuneration of KB managers who are also members of the Board of Directors.

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 since 1 October 2010 until the next General Meeting)

Personnel Changes in the Audit Committee during 2010

Séverin Cabannes
(membership and chairmanship terminated as of 30 September 2010)

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 2010. The average meeting length was 2 hours and 10 minutes.

The committee performed an important role in its monitoring activities and worked closely within the Bank, especially with the departments Internal Audit, Strategy and Finance, Risk Management, and Compliance, 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 2009 and the consolidated and unconsolidated financial statements and notes thereto as of 31 December 2009 prepared under International Financial Reporting Standards (IFRS) and the proposal for distribution of net profit for 2009. The committee also discussed regularly 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 2009. Furthermore, it discussed the overall functionality and efficiency of the Bank's management and control system in 2009, stating that this control system covers all key risks to the Bank even though there is still room for its improvement. The committee addressed an assessment of the compliance risk in the 2009 annual report and also discussed the 2009 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism. The committee considered the Constructive Service Letter prepared by the external auditor, Deloitte 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 2011, and the strategic plan for 2011–2014. It also was informed about new functioning of the Internal Audit within the SG group.

The Audit Committee continuously discussed at its meetings the Group's financial results for each quarter. Competition reports and information about the transformation process of Komerční banka Bratislava into a KB foreign branch were also submitted to the Audit Committee. At all its meetings, the Audit Committee discussed issues of market and credit risk management arising from both the retail activities as well as the transactions provided to medium-sized and large corporations, and particularly with a view to the macroeconomic environment. Other subjects of discussion included a portfolio of bonds held by the Bank and a preliminary analysis of the impact on the KB Group in relation to the planned "Basel III" measures. The committee was also informed about the Bank's functioning in the area of permanent control and supervision and measures taken in the area of information security.

In 2010, the Audit Committee continued as well to perform the activities of the Audit Committee of Komerční banka Bratislava, a.s. in accordance with Act No. 198/2007 Coll., on Accounting.

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. The actual amount of the bonus paid to individual members of the Board of Directors is approved by the General Meeting on the basis of the proposal of the Supervisory Board and its Remuneration and Personnel Committee.

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 on the remuneration amount in consideration of all relevant financial and business indicators, including development of net profit, net banking income, costs and market shares.

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:
– under the management contract, and under the same conditions as other KB employees, 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, with the exception of members who are KB employees temporarily delegated to the Czech Republic or members without employment in KB, 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.

Board of Directors (CZK)	(A)	(B)	(D)	(F)	Total
Henri Bonnet, Chairman	5,274,429	20,060	2,213,321	3,520,506	11,028,316
Laurent Goutard, Chairman (until 9 September 2009)	2,147,499	0	48,316	106,997	2,302,812
Didier Colin	4,253,085	20,060	2,596,656	4,947,979	11,817,780
Vladimír Jeřábek	5,660,000	193,698	1,736,319	219,162	7,809,179
Jan Juchelka	4,460,000	135,842	902,194	259,506	5,757,542
Peter Palečka	4,760,000	138,901	2,032,116	254,351	7,185,368
Patrice Taillandier-Thomas	3,303,367	20,060	1,450,019	2,341,046	7,114,492

Supervisory Board (CZK)	(A)	(B)	(D)	(F)	Total
Didier Alix, Chairman	825,000	0	0	0	825,000
Jean-Louis Mattei, Vice-Chairman	313,500	0	0	0	313,500
Séverin Cabannes (until 30 September 2010)	214,500	0	0	0	214,500
Bernardo Sanchez Incera	82,500	0	0	0	82,500
Bořivoj Kačena	313,500	0	0	0	313,500
Pavel Krejčí*	330,000	42,094	347,291	0	719,385
Petr Laube	330,000	0	0	0	330,000
Dana Neubauerová*	330,000	48,158	798,722	35,952	1,212,832
Christian Poirier	313,500	0	0	0	313,500
Karel Přibil*	330,000	33,205	310,170	0	673,375

* Elected by KB employees, total emoluments include regular salaries. Emolument paid to these persons are given for the period in which the function was held.

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 2010 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 2009;
(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;
(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 acompanying 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.

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, or persons related to them, as well as information on options and similar contracts whose underlying assets are equity securities issued by KB and which were concluded by or on behalf of the listed persons.

31 December 2010	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
Séverin Cabannes (until 30 September 2010)	0	0
Bernardo Sanchez Incera	0	0
Bořivoj Kačena	0	0
Pavel Krejčí	0	0
Petr Laube	4,891	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, members of the Supervisory Board or their relatives were contractual parties, directly or indirectly, for any option or similar contract whose underlying assets were equity securities issued by KB.

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 way 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 there from, 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 dispose with and an employee responsible for account analysis is 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 tools in the area of controls may be divided into two parts: control of 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 done especially in the Distribution and Operations sections within the first level of the control system that 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 the independent department of the Accounting and Reporting Division that 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 and 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.

REPORT BY THE SUPERVISORY BOARD

Throughout 2010, 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 2010 to 31 December 2010, 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' bookkeeping. The accounts show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements on their basis present a full and accurate picture of the Bank's accounting and financial situation.

The Bank's auditor, Ernst & Young Audit, s.r.o., performed an audit of the Bank's consolidated and unconsolidated financial statements under 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 2010 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2010 drawn up under Section 66a (9) of the Commercial Code and states on the basis of the presented documents that, during the accounting period from 1 January 2010 to 31 December 2010, Komerční banka, a.s. did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 2 March 2011

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

Didier Alix
Chairman

mK

Martin Kalivoda

Quality Manager
Komerční pojišťovna

During his whole career, Mr Kalivoda has been loyal to Masaryk University in Brno, where he graduated from English and Hispanic Studies and currently studies Economics. In addition, he acquired a scholarship at the University of Tennessee (UTC), USA, where he took courses in Advertising and Marketing. He came to Komerční pojišťovna in 2007, taking the position of Application Manager; before that he worked in public sector for eight years. Soon after his arrival, he started focusing on quality-related issues. Since autumn 2007 he has been in charge of Komerční pojišťovna's Quality Programme. Martin's job is to search for new improvement opportunities and work with them to ensure higher process efficiency and a minimized error rate. Many projects and measures have been taken during the existence of the Quality Programme, all of them with a positive impact particularly on operations. Martin has obtained the 6Sigma Green Belt certificate and completed the 6Sigma Black Belt training.

"Quality, as perceived by Komerční pojišťovna, brings new challenges and topics from different areas every day. That is why quality manager has to be versatile to a large degree," Martin Kalivoda says about the requirements of his job. "The most important quality control objectives include improvement of the services provided by Komerční pojišťovna to the distribution networks and, of course, increase in customer satisfaction."

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 2010, and outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 6 April 2011

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.

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 2010 presented in the annual report of the Company on pages 90–148, on which we have issued an audit report, dated 28 February 2011, which is presented on page 90. We have also audited the separate financial statements of Komerční banka, a.s. ("the Company") as at 31 December 2010 presented in the annual report of the Company on pages 149–208, on which we have issued an audit report, dated 28 February 2011, which is presented on page 149 (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 2010. 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 2010 presented in the annual report of the Company on pages 218–226. 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 2010 is materially misstated.

Ernst & Young

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

Jan Fanta
Partner

Michaela Kubýová
Auditor, License No. 1810

6 April 2011
Prague, Czech Republic

KB Group reduced its operating expenses by

CZK 579 million

The total volume of loans provided by the Group increased year on year by

3.5 percent

Net profit rose in 2010 by

CZK 2.3 billion

Cost of risk decreased by

39 percent

FINANCIAL SECTION

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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 2010, 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 notes. 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.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

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

Jan Fanta
Partner

Michaela Kubýová
Auditor, License No. 1810

28 February 2011
Prague, Czech Republic

Consolidated Income Statement and Statement of Comprehensive Income for the year ended 31 December 2010

Consolidated Income Statement for the year ended 31 December 2010

(CZKm)	Note	Year ended 31 Dec 2010	after reclassification Year ended 31 Dec 2009
Interest income and similar income	5	34,549	37,255
Interest expense and similar expense	5	(13,205)	(16,098)
Income from dividends	5	87	85
Net interest income and similar income		**21,431**	**21,242**
Net fee and commission income	6	8,038	7,839
Net profit on financial operations	7	3,098	3,024
Other income	8	95	90
Net operating income		**32,662**	**32,195**
Personnel expenses	9	(6,076)	(6,434)
General administrative expenses	10	(5,242)	(5,619)
Depreciation, impairment and disposal of assets	11	(1,624)	(1,468)
Total operating expenses		**(12,942)**	**(13,521)**
Profit before allowances/provision for a loan and investment losses, other risk and income taxes		**19,720**	**18,674**
Allowances for loan losses	12	(3,115)	(5,005)
Allowances for impairment of securities	12	8	6
Provisions for other risk expenses	12	7	(85)
Cost of risk		**(3,100)**	**(5,084)**
Income from share of associated companies		75	24
Profit attributable to exclusion of companies from consolidation	13	0	0
Share of profit of pension scheme beneficiaries		(620)	(65)
Profit before income taxes		**16,075**	**13,549**
Income taxes	14	(2,665)	(2,455)
Net profit for the period	**15**	**13,410**	**11,094**
Profit attributable to the Group's equity holders		13,330	11,007
Profit attributable to the Non-controlling owners		80	87
Earnings per share/diluted earnings per share (in CZK)	**16**	**353.30**	**292.30**

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

(CZKm)	Note	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Net profit for the period	**15**	**13,410**	**11,094**
Cash flow hedging			
– Net fair value gain (loss), net of tax		2,833	(246)
– Transfer to net profit, net of tax		(1,307)	(924)
Foreign exchange gain/(loss) on hedge of a foreign net investment		3	(6)
Net value gain on financial assets available for sale, net of tax		(1,205)	2,645
Net value gain on financial assets available for sale, net of tax (associated companies)		(4)	34
Other comprehensive income for the period, net of tax	**42,43**	**320**	**1,503**
Comprehensive income for the period, net of tax		**13,730**	**12,597**
Comprehensive income attributable to Group's equity holders		13,650	12,510
Comprehensive income attributable to Non-controlling owners		80	87

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 2010

(CZKm)	Note	31 Dec 2010	after reclassification 31 Dec 2009
Assets			
Cash and current balances with central banks	17	13,689	16,271
Financial assets at fair value through profit or loss	18	34,003	24,442
Positive fair value of hedging financial derivative transactions	44	11,854	9,590
Financial assets available for sale	19	116,445	114,067
Assets held for sale	20	34	245
Amounts due from banks	21	112,180	131,271
Loans and advances to customers	22	384,593	372,303
Investments held to maturity	23	6,712	6,785
Income taxes receivable	14	44	32
Deferred tax assets	35	12	0
Prepayments, accrued income and other assets	24	3,395	4,461
Investments in associates	25	674	605
Intangible assets	26	3,756	3,723
Tangible assets	27	7,072	7,729
Goodwill	28	3,551	3,551
Total assets		**698,014**	**695,075**
Liabilities			
Amounts due to central banks		1	2
Financial liabilities at fair value through profit or loss	29	13,673	12,273
Negative fair value of hedging financial derivative transactions	44	7,224	6,539
Amounts due to banks	30	29,074	18,739
Amounts due to customers	31	538,051	551,809
Securities issued	32	17,471	18,172
Income taxes payable	14	94	104
Deferred tax liability	35	1,086	756
Accruals and other liabilities	33	8,245	9,890
Provisions	34	1,056	1,998
Subordinated debt	36	6,001	6,001
Total liabilities		**621,936**	**626,283**
Shareholders' equity			
Share capital	37	19,005	19,005
Share premium and reserves		55,774	48,568
Non-controlling equity		1,299	1,219
Total shareholders' equity		**76,078**	**68,792**
Total liabilities and shareholders' equity		**698,014**	**695,075**

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 2011.

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 Deputy CEO

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2010

(CZKm)	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation gains or losses	Revaluation of available-for-sale financial assets	Total	Non-controlling interest	Total, including non-controlling interest
Balance at 31 December 2008	**19,005**	**38,514**	**3,552**	**4**	**767**	**61,842**	**1,132**	**62,974**
Changes in accounting policies	0	39	0	0	0	39	0	39
Balance at 1 January 2009	**19,005**	**38,553**	**3,552**	**4**	**767**	**61,881**	**1,132**	**63,013**
Treasury shares, other	0	14	0	0	0	14	0	14
Payment of dividends	0	(6,832)	0	0	0	(6,832)	0	(6,832)
Transactions with owners	**0**	**(6,818)**	**0**	**0**	**0**	**(6,818)**	**0**	**(6,818)**
Profit for the period	0	11,007	0	0	0	11,007	87	11,094
Other comprehensive income for the period, net of tax	0	34**	(1,170)	(6)	2,645	1,503	0	1,503
Comprehensive income for the period	**0**	**11,041**	**(1,170)**	**(6)**	**2,645**	**12,510**	**87**	**12,597**
Balance 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 at 31 December 2010	**19,005**	**49,658**	**3,908**	**1**	**2,207**	**74,779**	**1,299**	**76,078**

Note: *) Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings. Retained earnings amount to CZK 31,467 million (2009: CZK 26,853 million) and statutory reserve fund CZK 4,063 million (2009: CZK 4,089 million).

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

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

Consolidated Cash Flow Statement for the year ended 31 December 2010

(CZKm)	Year ended 31 Dec 2010		(after reclassification) Year ended 31 Dec 2009	
Cash flows from operating activities				
Interest receipts	30,065		34,032	
Interest payments	(12,892)		(15,485)	
Commission and fee receipts	9,907		9,675	
Commission and fee payments	(1,672)		(1,798)	
Net income from financial transactions	4,460		3,060	
Other income receipts	911		108	
Cash payments to employees and suppliers, and other payments	(11,443)		(12,427)	
Operating cash flow before changes in operating assets and operating liabilities	**19,336**		**17,165**	
Due from banks	15,917		14,911	
Financial assets at fair value through profit or loss	(9,823)		19,517	
Loans and advances to customers	(16,574)		(13,717)	
Other assets	195		1,749	
Total (increase) / decrease in operating assets	**(10,285)**		**22,460**	
Amounts due to banks	8,215		10,845	
Financial liabilities at fair value through profit or loss	1,637		(7,827)	
Amounts due to customers	(14,414)		(2,612)	
Other liabilities	(1,826)		(1,948)	
Total increase / (decrease) in operating liabilities	**(6,388)**		**(1,542)**	
Net cash flow from operating activities before taxes	2,663		38,083	
Income taxes paid	(2,471)		(2,437)	
Net cash flows from operating activities		**192**		**35,646**
Cash flows from investing activities				
Dividends received	87		85	
Purchase of investments held to maturity	(287)		(1,609)	
Maturity of investments held to maturity*	596		388	
Purchase of financial assets available for sale	(15,939)		(24,665)	
Sale and maturity of financial assets available for sale*	16,246		11,270	
Purchase of tangible and intangible assets	(1,382)		(1,594)	
Sale of tangible and intangible assets	634		389	
Sale of investments in subsidiaries and associates	2		0	
Net cash flow from investing activities		**(43)**		**(15,736)**
Cash flows from financing activities				
Paid dividends	(6,435)		(6,786)	
Securities issued	2,023		3,224	
Securities redeemed*	(2,018)		(10,448)	
Net cash flow from financing activities		**(6,430)**		**(14,010)**
Net increase/(decrease) in cash and cash equivalents	**(6,281)**		**5,900**	
Cash and cash equivalents at beginning of year	16,315		10,415	
Cash and cash equivalents at the end of year (refer Note 38)		**10,034**		**16,315**

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 for the year ended 31 December 2010

1. Principal activities

The Financial Group of Komerční banka, a.s. (the 'Group') consists of Komerční banka, a.s. (the 'Bank') and 8 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 percent (2009: 60.35 percent) of the Bank's issued share capital.

The main activities of subsidiary companies of the Bank as of 31 December 2010

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
ESSOX s. r. o.	50.9	50.9	Consumer loans, leases	České Budějovice

The main activities of associated companies of the Bank as of 31 December 2010

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 2010

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

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

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

Uncertainty in capital markets
In 2010, the effects of the global financial and economic crisis persisted, in particular the increased uncertainty in capital markets caused by problems of some states of the European Union. The 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 presented consolidated financial statements for the year ended 31 December 2010 are based on the current best estimates and management of the Group believes that they present the truest and fairest view of the Group's financial results and financial position using all relevant and available information at the financial statements date.

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 2010.

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

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

3.2.2. GOING CONCERN

The 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 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 9 Financial Instruments;
- 2010 Annual Improvements;
- IFRS 1 First-time Adoption of IFRS –amendment: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
- IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Transfer of Financial Assets;
- IAS 12 Income Taxes – amendment: Deferred Tax: Recovery of Underlying Assets.

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

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: "Additional exemptions for first-time adopters"	The amendment covers the valuation of assets relating to oil and natural gas. The standard is no longer relevant to the Group (it was only relevant in the first time adoption of IFRS).
IFRS 2 Share-based Payment – amendment: "Group cash-settled share-based payment transactions"	The amendment specifies the scope of the standard and accounting for group cash-settled share-based payment transactions in individual and separate financial statements and supersedes IFRIC 2 and IFRIC 11. There are no remunerations tied to shares in the Group.

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

3.4.3. STANDARDS AND INTERPRETATIONS ADOPTED EFFECTIVE FROM 1 JANUARY 2011 OR THEREAFTER

The below-listed standards and interpretations or their amendments are in effect. However, they do not apply to reporting periods beginning on 1 January 2010 and the 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 and derecognition of financial assets and financial liabilities.

The application of requirements of IFRS 9 will primarily mean that non-equity instruments classified in the "financial assets available-for-sale" portfolio will be remeasured to profit or loss rather than to other comprehensive income provided they do not comply with the conditions for measurement at amortised cost. With respect to equity instruments classified in this portfolio, the 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.

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

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 1 First-time Adoption of IFRS – amendment: "Limited exception from Comparative IFRS 7 Disclosure"	The amendment permits first-time adopters to not disclose comparative information in respect of the previous period for the classification of financial instruments' fair values in a hierarchy of fair value (Same exception is including in IFRS 7.44 G).	1 July 2010
IFRS 1 First-time Adoption of IFRS – amendment: "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	The amendment removes the fixed dates to provide relief for 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

Standard	Summarised content	Effective for reporting period beginning on or after
IAS 24 Related Party Disclosures – revised standard	The scope of the standard was extended. The revised standard newly requires disclosures on relations and commitments and specifies that the required information should be disclosed both in consolidated and separate financial statements. In addition, the definition of a related party was changed / extended. A definition of a state and its related parties was added and exceptions from disclosures were introduced for these related parties.	1 January 2011
IAS 32 Financial instruments: Presentation – amendment: "Classification of rights issues"	The amendment adds that rights issues, options and warrants for the acquisition of a fixed number of an entity's own capital instruments for a fixed amount in any currency are capital instruments provided they are offered proportionally to all current owners of the specific group of non-derivative capital instruments of the entity. The Group issued no rights to acquire its own capital instruments.	1 February 2010
IFRS 9 Financial Instruments – new standard	The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for capital instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application. Derivatives embedded in financial assets are no longer separated according to the standard. In October 2010 the requirements in IAS 39 for classification and measurement of financial liabilities and for derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk.	1 January 2013
Annual Improvements to IFRS 2010 – new standard	Annual improvements amend 5 standards to the total of 10 points and one interpretation, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2010, resp. 1 January 2011
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – amendment: "Minimum funding requirement"	The amendment specifies the recognition of benefits available through a decrease of future contributions with a non-existence of minimum funding requirements and recognition of prepaid contributions with the existence of minimum funding requirements. The amendment specifies that if an entity arrives at an amount lower than zero through adjusting the recognised asset and including the amount of potential paid contributions in the determined minimum funding requirements then it will not disclose the liability.	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – new interpretation	The interpretation covers accounting for and valuation of extinguishing financial instruments through the issue of capital instruments on the part of the issuer.	1 July 2010

3.4.4. STANDARDS AND INTERPRETATIONS VOLUNTARILY ADOPTED EARLIER AND APPLIED FOR THE REPORTING PERIOD BEGINNING 1 JANUARY 2010

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

3.5. PRINCIPAL ACCOUNTING POLICIES

3.5.1. TRANSACTIONS IN FOREIGN CURRENCIES

3.5.1.1. FUNCTIONAL AND PRESENTATION CURRENCY

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

At the end of a reporting period all items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:
(i) foreign currency monetary items are translated using the closing rate (exchange rate announced by CNB at the end of the reporting period);
(ii) non-monetary items that are measured in term at historical cost are translated using CNB's exchange rate at the date of the translation;
(iii) non-monetary items that are measured at fair value in a foreign currency are translated using CNB's exchange rate at the date when the fair value was determined.

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

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

3.5.2. RECOGNITION OF INCOME AND EXPENSES

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

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the 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, for which the effective interest rate is used, are recognised in the line "Interest income and similar income";
– fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line "Net fee and commission income";
– fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line "Net fee and commission income".

Dividend income is recognised when the 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 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 the statement of financial position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its provision (collection of cash).

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

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

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

3.5.4.2. INITIAL MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

3.5.4.3. 'DAY 1' PROFIT OR LOSS

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

3.5.4.4. FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Financial assets and liabilities held by the Group are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Group's intention as at the acquisition date, and pursuant to the Group's financial instrument investment strategy is as follows:
(i) Financial assets and liabilities at fair value through profit or loss;
(ii) Held-to-maturity investments;
(iii) Loans and receivables;
(iv) Available-for-sale financial assets;
(v) Financial liabilities at amortised cost.

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

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

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

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

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

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

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

If the Group was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire portfolio would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

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

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

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

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

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

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

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

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

In an event of the repurchase of its own debt securities, the Group derecognises these securities, i.e. the item "Securities issued" is decreased. Gains and losses arising as a result of repurchasing the Group's own debt securities are recognised as at the date of their repurchase in the Income statement in the line "Net profit on financial operations".

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.

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 no significant input information is based on data identifiable on the market.

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

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

If there is no active market for the financial asset, the Group uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.
(i) quoted prices for similar assets or liabilities in active markets;
(ii) quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
(iii) inputs other than quoted prices, e.g. inputs based on interest rates, yield curves, etc.;
(iv) inputs derived principally from or corroborated by observable market data.

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

3.5.4.7. EFFECTIVE INTEREST RATE METHOD

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

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

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

3.5.4.8. RENEGOTIATED LOANS

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

3.5.4.9. IMPAIRMENT AND UNCOLLECTIBILITY OF FINANCIAL ASSETS

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

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

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

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

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

The Group assesses all significant impaired credit exposures on individual basis. The remaining impaired exposures are impaired using statistical models based on collective approach (refer to Note 44 (A)). Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

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

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

3.5.4.10. REPURCHASE AGREEMENTS

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

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

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line "Due from banks" or "Loans and advances to customers".
The Group is allowed to provide securities received in reverse repo transactions as collateral or sell them in the absence of default by their owner. These securities continue to be recorded in the off balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in "Amounts due to banks" or "Amounts due to customers", as appropriate. The Group has the obligation to return these securities to its counterparties.

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

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

3.5.4.11. DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

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

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

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

(i) a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
(ii) a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
(iii) hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised to the Income Statement line "Net profit on financial operations". Changes in the fair value of hedged item are recognised in the Statement of 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 Group hedges the interest rate risk and foreign currency risk of financial assets or selected portfolios of debt instrument. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

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

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

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

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

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

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 44(C).

3.5.4.12. EMBEDDED DERIVATIVES

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

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

3.5.5. ASSETS HELD FOR SALE

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

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

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

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

3.5.6. INCOME TAX

3.5.6.1. CURRENT INCOME TAX

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

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

The Group does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis.

3.5.6.2. DEFERRED INCOME TAX

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

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

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

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

3.5.7. LEASING

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

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 for them 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 the banks services and for administrative purposes and that are used longer than one reporting period.

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

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

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

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

	2010	2009
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the 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 and it represents the excess of the acquisition cost for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. 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 – value in use, i.e. present value of the future cash flow to be generated by an asset 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, and as a reasonable approximation of the discount rate, the Group takes the rate at which it grants loans to the acquired company. For the period beyond the middle term financial plan the projected cash flow is extrapolated without taking into account any growth rate. Key assumptions used in the preparation of financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

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

3.5.10. PROVISIONS

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

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

Among others, the Group recognises provisions for credit related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit related commitments into which the Group enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit related commitments are created on the same basis as are allowances for loans portfolios (refer to Note 34).

3.5.11. EMPLOYEE BENEFITS

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

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

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

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

3.5.12. 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 Group'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 inasmuch 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, 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 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 2010 the Group refined the presentation of certain items of its Income Statement and Statement of Financial Position to reflect presentation mentioned reporting lines or to harmonize the structure of the financial statements used by the parent company. The amounts and balances for 2009 were reclassified to reflect the presentation for the current period. The tables below include a reconciliation of individual categories.

Reconciliation of categories in the Income Statement:

(CZKm)	As reported 31 Dec 2009	After reclassification 31 Dec 2009	As reported 31 Dec 2008	After reclassification 31 Dec 2008	Reference
Interest income and similar income	37,682	37,255	42,432	42,051	1,2
Interest expense and similar expense	(15,679)	(16,098)	(21,410)	(21,817)	3
Net fees and commissions	7,745	7,839	8,050	8,118	4
Other income	184	90	180	112	4
General administrative expenses	(6,126)	(5,619)	(6,606)	(6,123)	2,3
Cost of risk	(5,423)	(5,084)	(2,970)	(2,665)	1

1. Category "Interest income and similar income" and "Provision for loan losses" were decreased by accrued interest from impaired loans in the amount of CZK 339 million (2008: 305 million);
2. The cost of loans insurance in the amount of CZK 88 million (2008: 76 million) was reclassified from "General administrative expenses" to "Interest income and similar income";
3. Expenses related to contribution to Deposit Insurance Fund in the amount of CZK 419 million (2008: 407 million) were reclassified from "General administrative expenses" to "Interest expense and similar expense".
4. Income related to sale intermediation of insurance in the amount of CZK 94 million (2008: 68 million) was reclassified from "Other income" to "Net fee and commission income".

Reconciliation of categories in the Statement of Financial Position:

(CZKm)	As reported Year ended 31 Dec 2009	After reclassification Year ended 31 Dec 2009	As reported Year ended 31 Dec 2008	After reclassification Year ended 31 Dec 2008	Reference
Loans and advances to customers	372,303	372,303	364,040	364,040	1
Prepayments, accrued income and other assets	4,422	4,461	6,167	6,206	2
Share premium and reserves	48,529	48,568	42,837	42,876	2

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

4. Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net interest income and similar income	13,186	13,347	5,618	5,423	142	130	2,485	2,342	21,431	21,242
Net fee and commission income	5,306	5,277	2,475	2,389	77	73	180	100	8,038	7,839
Net profit on financial operations	826	360	1,176	1,105	978	1,331	118	228	3,098	3,024
Other income	130	155	(6)	(32)	119	107	(148)	(140)	95	90
Net operating income	**19,448**	**19,139**	**9,263**	**8,885**	**1,316**	**1,641**	**2,635**	**2,530**	**32,662**	**32,195**

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 income and similar income comprises:

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Interest income and similar income	34,549	37,255
Interest expense and similar expense	(13,205)	(16,098)
Income from dividends on available-for-sale securities	87	85
Net interest income and similar income	**21,431**	**21,242**
Of which net interest income arising from		
– Loans and advances	20,488	23,242
– Securities held to maturity	327	275
– Securities available for sale	4,552	4,122
– Financial liabilities at amortised cost	(5,329)	(7,474)

'Interest income and similar income' includes interest on substandard, doubtful and loss loans of CZK 692 million (2009: CZK 654 million) due from customers and interest of CZK 0 million (2009: CZK 1 million) on securities that have suffered impairment.

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 9,137 million (2009: CZK 10,134 million) and 'Interest expense and similar expense' also includes accrued interest expense from hedging financial derivatives of CZK 7,831million (2009: CZK 9,142 million). 'Net interest income and similar income' from these derivatives amounts to CZK 1,276 million (2009: CZK 992 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)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Fees and commission income from transactions	4,440	4,451
Loans and deposits	3,791	3,776
Others	1,468	1,311
Total fees and commission income	**9,699**	**9,538**
Fees and commission expenses on transactions	(776)	(738)
Loans and deposits	(578)	(651)
Others	(307)	(310)
Total fees and commissions expenses	**(1,661)**	**(1,699)**
Total net fee and commission income	**8,038**	**7,839**

The line Others includes fee income arising from custody services and from depository services in the amount CZK 57 million (2009: CZK 56 million) and fee expense in the amount CZK 34 million (2009: CZK 39 million).

7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Net realised gains/(losses) on securities held for trading	205	181
Net unrealised gains/(losses) on securities held for trading	240	632
Net realised gains/(losses) on securities available for sale	36	(468)
Net realised and unrealised gains/(losses) on security derivatives	(66)	92
Net realised and unrealised gains/(losses) on interest rate derivatives	350	(192)
Net realised and unrealised gains/(losses) on trading commodity derivatives	16	17
Net realised and unrealised gains/(losses) on foreign exchange from trading	947	1,303
Net realised gains/(losses) on foreign exchange from payments	1,370	1,459
Total net profit on financial operations	**3,098**	**3,024**

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

A loss of CZK 300 million (2009: a loss of CZK 152 million) on the fair value of interest rate swaps for foreign currency risk hedging is included in ‘Net realised and unrealised gains/(losses) on interest rate derivatives’. This amount matches the gain arising from the retranslation of hedged loan receivables and financial assets available for sale reported in the same line.

A profit of CZK 3 million (2009: a profit of CZK 17 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in ‘Net realised and unrealised 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 95 million (2009: 90 million). In the years ended 31 December 2010 and 2009, ‘Other income’ predominantly included income arising from the leased assets and intermediation.

9. Personnel expenses

Personnel expenses comprise:

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Wages, salaries and bonuses	4,268	4,535
Social costs	1,808	1,899
Total personnel expenses	**6,076**	**6,434**
Physical number of employees at the period-end	8,689	8,708
Average recalculated number of employees during the period	8,619	8,815
Average cost per employee (CZK)	**704,872**	**729,903**

‘Social costs’ include costs of CZK 82 million (2009: 134 million) paid by the Group to the employees’ retirement pension insurance scheme and costs of CZK 43 million (2009: 61 million) incurred in contributing to the employees’ capital life insurance scheme.

‘Personnel expenses’ include the use of the restructuring provision of CZK 63 million (2009: charge of CZK 10 million) relating to provisions for restructuring in relation to the project of the reorganisation and centralisation of the back office divisions and also the release and use of the restructuring provision of CZK 6 million (2009: CZK 16 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).

10. General administrative expenses

General administrative expenses comprise:

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Marketing and entertainment costs	661	754
Costs of sale and banking products	1,094	1,179
Staff costs	242	219
Property maintenance charges	1,405	1,405
IT support	848	839
Office equipment and other consumption	68	74
Telecommunications, post and other services	233	276
External advisory services	621	686
Other expenses	70	187
Total general administrative expenses	**5,242**	**5,619**

‘General administrative expenses’ include the charge of CZK 0 million (2009: CZK 37 million) and the release and use of the provision in the amount of CZK 38 million (2009: CZK 58 million) relating to the restructuring provision in respect of the project of the reorganisation and centralisation of back office functions and the charge of CZK 9 million (2009: CZK 25 million) and the release and use of the provision in the amount of CZK 12 million (2009: CZK 0 million) relating to the project of the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank (refer to Note 34).

11. Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Depreciation of tangible and intangible assets	1,695	1,621
Provisions for assets and net gain on the sale of assets	(71)	(153)
Total depreciation, impairment and disposal of assets	**1,624**	**1,468**

12. Cost of risk

Allowance for loan impairment and provisions for other credit commitments

The movement in the Allowances and Provisions was as follows:

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Balance at 1 January	(14,871)	(12,380)
Allowances and Provisions for loan losses:		
Individuals	(1,314)	(1,482)
Corporates*	(1,940)	(3,497)
Impact of loans written off and transferred	2,213	2,378
Exchange rate differences attributable to provisions	35	110
Balance at 31 December	**(15,877)**	**(14,871)**

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

The balance of provisions as of 31 December 2010 and 2009 comprises:

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Allowances for loans to financial institutions (refer to Note 21)	0	(1)
Allowances for loans to customers (refer to Note 22)	(15,293)	(13,837)
Allowances for other loans to customers (refer to Note 22)	(15)	(1)
Provisions for guarantees and other credit related commitments (refer to Note 34)	(569)	(1,032)
Total	**(15,877)**	**(14,871)**

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 153 million as at 31 December 2010 (2009: CZK 162 million). During the year ended 31 December 2010, the Group charged a provision of CZK 0 million (2009: CZK 1 million) and released the provision of CZK 8 million (2009: CZK 7 million) due to a repayment of the nominal value of a security. The foreign exchange rate gain from provisions against securities denominated in foreign currencies amounted to CZK 1 million (2009: CZK 1 million).

Provisions for other risk expenses

The balance of 'Provisions for other risk expenses' of CZK 7 million (2009: a net charge CZK 85 million) principally consists of the charge for provisions of CZK 56 million (2009: CZK 109 million) and the release and use of provisions of CZK 283 million (2009: CZK 32 million) for legal disputes, together with the costs incurred by the Group as a result of the outcome of legal disputes of CZK 220 million (2009: CZK 8 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)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Gain on the sale of investments in subsidiaries and associates	0	2
Loss from the disposal of investments in subsidiaries and associates	(37)	0
Charge for allowances	0	(2)
Use of allowances	37	0
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 (2009: CZK 0 million) is included in Loss from the disposal of investments in subsidiaries and associates. This loss was fully covered by use of allowance in the amount of CZK 37 million (2009: CZK 0 million) and is included in Use of allowances (refer also to Note 25).

14. Income taxes

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

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Tax payable – current year, reported in profit or loss	(2,537)	(2,390)
Tax paid – prior year	65	8
Deferred tax	(187)	(88)
Hedge of a deferred tax asset against foreign currency risk	(6)	15
Total income taxes	**(2,665)**	**(2,455)**
Tax payable – current year, reported in equity	25	3
Total tax expense	**(2,640)**	**(2,452)**

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

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Profit before tax	**16,075**	**13,549**
Theoretical tax calculated at a tax rate of 19% (2009: 20%)	3,054	2,710
Tax on pre-tax profit adjustments	(27)	2
Non-taxable income	(1,968)	(1,833)
Expenses not deductible for tax purposes	1,711	1,630
Use of tax losses carried forward	0	0
Tax allowance	(3)	(3)
Tax credit	(93)	(91)
Tax on a standalone tax base	0	0
Hedge of a deferred tax asset against foreign currency risk	6	(15)
Movement in deferred tax	187	88
Tax losses	40	52
Impact of various tax rates of subsidiary undertakings	(163)	(72)
Tax effect of share of profits of associated undertakings	(14)	(5)
Income tax expense	**2,730**	**2,463**
Prior period tax expense	(65)	(8)
Total income taxes	**2,665**	**2,455**
Tax payable on securities reported in equity*	(25)	(3)
Total income tax	**2,640**	**2,452**
Effective tax rate	16.58%	18.12%

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

Further information about deferred tax is presented in Note 35.

15. Distribution of profits / Allocation of losses

The Group generated a net profit of CZK 13,410 million for the year ended 31 December 2010. Distribution of profits for the year ended 31 December 2010 will be approved by the general meetings of the Group companies.

The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 270 per share that represents in total amount CZK 10,263 million. The proposal is subject of the Supervisory Board's review and subsequently of the approval of General Shareholders meeting.

16. Earnings per share

Earnings per share of CZK 353.30 (2009: CZK 292.30 per share) have been calculated by dividing the net profit of CZK 13,410 million (2009: CZK 11,094 million) by the number of shares in issue, that is, 38,009,852, decreased by the average number of treasury shares held by the Bank during the period 54,000 (2009: 54,000).

17. Cash and current balances with central banks

Cash and current balances with central banks comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Cash and cash equivalents	7,052	7,613
Balances with central banks	6,637	8,658
Total cash and current balances with central banks	**13,689**	**16,271**

Obligatory minimum reserves in the amount of CZK 4,347 million (2009: CZK 5,233 million) are included in 'Balances with central banks' and they earned interest. At 31 December 2010 the interest rate was 0.75% (2009: 1%) in the Czech Republic and 1% (2009: 1%) in the Slovak Republic.

18. Financial assets at fair value through profit or loss

As at 31 December 2010 and 2009, financial assets at fair value through profit or loss included securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Group has not designated any financial assets as at fair value through profit or loss.

(CZKm)	31 Dec 2010	31 Dec 2009
Securities	23,778	13,515
Derivative financial instruments	10,225	10,927
Financial assets at fair value through profit or loss	34,003	24,442

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

Trading securities comprise:

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

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

The Group's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 9,003 million (2009: CZK 1,110 million).

As at 31 December 2010, the portfolio of trading securities includes securities at a fair value of CZK 13,785 million (2009: CZK 10,962 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 9,993 million (2009: CZK 2,553 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Trading shares and participation certificates at fair value comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Shares and participation certificates		
– Czech crowns	1	0
Total trading shares and participation certificates	**1**	**0**

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

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

Debt trading securities at fair value comprise:

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

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

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

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

19. Financial assets available for sale

Financial assets available for sale comprise:

	31 Dec 2010		31 Dec 2009	
(CZKm)	Fair value	Cost*	Fair value	Cost*
Shares and participation certificates	**702**	**63**	**1,237**	**1,268**
Fixed income debt securities	104,679	99,928	102,034	98,023
Variable yield debt securities	11,064	11,299	10,796	10,895
Total debt securities	**115,743**	**111,227**	**112,830**	**108,918**
Total financial assets available for sale	**116,445**	**111,290**	**114,067**	**110,186**

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

As at 31 December 2010, the available-for-sale portfolio includes securities at a fair value of CZK 102,186 million (2009: CZK 99,223 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 14,259 million (2009: CZK 14,844 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. In 2009, the Group sold the equity investment in MasterCard Inc. The net gain from the sale for the Group amounted to CZK 64 million (refer to Note 7).

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

(CZKm)	31 Dec 2010	31 Dec 2009
Shares and participation certificates		
– Czech crowns	700	700
– Other currencies	2	537
Total shares and participation certificates available for sale	**702**	**1,237**

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

(CZKm)	31 Dec 2010	31 Dec 2009
Shares and participation certificates available for sale issued by:		
– Banks in the Czech Republic	700	700
– Non-banking foreign entities	2	537
Total shares and participation certificates available for sale	**702**	**1,237**

'Shares and participation certificates available for sale issued by banks in the Czech Republic' include the Group's 13 percent shareholding in Českomoravská záruční a rozvojová banka, a.s.. Based on an analysis of regularly paid dividends and an estimate of probable future cash flows, the value of the investment was determined at CZK 640 million (2009: CZK 640 million) over the acquisition cost in the amount of CZK 60 million.

Debt securities available for sale at fair value comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Variable yield debt securities		
– Czech crowns	10,077	9,753
– Other currencies	987	1,043
Total variable yield debt securities	**11,064**	**10,796**
Fixed income debt securities		
– Czech crowns	80,581	79,731
– Other currencies	24,098	22,303
Total fixed income debt securities	**104,679**	**102,034**
Total debt securities available for sale	**115,743**	**112,830**

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

(CZKm)	31 Dec 2010	31 Dec 2009
Debt securities available for sale issued by:		
– State institutions in the Czech Republic	70,594	64,813
– Foreign state institutions	24,940	25,884
– Financial institutions in the Czech Republic	15,510	16,025
– Foreign financial institutions	3,747	3,750
– Other entities in the Czech Republic	239	240
– Other foreign entities	713	2,118
Total debt securities available for sale	**115,743**	**112,830**

Of the debt securities issued by state institutions in the Czech Republic, CZK 65,225 million (2009: CZK 59,879 million) represents securities eligible for refinancing with the Czech National Bank.

During the year ended 31 December 2010, the Group acquired bonds with a nominal value of CZK 10,405 million, EUR 176 million and USD 23 million (a total CZK equivalent of CZK 15,184 million). During 2010, the Group sold debt securities in the nominal amount of CZK 800 million and EUR 26 million (a total CZK equivalent of CZK 1,556 million). During 2010, the Group redeemed at maturity debt securities in the aggregate nominal amount of CZK 8,923 million and EUR 28 million (a total CZK equivalent of CZK 9,647 million).

20. Assets held for sale

As at 31 December 2010, the Group reported assets held for sale at a carrying amount of CZK 34 million (2009: CZK 245 million) 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. These buildings are not depreciated.

21. Amounts due from banks

Balances due from banks comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Deposits with banks (current accounts)	59	659
Loans and advances to banks	11,309	9,812
Debt securities of banks acquired under initial offerings not designated for trading	12,073	11,708
Advances due from central banks (reverse repo transactions)	71,008	95,211
Term placements with other banks	17,731	13,882
Total	**112,180**	**131,272**
Provisions (refer to Note 12)	0	(1)
Total amounts due from banks	**112,180**	**131,271**

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

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

Securities acquired as loans and receivables

As of 31 December 2010, the Group maintains in its portfolio bonds at an amortised cost of CZK 12,073 million (2009: CZK 11,708 million) and a nominal value of CZK 11,880 million (2009: CZK 11,647 million), of which CZK 9,765 million represents bonds issued by the parent company Société Générale S. A. (2009: CZK 9,532 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 4,000 million (2009: CZK 6,000 million) is denominated in CZK, bears fixed interest at 4.27 percent and will mature in 2012. During 2010, the nominal value of the bond in the amount of CZK 2,000 million (2009: CZK 2,000 million) was partially repaid. The bond with the nominal value of CZK 3,175 million (2009: CZK 3,405 million) is denominated in EUR, bears floating interest and will mature in 2026. During 2010, the Group partially repaid the nominal value of the bond in the amount of EUR 2 million (an equivalent of CZK 51 million) (2009: EUR 1,8 million, an equivalent of CZK 47 million). The bond with the nominal value of CZK 2,590 million (2009: CZK 0 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 (2009: CZK 2,115 million).

22. Loans and advances to customers

Loans and advances to customers comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Loans to customers	397,168	381,891
Bills of exchange	398	434
Forfaits	2,168	3,788
Other amounts due from customers	167	28
Total gross loans and advances to customers	**399,901**	**386,141**
Allowances for loans to Individuals	(5,202)	(4,464)
Allowances for loans to Corporates*	(10,091)	(9,373)
Allowances for other amounts due from customers	(15)	(1)
Total Allowances for loans (refer to Note 12)	**(15,308)**	**(13,838)**
Total loans and advances to customers, net	**384,593**	**372,303**

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

Loans and advances to customers include interest due of CZK 1,346 million (2009: CZK 1,217 million), of which CZK 802 million (2009: CZK 627 million) relates to overdue interest.

Loans provided to customers under reverse repurchase transactions as at 31 December 2010 in the amount of CZK 187 million (2009: CZK 959 million) are collateralised by securities with fair values of CZK 212 million (2009: CZK 1,618 million).

The loan portfolio of the 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**	

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

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

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

(CZKm)	**31 Dec 2010**	**31 Dec 2009**
Food industry and agriculture	12,686	15,274
Mining and extraction	731	2,614
Chemical and pharmaceutical industry	5,051	5,224
Metallurgy	6,621	9,133
Automotive industry	2,588	3,559
Manufacturing of other machinery	5,306	5,419
Manufacturing of electrical and electronic equipment	3,216	2,396
Other processing industry	7,222	8,066
Power plants, gas plants and waterworks	17,832	13,578
Construction industry	11,479	12,508
Retail	10,937	11,727
Wholesale	29,770	23,659
Accommodation and catering	1,017	1,044
Transportation, telecommunication and warehouses	9,378	10,545
Banking and insurance industry	23,710	28,227
Real estate	22,414	19,858
Public administration	26,648	22,170
Other industries	18,245	18,210
Individuals	184,883	172,902
Loans to customers	**399,734**	**386,113**

The majority of loans (99%) were provided to entities on the territory of the Czech Republic.

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

	31 Dec 2010			31 Dec 2009		
(CZKm)	**Total client loan collateral**	**Discounted client loan collateral value**	**Applied client loan collateral value**	**Total client loan collateral**	**Discounted client loan collateral value**	**Applied client loan collateral value**
Guarantees of state and governmental institutions	10,703	8,699	6,777	3,157	2,667	2,514
Bank guarantee	23,053	21,836	18,998	18,559	18,101	16,753
Guaranteed deposits	7,453	7,451	7,116	6,093	6,091	5,846
Issued debentures in pledge	219	219	0	206	206	0
Pledge of real estate	297,691	177,208	126,439	273,416	163,194	116,015
Pledge of movable assets	14,044	2,967	2,850	9,657	3,036	2,693
Guarantee by legal entity	23,176	14,886	12,229	25,437	15,984	12,343
Guarantee by individual (natural person)	7,663	832	785	9,291	1,008	197
Pledge of receivables	37,647	3,666	9,719	43,509	11,317	10,782
Insurance of credit risk	9,581	9,101	4,058	3,015	2,863	2,448
Other	3,710	373	164	4,436	715	496
Total nominal value of collateral	**434,940**	**247,238**	**189,135**	**396,776**	**225,182**	**170,087**

Pledges on industrial real-estate represent 11 percent of total pledges on real estate (2009: 11 percent).

Loans and advances to customers – restructured

CZKm	**31 Dec 2010**	**31 Dec 2009**
Individuals	734	423
Corporates*	5,535	3,958
Total	**6,269**	**4,381**

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

Loans and advances to customers – leasing

(CZKm)	**31 Dec 2010**	**31 Dec 2009**
Due less than 1 year	414	480
Due from 1 to 5 years	114	197
Due over 5 years	1	4
Total	**529**	**681**

Within the Group, ESSOX s. r. o. engages in providing lease services. Assets leased under lease arrangements primarily include used passenger and utility vehicles with an average lease instalment period of 76 months (2009: 68 months), technology with an average lease instalment period of 42 months (2009: 46 months). As of 31 December 2010, future interest (the difference between the gross and net leasing investment) on lease contracts amounts to CZK 23 million (2009: CZK 45 million) and the provisions recognised against uncollectible lease receivables amount to CZK 363 million (2009: CZK 348 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 2010, the statement of financial position included loans to this client in the amount of CZK 1,310 million (2009: CZK 1,284 million) that was fully provided for. The increase in the balance between 2010 and 2009 arises from a foreign exchange rate difference. The Group did not report any off balance sheet receivables from this client in 2010 and 2009.
The Group is continuing to take action in all relevant jurisdictions to recover its funds.

23. Investments held to maturity

Investments held to maturity comprise:

	31 Dec 2010		31 Dec 2009	
(CZKm)	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	6,712	6,523	6,785	6,619
Total investments held to maturity	**6,712**	**6,523**	**6,785**	**6,619**

Note: *) Amortised acquisition cost

As of 31 December 2010, investments held to maturity include bonds of CZK 6,712 million (2009: CZK 6,785 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Fixed income debt securities		
– Czech crowns	5,758	5,495
– Other currencies	954	1,290
Total fixed income debt securities	**6,712**	**6,785**
Total debt securities held to maturity	**6,712**	**6,785**

Investments held to maturity, allocated by issuer, comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Debt securities held to maturity issued by:		
– State institutions in the Czech Republic	5,758	5,495
– Foreign state institutions	954	1,290
Total debt securities held to maturity	**6,712**	**6,785**

Of the debt securities issued by state institutions in the Czech Republic, CZK 5,757 million (2009: CZK 5,513 million) represents securities eligible for refinancing central banks.

In the year ended 31 December 2010, the Group purchased debt securities in the total nominal amount of CZK 250 million (2009: EUR 1,620 million), and redeemed debt securities at maturity in the total nominal amount of EUR 11 million (2009: EUR 4 million), i.e. CZK equivalent of CZK 277 million (2009: CZK 106 million). During the year ended 31 December 2009, the Group changed the investment intent for debt securities in the 'Financial assets available for sale' in the total nominal amount of CZK 3,589 million. For this reason, the Group reclassified these debt securities to 'Financial assets held to maturity'.

24. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Prepayments and accrued income	683	867
Settlement balances	264	311
Receivables from securities trading	87	264
Other assets	2,361	3,019
Total prepayments, accrued income and other assets	**3,395**	**4,461**

In the year ended 31 December 2010, 'Other assets' included receivables of CZK 970 million (2009: CZK 1,887 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 2010	31 Dec 2009
Investments in subsidiary undertakings	0	2
Investments in associated undertakings	674	603
Total investments in subsidiaries and associates	**674**	**605**

(CZKm)			31 Dec 2010		31 Dec 2009
Subsidiaries	Group's ownership interest	Cost of investment	Net book value	Cost of investment	Net book value
ALL IN REAL ESTATE LEASING, a.s., v likvidaci	100.00	0	0	39	2
Total subsidiaries		**0**	**0**	**39**	**2**
		Net book value	Share of net assets	Net book value	Share of net assets
Associates					
Komerční pojišťovna, a.s.	49.00	482	674	482	603
CBCB – Czech Banking Credit Bureau, a.s.*	20.00	0	0	0	0
Total associates		**482**	**674**	**482**	**603**
Investments in associates		**482**	**674**	**521**	**605**

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

(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

(CZKm)				31 Dec 2009
Associates	Assets	Liabilities	Net operating income	Profit
Komerční pojišťovna, a.s.	14,968	13,738	357	52
CBCB – Czech Banking Credit Bureau, a.s.	22	16	109	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 2010 are as follows:

(CZKm)	Internally generated assets	Software	Other intangible assets	Acquisition of assets	Total
Cost					
31 December 2009	6,396	2,058	381	1,254	10,089
Additions	1,389	311	18	961	2,680
Disposals / Transfers	(391)	(240)	(301)	(1,718)	(2,651)
Exchange rate difference	0	(1)	0	0	(1)
31 December 2010	**7,394**	**2,128**	**98**	**497**	**10,117**
Accumulated amortisation and provisions					
31 December 2009	4,597	1,414	355	0	6,366
Additions	703	216	11	0	930
Disposals	(391)	(241)	(301)	0	(933)
Impairment charge	0	0	(1)	0	(1)
Exchange rate difference	0	(1)	0	0	(1)
31 December 2010	**4,909**	**1 388**	**64**	**0**	**6,361**
Net book value					
31 December 2009	1,799	644	26	1,254	3,723
31 December 2010	**2,485**	**740**	**34**	**497**	**3,756**

During the year ended 31 December 2010, the Group invested CZK 157 million (2009: CZK 185 million) in research and development through a charge in operating expenses.

27. Tangible assets

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

(CZKm)	Land	Buildings	Fixtures, fittings and equipment	Acquisition of assets	Total
Cost					
31 December 2009	303	11,257	5,647	276	17,483
Reallocation from / to assets held for sale	0	(4)	0	0	(4)
Additions	0	182	299	421	902
Disposals/Transfers	(8)	(519)	(580)	(509)	(1,616)
Exchange rate difference	0	(1)	(3)	0	(4)
31 December 2010	**295**	**10,915**	**5,363**	**188**	**16,761**
Accumulated depreciation and provisions					
31 December 2009	0	5,232	4,522	0	9,754
Reallocation of accumulated depreciation of assets held for sale	0	(7)	0	0	(7)
Additions	0	376	389	0	765
Disposals	0	(264)	(553)	0	(817)
Impairment charge	0	(7)	4	0	(3)
Exchange rate difference	0	0	(3)	0	(3)
31 December 2010	**0**	**5,330**	**4,359**	**0**	**9,689**
Net book value					
31 December 2009	303	6,025	1,124	276	7,729
31 December 2010	**295**	**5,585**	**1,004**	**188**	**7,072**

As of 31 December 2010, the Group recognised provisions against tangible assets of CZK 17 million (2009: CZK 20 million). These provisions primarily included provisions charged in respect of leasehold improvements.

28. Goodwill

There were no changes in goodwill during the year ended 31 December 2010, it amounted to CZK 3,551 million as of 31 December 2010 (2009: CZK 3,551 million).

29. Financial liabilities at fair value through profit or loss

As at 31 December 2010 and 2009, financial liabilities at fair value through profit or loss include only liabilities arising from sold securities and negative fair values of financial derivative instruments held for trading. The Group designated no other financial liability as at fair value through profit or loss upon initial allocation.

(CZKm)	31 Dec 2010	31 Dec 2009
Sold securities	2,608	1,020
Derivative financial instruments	11,065	11,253
Financial liabilities at fair value through profit or loss	**13,673**	**12,273**

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 2010	31 Dec 2009
Current accounts	3,086	613
Other amounts due to banks	25,988	18,126
Total amounts due to banks	**29,074**	**18,739**

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

31. Amounts due to customers

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

(CZKm)	31 Dec 2010	31 Dec 2009
Current accounts	300,472	296,698
Savings accounts	106,186	85,855
Term deposits	80,318	106,092
Depository bills of exchange	15,803	25,640
Loans received from customers	2,369	6,000
Other payables to customers	32,903	31,524
Total amounts due to customers	**538,051**	**551,809**

The fair value of securities and treasury bills serving as collateral for received repurchase loans from clients amounted to CZK 2,363 million (2009: CZK 5,979 million).

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

(CZKm)	31 Dec 2010	31 Dec 2009
Private companies	172,664	184,519
Other financial institutions, non-banking entities	10,723	16,218
Insurance companies	9,368	13,705
Public administration	2,002	2,522
Individuals	248,667	245,007
Individuals – entrepreneurs	24,258	25,405
Government agencies	54,585	49,464
Other	10,210	9,150
Non-residents	5,574	5,819
Total amounts due to customers	**538,051**	**551,809**

32. Securities issued

Securities issued comprise bonds of CZK 538 million (2008: CZK 615 million) and mortgage bonds of CZK 16,893 million (2009: CZK 17,557 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 2010	31 Dec 2009
In less than one year	0	0
In one to five years	12,635	0
In five to ten years	1,188	14,526
In ten to twenty years	0	0
Over twenty years	3,608	3,646
Total debt securities	**17,431**	**18,172**

During the year ended 31 December 2010, the Group repurchased the mortgage bonds with the aggregate nominal volume of CZK 411 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 2010 (CZKm)	31 Dec 2009 (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	3 Aug 2015	2,478	2,892
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,157	10,219
Mortgage bonds of Komerční banka, a.s., CZ0002000854	3.74%	EUR	1 Sep 2006	1 Sep 2016	650	800
Bonds of Komerční banka, a.s., CZ0003701427	4.22%	CZK	18 Dec 2007	1 Dec 2017	538	615
Mortgage bonds of Komerční banka, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	3,608	3,646
Total debts					**17,431**	**18,172**

Note: Six-month PRIBOR was 156 basis points as at 31 December 2010 (2009: 182 basis points).
Three-month PRIBID was 85 basis points as at 31 December 2010 (2009: 126 basis points).
The value of the interest rate swap CZK sale average for ten years as at 31 December 2010 was 319 basis points (2009 – 354 basis points).

33. Accruals and other liabilities

Accruals and other liabilities comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Settlement balances and outstanding items	5	28
Payables from securities trading and issues of securities	1,412	1,930
Payables from payment transactions	3,036	3,474
Other liabilities	3,601	3,444
Accruals and deferred income	191	1,014
Total accruals and other liabilities	**8,245**	**9,890**

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

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

Deferred income fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 22 million (2009: CZK 22 million).

34. Provisions

Provisions comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Provisions for contracted commitments (refer to Notes 9 and 10)	457	824
Provisions for other credit commitments (refer to Note 12)	569	1,032
Provision for restructuring (refer to Notes 9 and 10)	30	142
Total provisions	**1,056**	**1,998**

In 2010, 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 use of the provision to cover the expenses in 2010 and the charge for the provision reflecting changes in the project. During 2010 the Bank completed the project of reorganization and centralization of back office services and the provision was completely utilized. The charge for and use of provisions is reported in the income statement lines "Personnel costs" and "General administrative expenses".

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

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

(CZKm)	31 Dec 2010	31 Dec 2009
Provision for off balance sheet commitments	461	869
Provision for undrawn loan facilities	108	163
Total	**569**	**1,032**

Movements in the provisions for contracted commitments are as follows:

(CZKm)	1 January 2010	Additions	Disposals	Accrual	Foreign exchange difference	31 Dec 2010
Provisions for retirement bonuses	98	13	(15)	7	0	103
Provisions for loyalty and jubilee bonuses	2	0	0	0	0	2
Other provisions for contracted commitments	724	60	(436)	0	4	352
Provisions for restructuring	142	9	(119)	0	(2)	30
Total	**966**	**82**	**(570)**	**7**	**2**	**487**

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 2010	31 Dec 2009
Banking provisions and allowances	0	0
Provisions for non-banking receivables	12	0
Allowances for assets	0	0
Non-banking provisions	0	0
Difference between accounting and tax net book value of assets	0	0
Leases	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 42)	0	0
Revaluation of financial assets available-for-sale – equity impact		
(refer to Note 43)	0	0
Other temporary differences	0	0
Net deferred tax asset	**12**	**0**

Deferred tax liability is as follows:

(CZKm)	31 Dec 2010	31 Dec 2009
Banking provisions and allowances	259	263
Provisions for non-banking receivables	14	17
Allowances for assets	4	47
Non-banking provisions	51	123
Difference between accounting and tax net book value of assets	(382)	(353)
Leases	(8)	(12)
Revaluation of hedging derivatives – equity impact (refer to Note 42)	(920)	(558)
Revaluation of financial assets available-for-sale – equity impact (refer to Note 43)	(210)	(437)
Other temporary differences	105	154
Net deferred tax liability	**(1,086)**	**(756)**

Net deferred tax liability recognised in the financial statements:

(CZKm)	31 Dec 2010	31 Dec 2009
Balance at the beginning of the period	(756)	(575)
Movement in net deferred tax liability – profit and loss impact (refer to Note 14)	(187)	(88)
Movement in net deferred tax liability – equity impact (refer to Note 42 and 43)	(131)	(93)
Balance at the end of the period	**(1,074)**	**(756)**

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

36. Subordinated debt

As of 31 December 2010 the Group had subordinated debt of CZK 6,001 million (2009: CZK 6,001 million). The nominal value of the subordinated debt received by the Group at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S. A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has 10-year maturity with the Group’s option for early repayment after five years and thereafter as of any interest payment date. Interest payments are made on a monthly basis.

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

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

Name of the entity	Registered office	Ownership percentage
SOCIETE GENERALE S. A.	29 Bld Haussmann, Paris	60.35
CHASE NOMINEES LIMITED	125 London Wall, London	4.97
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.59
STATE STREET BANK & TRUST COMPANY	1776 Heritage Drive, Boston	4.42

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

As of 31 December 2010, the Group held 54,000 treasury shares at a cost of CZK 150 million (2009: 54,000 treasury shares at a cost of CZK 150 million).

Capital Management

The 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.

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 percent of the Tier 1 capital.

The applicable banking regulation, known as Basel II, is based on the three-pillar concept. The first pillar is devoted to the description and quantification of credit, operational and market risks and was implemented under the direct supervision of the regulator. The second pillar allows banks to apply their own approach to risks, but concurrently requires coverage of all types of risks to which the 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 2010	31 Dec 2009
Tier 1 capital	49,363	44,677
Tier 2 capital	6,000	6,000
Deductible items of Tier 1 and Tier 2	(2,958)	(2,764)
Total Regulatory capital	**52,405**	**47,913**

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

(CZKm)	31 Dec 2010	31 Dec 2009	Change in the year
Cash and balances with central banks	13,062	16,271	(3,209)
Amounts due from banks – current accounts	59	659	(600)
Amounts due to central banks	(1)	(2)	1
Amounts due to banks – current accounts	(3,086)	(613)	(2,473)
Total	**10,034**	**16,315**	**(6,281)**

39. Acquisition / disposal of subsidiary companies

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

The Expungement of the company from the register of companies was performed in October 2010 (refer to Note 13).

40. Commitments and contingent liabilities

Legal disputes
The Group conducted a review of legal proceedings outstanding against it as at 31 December 2010.
Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 193 million (2009: CZK 202 million) for these legal disputes, refer to Note 34. The Group has also recorded an accrual of CZK 147 million (2009: CZK 360 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2010, the Group assessed lawsuits filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

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

Capital commitments
As of 31 December 2010, the Group had capital commitments of CZK 267 million (2009: CZK 401 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit
Documentary letters of credit are written irrevocable undertakings by the 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).

Financial commitments and contingencies comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Non-payment guarantees incl. commitments to issued non-payment guarantees	36,709	34,056
Payment guarantees including commitments to issued payment guarantees	10,723	10,568
Received bills of exchange/acceptances and endorsements of bills of exchange	49	51
Committed facilities and unutilised overdrafts	25,233	31,490
Undrawn credit commitments	42,602	46,635
Unutilised overdrafts and approved overdraft loans	33,159	37,547
Unutilised discount facilities	21	26
Unutilised limits under Framework agreements to provide financial services	52,363	55,101
Open customer/import letters of credit uncovered	882	695
Stand-by letters of credit uncovered	444	380
Confirmed supplier/export letters of credit	12	70
Open customer/import letters of credit covered	103	81
Stand-by letters of credit covered	25	25
Total contingent revocable and irrevocable commitments	**202,325**	**216,725**

Of the Group's committed facilities and overdraft facilities, CZK 59,371 million (2009: CZK 47,304 million) is revocable.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. As of 31 December 2010, the Group recorded provisions for these risks amounting to CZK 569 million (2009: CZK 1,032 million) – refer to Note 34.

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

(CZKm)	31 Dec 2010	31 Dec 2009
Food industry and agriculture	7,656	7,570
Mining and extraction	389	731
Chemical and pharmaceutical industry	4,406	6,143
Metallurgy	6,183	6,741
Automotive industry	1,429	3,059
Manufacturing of other machinery	15,390	12,575
Manufacturing of electrical and electronic equipment	2,187	2,211
Other processing industry	5,675	7,498
Power plants, gas plants and waterworks	16,166	22,585
Construction industry	48,204	43,574
Retail	6,915	5,949
Wholesale	16,817	19,001
Accommodation and catering	712	614
Transportation, telecommunication and warehouses	8,922	11,213
Banking and insurance industry	12,529	12,023
Real estate	2,188	2,111
Public administration	10,511	9,997
Other industries	18,006	23,265
Individuals	18,040	19,865
Contingent liabilities	**202,325**	**216,725**

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

41. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2010, the Group was controlled by Société Générale which owns 60.35 percent 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, transactions with derivative financial instruments and other types of transactions. These transactions were carried out on arm´s length basis.

Amounts due to and from the Group companies

As of 31 December 2010, the Group had deposits of CZK 443 million (2009: 125 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 264 million (2009: CZK 90 million) and a negative fair value amounted to CZK 78 million (2009: CZK 8 million). Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 257 million (2009: CZK 1,244 million) and interest expense on financial derivatives amounted to CZK 205 million (2009: CZK 1,276 million). Other amounts due, amounts owed, income and expenses with the Group were immaterial in 2010 and 2009.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

Company (CZKm)	31 Dec 2010	31 Dec 2009
ALD Automotive Czech Republic, s r. o.	2,224	2,281
ESSOX SK s.r.o.	2	3,620
Investiční kapitálová společnost KB, a.s.*	0	14
SG Consumer Finance d. o. o.	0	1,153
SG Equipment Finance Czech Republic, s r. o.	5,980	7,408
SG Express bank	13	1
SG Zurich	0	29
SG London	0	29
SG Private Banking /Suisse/ S. A.	7	6
SG Vostok	31	7
SG Warsaw	0	20
SGBT Luxemburg	26	0
Société Générale Paris	15,858	10,934
SG Algerie	2	0
BRD Romania	10	0
SG Orbeo	127	0
Total	**24,280**	**25,502**

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

Principal balances owed to the Société Générale Group entities include:

Company (CZKm)	31 Dec 2010	31 Dec 2009
ALD Automotive Czech Republic, s r. o.	13	0
Investiční kapitálová společnost KB, a.s.*	0	170
SG Consumer Finance d.o.o.	4	12
SG Cyprus LTD	31	30
SG Equipment Finance Czech Republic, s r. o.	1,198	1 451
SG New York	6	4
SG Private Banking /Suisse/ S. A.	71	35
SG Zurich	0	5
SGBT Luxemburg	648	538
Société Générale Paris	28,575	20,868
SG London	25	1
SG Vostok	5	1
Société Générale Warsaw	15	19
Splitska Banka	0	14
Credit du Nord	4	0
SG Orbeo	169	0
SG Frankfurt	28	0
Inter Europe Conseil	286	0
Total	**31,078**	**23,148**

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

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

As of 31 December 2010, the Group also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 148,764 million (2009: CZK 134,440 million) and CZK 181,426 million (2009: CZK 142,747 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2010 and 2009, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2010, the Group realised total income of CZK 22,478 million (2009: CZK 14,958 million) and total expenses of CZK 21,229 million (2009: CZK 13,653 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.

As of 31 December 2010 and 2009, the Group recorded no material expenses or income with other companies in the Société Générale Group.

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

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

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Remuneration to the Management Board members*	50	46
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	70	65
Total	**125**	**116**

Note: *) Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2010 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2010 but including bonuses for 2009, figures for expatriate members of the Management Board include remuneration net of bonuses for 2010 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Management Board does not include accommodation related services.

**) Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2010 to the current and former members of the Supervisory Board, amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.

***) Remuneration to the Directors' committee members represents the sum of compensation and benefits paid in 2010 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2009, the total balance reflects his / her aggregate annual remuneration.

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

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

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

In respect of loans and guarantees as of 31 December 2010, the Group recorded loan receivables totalling CZK 5 million (2009: CZK 4 million) granted to the members of the Management Board, Directors' Committee and Supervisory Board. During 2010, draw-downs of CZK 4 million were made under the loans granted. Loan repayments during 2010 amounted to CZK 3 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 2010	Year ended 31 Dec 2009
Cash flow hedge fair value at 1 January	2,940	4,437
Deferred tax asset / (liability) at 1 January	(558)	(885)
Balance at 1 January	**2,382**	**3,552**
Movements during the year		
Gains/losses from changes in fair value	3,503	(343)
Deferred income tax	(670)	97
	2,833	**(246)**
Transferred to interest income/expense	(1,615)	(1,154)
Deferred income tax	308	230
	(1,307)	**(924)**
Cash flow hedge fair value at 31 December	4,828	2,940
Deferred tax asset / (liability) at 31 December	(920)	(558)
Balance at 31 December	**3,908**	**2,382**

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

(CZKm)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Reserve from fair-value revaluation at 1 January	3,897	862
Deferred tax asset/(liability)/income tax liability at 1 January	(485)	(95)
Balance at 1 January	**3,412**	**767**
Movements during the year		
Gains/(losses) from changes in fair value	(1,423)	2,567
Deferred tax/income tax liability	248	(376)
	(1,175)	**2,191**
(Gains)/losses from the sale	(36)	468
Deferred tax/income tax liability	6	(14)
	(30)	**454**
Reserve from fair-value revaluation at 31 December	2,438	3,897
Deferred tax asset/(liability)/income tax liability/income tax liability at 31 December	(231)	(485)
Balance at 31 December	**2,207**	**3,412**

Unrealised gains and losses from Available-for-sale financial assets recognised in equity of pension funds in the amount of CZK 290 million as at 31 December 2010 (31 December 2009 CZK 376 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 Bank uses a 22-degree range to evaluate the client's risk rating; the last three steps indicate a default of the client and the others designate portfolio without default.

In 2010, the Group predominantly focused on four core areas – (1) review of selected models of credit risk in order to optimally take into account the current macroeconomic situation and set goals of Group, (2) regular analysis of the profitability of individual client portfolios in order to optimize the criteria for approving the Group's credit products, (3) complete the implementation of preventive instruments increasing the protection of the Group from the untrustworthy parties, in particular the system for the identification and coordinated response on suspicion of credit fraud and innovative internal registry of negative information, and (4) increase the effectiveness of monitoring the risk profile of individual client portfolios and the quality of tools and models of credit risk.

Similarly as in previous years, especially in the first two mentioned areas, an important role have had the results of a regular stress testing, which allowed more precise estimate of the expected intensity level of credit risk for the following periods and thus the optimization of tools for the 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 2010, the Group updated both components of the obligor rating, updated models now show both the period before and during the economic crisis. The Group also has implemented several improvements to regular monitoring and back-testing of these models.

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the 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 the last quarter of 2010 the Group carried out a remapping of the model to more accurately assess the expected level of risk assessed subjects.

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

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

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

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

Pursuant to the back testing of the rating and LGD models and the results of stress testing, the 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 2010 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 untrusted entities

e) Credit registers
During 2010, the evaluation of data from credit registers was one of the principal factors impacting the assessment of applications for client funding, predominantly in the retail clients sector. During the year, the Group principally focused on optimising the rules for reflecting information from credit registers in the approval process, predominantly with respect to the behavioural rating and individual assessment of applications for funding (approval of the transaction denied by a rating model).

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

f) Credit fraud prevention

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

Credit risk concentration

Concentration of credit risk is the risk of such excess losses related to credit transactions, which in particularly difficult circumstances could jeopardize the financial stability of the Group. The Group's credit concentration risk is actively managed in the overall credit risk management using standard tools (evaluation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Group aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. The system of internal limits is established such that the Group complies with regulatory limits set in respect of concentration risk. Refer to Note 22 and 40 for quantitative information about credit risk concentration.

The Group's maximum credit exposure as of 31 December 2010:

	Total exposure			Applied collateral		
(CZKm)	Statement of Financial Position	Off-balance sheet*	Total credit exposure	Statement of Financial Position	Off-balance sheet*	Total collateral
Balances with central banks	**6,637**	**x**	**6,637**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**34,003**	**x**	**34,003**	**0**	**x**	**0**
Positive fair value of hedging financial derivative transactions	**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**	**4,972**	**117,152**	**71,468**	**0**	**71,468**
Loans and advances to customers	**399,901**	**197,353**	**597,254**	**189,135**	**13,620**	**202,775**
Corporates**	216,600	179,894	396,494	69,506	12,814	82,320
Of which: top corporate clients	77,069	106,020	183,089	40,734	6,328	47,062
Individuals	183,134	17,459	200,593	119,629	806	120,435
Of which: mortgage loans	108,773	3,582	112,355	88,451	786	89,237
consumer loans	22,288	3,003	25,291	2,635	14	2,649
construction savings scheme loans	47,951	3,156	51,107	28,874	0	28,874
Other amounts due from customers	167	x	167	0	x	0
Investments held to maturity	**6,712**	**x**	**6,712**	**0**	**x**	**0**
Total	**687,732**	**202,325**	**890,057**	**260,603**	**13,620**	**274,223**

Note: *) Undrawn amounts, commitments, guarantees, etc.
**) This item also includes loans provided to individuals entrepreneurs.

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

The Group's maximum credit exposure as of 31 December 2009:

	Total exposure			Applied collateral		
(CZKm)	Statement of Financial Position	Off-balance sheet*	Total credit exposure	Statement of Financial Position	Off-balance sheet*	Total collateral
Balances with central banks	**8,658**	**x**	**8,658**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**24,442**	**x**	**24,442**	**0**	**x**	**0**
Positive fair value of hedging financial derivative transactions	**9,590**	**x**	**9,590**	**0**	**x**	**0**
Financial assets available for sale	**114,067**	**x**	**114,067**	**0**	**x**	**0**
Amounts due from banks	**131,271**	**4,983**	**136,254**	**95,970**	**0**	**95,970**
Loans and advances to customers	**386,141**	**211,742**	**597,883**	**170,087**	**11,142**	**181,229**
Corporates**	214,415	191,984	406,399	61,409	10,085	71,494
Of which: top corporate clients	101,446	122,535	223,981	35,493	6,131	41,624
Individuals	171,698	19,758	191,456	108,678	1,057	109,735
Of which: mortgage loans	99,937	3,485	103,422	80,984	827	81,811
consumer loans	23,128	3,429	26,557	2,781	221	3,002
constructions savings scheme loans	44,406	4,571	48,977	25,264	0	25,264
Other amounts due from customers	28	x	28	0	x	0
Investments held to maturity	**6,785**	**x**	**6,785**	**0**	**x**	**0**
Total	**680,954**	**216,725**	**897,679**	**266,057**	**11,142**	**277,199**

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. 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 (Loss Given Default) database which is established in respect of historically observed losses for clients not individually assessed. This new model was implemented in August 2007. In November 2009, the model used in the calculation of allowances was updated based on new information on incurred losses for the most recent period including the reflection of the current phase of the economic cycle. On the basis of regular back testing of models conducted on a quarterly basis, the Group confirmed the validity of values Expected Loss (EL) and Expected Loss Best Estimate (ELBE) for calculating of allowances and provisions for 2010.

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

	31 Dec 2010		31 Dec 2009	
CZKm	Individually	Statistical model	Individually	Statistical model
Corporates*	23,115	3,304	24,972	3,718
Individuals	7,762	4,673	6,011	5,236
Total	**30,877**	**7,977**	**30,983**	**8,954**

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

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

(CZKm)	Loans before due date	Past due loans, not impaired						Total
		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**
Customers								
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**

As at 31 December 2009, the Group reported the following loans before due date and past due loans not impaired:

(CZKm)	Loans before due date	Past due loans, not impaired						Total
		1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	
Banks								
Standard	130,424	0	0	0	0	25	25	130,449
Watch	800	0	0	0	0	0	0	800
Total	**131,224**	**0**	**0**	**0**	**0**	**25**	**25**	**131,249**
Customers								
Standard	338,737	7,152	79	25	60	123	7,439	346,176
Watch	10,963	246	157	71	0	0	476	11,439
Total	**349,700**	**7,398**	**238**	**96**	**60**	**123**	**7,915**	**357,615**

The amount of the used collateral in respect of past due loans not impaired was CZK 7,416 million (2009: CZK 9,033 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.

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

In 2009, the Group finalised the on-line connection to the state-run Real Estate Register for reviewing and acquiring data on pledged real estate in approving mortgages and in the process of regular monitoring of selected events that may put the pledge of the Group on the real estate at risk.

Real estate collateral valuation

Activities relating to the valuation of real estate obtained as collateral for commercial and retail loans are independent from the 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 2010, 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. Result of the statistical monitoring of market prices of residential real estate was mass decrease of the residential real estate values by appropriate discount factor (only in selected regions with a significant decline in prices of residential property over the valuation originally made)), which took place in the last quarter of 2010. In line with this activity, a regular annual process of updating discount factor values which are used to update the values of residential real estates was set up.

Recovery of amounts due from borrowers

As a result of the negative economic development and thus worsened the financial situation of enterprises and retail clients 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 17 percent of the total portfolio of exposures in recovery and 82 percent of the total number of clients in recovery. During 2010, 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.

Revocable contractual commitments
The Group monitors revocable contractual commitments on the same basis as irrevocable commitments, but recognises no allowances or provisions. As at 31 December 2010, the revocable commitments account for 28 percent (2009: 22 percent) of all the Group's revocable and irrevocable commitments.

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

As at 31 December 2010, the Group posted a credit exposure of CZK 13,860 million (2009: CZK 15,802 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as at 31 December 2010 of all outstanding agreements. The netting agreement is taken into account where applicable.

The 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.

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

The Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR (548,000) and EUR (419,000) as at 31 December 2010 and 2009, respectively. The average Global Value-at-Risks were EUR (447,000) and EUR (605,000) for the years ended 31 December 2010 and 2009, respectively.

The accuracy of the VaR model is validated through back-testing calculation, when actual sales results and hypothetical results (ie, results excluding deals closed during the day) are compared with the VaR results. The number of exceedances should not occur in more cases than 1% of days for given period. In 2010, 2% of the daily losses (actual or hypothetical) exceeded 99% of VaR Unprecedented developments in market conditions in connection with the ongoing crisis has resulted in the emergence of some new market factors that are not currently fully covered by the existing VaR model.

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

The indicator of sensitivity to a change in market interest rates shows a change in the Group's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates occurred. As at 31 December 2010, the interest rate risk sensitivity was CZK (418) million (2009: CZK (456) million). The Group is limited by this indicator and the level of the limit is determined to be approximately 2 percent of capital.

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

(C) FINANCIAL DERIVATIVES

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

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

Financial derivative instruments designated as held for trading:

	31 Dec 2010		31 Dec 2009		31 Dec 2010		31 Dec 2009	
	Notional value		Notional value		Fair value		Fair value	
(CZKm)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Positive**	**Negative**	**Positive**	**Negative**
Interest rate instruments								
Interest rate swaps	334,422	334,422	266,226	266,226	5,432	5,465	4,538	5,011
Interest rate forwards and futures*	116,280	116,280	204,296	204,296	32	41	374	335
Interest rate options	48,395	48,395	617	617	473	473	0	0
Total interest rate instruments	**499,097**	**499,097**	**471,139**	**471,139**	**5,937**	**5,979**	**4,912**	**5,346**
Foreign currency instruments								
Currency swaps	102,176	102,840	75,848	76,016	580	1,186	843	1,016
Cross currency swaps	26,965	26,831	17,025	17,151	703	477	336	410
Currency forwards	31,352	31,907	38,356	38,202	164	665	784	565
Purchased options	19,882	19,814	31,018	30,630	633	0	1,635	0
Sold options	19,814	19,882	30,630	31,018	0	633	0	1,633
Total currency instruments	**200,189**	**201,274**	**192,877**	**193,017**	**2,080**	**2,961**	**3,598**	**3,624**
Other instruments								
Futures on debt securities*	100	100	1,218	1,218	0	0	0	0
Forwards on debt securities	26	26	155	155	0	0	1	1
Forwards on emission allowances	12,481	12,437	10,667	10,610	1,916	1,839	2,189	2,062
Commodity forwards	1,055	1,055	1,297	1,297	55	54	81	76
Commodity swaps	8,300	8,300	1,228	1,228	223	218	48	46
Purchased commodity options	128	128	1,320	1,320	14	0	98	0
Sold commodity options	128	128	1,320	1,320	0	14	0	98
Total other instruments	**22,218**	**22,174**	**17,205**	**17,148**	**2,208**	**2,125**	**2,417**	**2,283**
Total	**721,504**	**722,546**	**681,221**	**681,304**	**10,225**	**11,065**	**10,927**	**11,253**

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

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	103,379	123,378	39,469	266,226
Interest rate forwards and futures*	190,878	13,418	0	204,296
Interest rate options	197	420	0	617
Total interest rate instruments	**294,454**	**137,216**	**39,469**	**471,139**
Foreign currency instruments				
Currency swaps	73,542	1,901	405	75,848
Cross currency swaps	4,022	9,212	3,791	17,025
Currency forwards	28,173	9,724	459	38,356
Purchased options	19,475	11,543	0	31,018
Sold options	19,271	11,359	0	30,630
Total currency instruments	**144,483**	**43,739**	**4,655**	**192,877**
Other instruments				
Futures on debt securities	1,218	0	0	1,218
Forwards on debt securities	155	0	0	155
Forwards on emission allowances	3,236	7,431	0	10,667
Commodity forwards	1,297	0	0	1,297
Commodity swaps	1,085	143	0	1,228
Purchased commodity options	1,088	232	0	1,320
Sold commodity options	1,088	232	0	1,320
Total other instruments	**9,167**	**8,038**	**0**	**17,205**
Total	**448,104**	**188,993**	**44,124**	**681,221**

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 hedging:

(CZKm)	31 Dec 2010 Notional value Assets	Liabilities	31 Dec 2009 Notional value Assets	Liabilities	31 Dec 2010 Fair value Positive	Negative	31 Dec 2009 Fair value Positive	Negative
Cross currency swaps for cash flows hedging	30,024	26,960	27,734	24,258	731	456	1,053	378
Cross currency swaps for fair value hedging	348	3,022	349	3,146	80	43	0	30
Currency swaps for fair value hedging	0	0	665	677	0	0	0	14
Currency forwards for fair value hedging	206	203	0	0	0	4	0	0
Interest rate swaps for cash flow hedging	320,774	320,775	285,038	285,038	11,013	5,958	8,537	5,734
Interest rate swaps for fair value hedging	11,286	11,286	6,807	6,807	30	763	0	383
Total	**362,638**	**362,246**	**320,593**	**319,926**	**11,854**	**7,224**	**9,590**	**6,539**

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**

Remaining maturity of derivatives designated as hedging 31 December 2009:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	6,000	21,734	0	27,734
Cross currency swaps for fair value hedging	0	0	349	349
Currency swaps for fair value hedging	665	0	0	665
Interest rate swaps for cash flow hedging	38,380	149,678	96,980	285,038
Interest rate swaps for fair value hedging	0	202	6,605	6,807
Total	**45,045**	**171,614**	**103,934**	**320,593**

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 2010 Up to 1 year	1 to 5 years	Over 5 years	31 Dec 2009 Up to 1 year	1 to 5 years	Over 5 years
Cash inflows	2,113	3,378	561	2,725	4,242	414
Cash outflows	(2,726)	(8,931)	(5,219)	(3,003)	(9,345)	(5,363)
Net cashflow	**(613)**	**(5,553)**	**(4,658)**	**(278)**	**(5,103)**	**(4,949)**

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 2010, the Group recorded the following hedges:

(i) Interest rate risk hedge:

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
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
Total assets at 31 December 2009	277,789	93,013	171,953	101,836	50,484	695,075
Total liabilities at 31 December 2009	195,522	16,568	16,441	21,317	376,435	626,283
Net on balance sheet interest rate sensitivity gap at 31 December 2009	82,267	76,445	155,512	80,519	(325,951)	68,792
Net off balance sheet interest rate sensitivity gap at 31 December 2009	(24,296)	2,723	(48,906)	71,032	0	553
Cumulative interest rate sensitivity gap at 31 December 2009	57,971	137,139	243,745	395,296	69,345	x

Note: *) Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards, interest rate options, interest rate futures and cross currency swaps.
**) Undrawn loans and revolving loans are reported on a net basis, that is, the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2010 and 2009:

			2010			2009
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and balances with central banks	0.25%	x	x	0.33%	x	x
Treasury bills	1.23%	x	x	1.86%	x	x
Amounts due from banks	1.01%	0.52%	1.13%	1.32%	0.49%	0.67%
Loans and advances to customers	4.35%	1.11%	3.46%	4.59%	0.99%	2.73%
Interest earning securities	3.21%	4.28%	3.34%	5.13%	5.89%	3.97%
Total assets	**3.02%**	**1.84%**	**2.87%**	**3.36%**	**2.15%**	**2.52%**
Total interest earning assets	**3.44%**	**1.93%**	**3.10%**	**3.74%**	**2.26%**	**2.79%**
Liabilities						
Amounts due to central banks and banks	0.27%	0.38%	2.01%	0.39%	0.01%	2.39%
Amounts due to customers	0.37%	0.13%	0.18%	0.52%	0.14%	0.13%
Debt securities	2.96%	x	3.76%	3.72%	x	3.71%
Subordinated debt	1.38%	x	x	1.91%	x	x
Total liabilities	**0.53%**	**0.20%**	**0.49%**	**0.71%**	**0.11%**	**0.47%**
Total interest bearing liabilities	**0.48%**	**0.21%**	**0.53%**	**0.63%**	**0.14%**	**0.50%**
Off balance sheet – assets						
Derivatives (interest rate swaps, options, etc)	2.52%	2.28%	1.99%	2.99%	1.76%	2.03%
Undrawn portion of loans	3.16%	1.36%	2.44%	4.02%	x	2.67%
Undrawn portion of revolving loans	6.48%	x	2.19%	6.34%	1.54%	1.16%
Total off balance sheet assets	**2.75%**	**2.28%**	**2.01%**	**3.38%**	**1.76%**	**1.97%**
Off balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	2.23%	2.56%	2.23%	2.79%	1.97%	2.42%
Undrawn portion of loans	3.16%	1.36%	2.44%	4.02%	x	2.67%
Undrawn portion of revolving loans	6.48%	x	2.19%	6.34%	1.54%	1.16%
Total off balance sheet liabilities	**2.49%**	**2.55%**	**2,24%**	**3.21%**	**1.97%**	**2.34%**

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

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

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

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

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

				31 Dec 2010				31 Dec 2009
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and balances with central banks	0	4,973	8,716	13,689	0	6,170	10,101	16,271
Financial assets at fair value through profit or loss	20,271	3,507	10,225	34,003	10,278	3,237	10,927	24,442
Positive fair values of hedging financial derivative transactions	0	0	11,854	11,854	0	0	9,590	9,590
Financial assets available for sale	104,239	11,139	1,067	116,445	102,034	10,796	1,237	114,067
Amounts due from banks	10,411	101,695	74	112,180	22,106	109,122	43	131,271
Loans and advances to customer	248,186	134,350	2,057	384,593	234,990	129,006	8,307	372,303
Investments held to maturity	6,540	0	172	6,712	6,785	0	0	6,785
Liabilities								
Amounts due to central banks	1	0	0	1	2	0	0	2
Financial liabilities at fair value through profit or loss	0	0	13,673	13,673	0	0	12,273	12,273
Negative fair values of hedging financial derivative transactions	0	0	7,224	7,224	0	0	6,539	6,539
Amounts due to banks	3,175	25,737	162	29,074	4,815	13,688	236	18,739
Amounts due to customers	70,580	434,354	33,117	538,051	65,758	454,799*	31,252	551,809
Securities issued	1,282	16,149	0	17,431	11,634	6,538	0	18,172
Subordinated debt	0	6,001	0	6,001	0	6,001	0	6,001

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up are included in the 'No interest' category.
*) This item principally includes client deposits where the 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 does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The 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), and, as such the information on undiscounted cash flows is not provided.

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	9,759	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	231,543
Off balance sheet liabilities*	30,507	107,471	176,873	83,140	15,980	19,352	433,323
Net off balance sheet liquidity gap at 31 December 2010	**(7,292)**	**(34,980)**	**(104,810)**	**(33,041)**	**(2,305)**	**(19,352)**	**(201,780)**
Total assets at 31 December 2009	39,351	134,372	81,326	157,267	213,736	69,023	695,075
Total liabilities at 31 December 2009	407,365	97,218	19,309	20,748	34,354	116,081	695,075
Net Statement of Financial Position liquidity gap at 31 December 2009	(368,014)	37,154	62,017	136,519	179,382	(47,058)	
Net off balance sheet liquidity gap at 31 December 2009	(6,389)	(37,539)	(118,102)	(32,351)	(22,396)	(22,592)	(239,369)

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

(F) FOREIGN EXCHANGE POSITION

The table below provides an analysis of the 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	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)**
Total assets at 31 December 2009	606,777	77,488	9,841	969	695,075
Total liabilities at 31 December 2009	634,696	51,160	7,830	1,389	695,075
Net FX position at 31 December 2009	(27,919)	26,328	2,011	(420)	0
Off balance sheet net FX position at 31 December 2009	28,747	(26,177)	(2,380)	398	588
Total net FX position at 31 December 2009	828	151	(369)	(22)	588

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

The acquired knowledge is evaluated on a regular basis and made available to the 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 percent. 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. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the balance sheet date.

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

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

	31 Dec 2010		31 Dec 2009	
(CZKm)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and current balances with central banks	13,689	13,689	16,271	16,271
Amounts due from banks	112,180	112,440	131,271	131,739
Loans and advances to customers	384,593	394,584	372,303	379,253
Investments held to maturity	6,712	6,943	6,785	6,999
Financial liabilities				
Amounts due to central banks and banks	29,075	29,362	18,741	18,910
Amounts due to customers	538,051	538,093	551,809	551,783
Securities issued	17,431	18,440	18,172	19,461
Subordinated debt	6,001	6,003	6,001	6,003

(J) ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS AT FAIR VALUE TO THE HIERARCHY OF FAIR VALUES

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

(CZKm)	31 Dec 2010	Level 1	Level 2	Level 3	31 Dec 2009	Level 1	Level 2	Level3
Financial assets								
Financial assets at fair value through profit or loss								
– Securities	23,778	7,173	16,605	0	13,515	5,900	7,615	0
– Derivatives	10,225	1,916	8,309	0	10,927	2,190	8,737	0
Financial assets at fair value through profit or loss	**34,003**	**9,089**	**24,914**	**0**	**24,442**	**8,090**	**16,352**	**0**
Positive fair value of hedging financial derivative transactions	**11,854**	**0**	**11,854**	**0**	**9,590**	**0**	**9,590**	**0**
Financial assets available for sale								
– Shares and participation certificates	702	0	0	702	1,237	535	0	702
– Debt securities	115,743	79,373	36,370	0	112,830	74,260	38,570	0
Financial assets available for sale	**116,445**	**79,373**	**36,370**	**702**	**114,067**	**74,795**	**38,570**	**702**
Financial assets at fair value	**162,303**	**88,462**	**73,139**	**702**	**148,099**	**82,885**	**64,512**	**702**
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– Sold securities	2,608	2,608	0	0	1,020	1,020	0	0
– Derivatives	11,065	1,840	9,225	0	11,253	2,063	9,190	0
Financial liabilities at fair value through profit or loss	**13,673**	**4,448**	**9,225**	**0**	**12,273**	**3,083**	**9,190**	**0**
Negative fair value of hedging financial derivative transactions	**7,224**	**0**	**7,224**	**0**	**6,539**	**0**	**6,539**	
Financial liabilities at fair value	**20,897**	**4,448**	**16,449**	**0**	**18,812**	**3,083**	**15,729**	**0**

Financial assets at fair value – Level 3:

	Year ended 31 Dec 2010		Year ended 31 Dec 2009	
(CZKm)	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	0	0
– in the statement of comprehensive income	0	0	0	0
– in other comprehensive income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 3	0	0	0	0
Balance at 31 December	**702**	**702**	**702**	**702**

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

45. Assets under management

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

SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Komerční banka, a.s.:

We have audited the accompanying financial statements of Komerční banka, a.s., which comprise the statement of financial position as at 31 December 2010, and the income statement and statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of Komerční banka, a.s., see Note 1 to the financial statements.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Komerční banka, a.s. as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

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

Jan Fanta
Partner

Michaela Kubýová
Auditor, License No. 1810

28 February 2011
Prague, Czech Republic

Separate Income Statement and Statement of Comprehensive Income for the year ended 31 December 2010

Separate Income Statement for the year ended 31 December 2010

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

Separate Statement of Comprehensive Income for the year ended 31 December 2010

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

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

Separate Statement of Financial Position as at 31 December 2010

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

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

These financial statements were approved by the Board of Directors on 28 February 2011.

Signed on behalf of the Board of Directors:

Henri Bonnet
Chairman of the Board of Directors and CEO

Peter Palečka
Member of the Board of Directors and Deputy CEO

Separate Statement of Changes in Shareholders' Equity for the year ended 31 December 2010

(CZKm)	Share capital	Capital and reserve funds and undistributed profit*	Hedging instruments	Revaluation gains or losses	Revaluation of available-for-sale financial assets	Total
Balance at 31 December 2008	**19,005**	**35,414**	**3,680**	**0**	**878**	**58,977**
Changes in accounting policies	0	39	0	0	0	39
Balance at 1 January 2009	**19,005**	**35 ,453**	**3,680**	**0**	**878**	**59,016**
Treasury shares, other	0	14	0	0	0	14
Payment of dividends	0	(6,832)	0	0	0	(6,832)
Transactions with owners	**0**	**(6,818)**	**0**	**0**	**0**	**(6,818)**
Profit for the period	0	10,369	0	0	0	10,369
Other comprehensive income for the period, net of tax	0	0	(1,122)	0	1,245	123
Comprehensive income for the period	**0**	**10,369**	**(1,122)**	**0**	**1,245**	**10,492**
Balance at 31 December 2009	**19,005**	**39,004**	**2,558**	**0**	**2,123**	**62,690**
Adjustment due to merger	0	(50)	84	(35)	0	(1)
Balance at 1 January 2010	**19,005**	**38,954**	**2,642**	**(35)**	**2,123**	**62,689**
Treasury shares, other	0	8	0	0	0	8
Payment of dividends	0	(6,452)	0	0	0	(6,452)
Transactions with owners	**0**	**(6,444)**	**0**	**0**	**0**	**(6,444)**
Profit for the period	0	12,035	0	0	0	12,035
Other comprehensive income for the period, net of tax	0	0	1,721	37	(1,024)	734
Comprehensive income for the period	**0**	**12,035**	**1,721**	**37**	**(1,024)**	**12,769**
Balance at 31 December 2010	**19,005**	**44,545**	**4,363**	**2**	**1,099**	**69,014**

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

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

Separate Cash Flow Statement for the year ended 31 December 2010

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

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

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

Notes to the Separate Financial Statements for the year ended 31 December 2010

1. Principal activities

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

I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions;
VII. Investment banking.

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

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35 percent (2009: 60.35 percent) of the Bank's issued share capital.

2. Events for the year ended 31 December 2010

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

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

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

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

Uncertainty in capital markets
In 2010, the effects of the global financial and economic crisis persisted, in particular the increased uncertainty in capital markets caused by problems of some states of the European Union. The Bank could therefore be in the subsequent period at increased risk particularly in relation to the uncertainty associated with valuation, potential impairment of assets, contingent liabilities and future developments in the markets. The potential risks may have an impact on the financial statements of the Bank in the future.

The presented Separate financial statements for the year ended 31 December 2010 are based on the current best estimates and management of the Bank believes that they present the truest and fairest view of the Bank's financial results and financial position using all relevant and available information at the financial statements date.

3. Principal accounting policies

These financial statements are separate. The consolidated financial statements are issued as at the same date. The total consolidated equity is CZK 76,078 million and total consolidated profit is CZK 13,410 million.

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

3.1. STATEMENT OF COMPLIANCE WITH IFRS

The separate financial statements are prepared pursuant to and comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2010.

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

3.2. UNDERLYING ASSUMPTIONS OF SEPARATE FINANCIAL STATEMENTS

3.2.1. ACCRUAL BASIS

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

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

3.2.2. GOING CONCERN

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

3.2.3. OFFSETTING

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

3.2.4. REPORTING PERIOD

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

3.3. BASIS OF PREPARATION

3.3.1. PRESENTATION CURRENCY

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

3.3.2. HISTORICAL COST

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

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

3.3.3. USE OF ESTIMATES

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

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

3.3.4. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

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

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

3.4. ADOPTION OF NEW AND REVISED IFRS

3.4.1. STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE EUROPEAN UNION

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

As at the issuance date of these separate financial statements, IFRS as adopted by the European Union does not differ from IFRS, except for fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the European Union. In addition, the European Commission has not approved the following effective standards and interpretations, and/or their amendments:
– IFRS 9 Financial Instruments;
– 2010 Annual Improvements;
– IFRS 1 First-time Adoption of IFRS –amendment: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
– IFRS 7 Financial Instruments: Disclosures – amendment: Disclosures – Transfer of Financial Assets;
– IAS 12 Income Taxes – amendment: Deferred Tax: Recovery of Underlying Assets.

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

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

Standard	Impact / Comments
IFRS 1 First-time Adoption of IFRS – amendment: "Additional exemptions for first-time adopters"	The amendment covers the valuation of assets relating to oil and natural gas. The standard is no longer relevant to the Bank (it was only relevant in the first time adoption of IFRS).
IFRS 2 Share-based Payment – amendment: "Group cash-settled share-based payment transactions"	The amendment specifies the scope of the standard and accounting for group cash-settled share-based payment transactions in individual and separate financial statements and supersedes IFRIC 2 and IFRIC 11. There are no remunerations tied to shares in the Bank.
IFRS 3 Business Combinations – revised standard	The revised standard predominantly changes accounting for costs relating to the acquisition and valuation of non-controlling interests or contingent consideration and applies to business combinations initiated subsequent to its effective date; it has no impact on earlier combinations. In the reporting period, the Group did not undertake any business combination for which the standard IFRS 3 would be applicable.

Standard	Impact / Comments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – amendment: "Assets held for distribution"	The amendment relates to IFRIC 17 – non-current assets should be classified as held for distribution at the time when the entity is obliged to distribute assets to owners of the entity and they should be measured at the lower of their carrying values or fair value less costs of distribution. The Bank does not hold any assets to distribute.
IAS 27 Consolidated and Separate Financial Statements – amendment due to IFRS 3 revision	The amendment specifies the accounting policy used in the event of a reduced equity investment or loss of control in a subsidiary, changes the terminology for minority equity investments (newly non-controlling interests) and requires the allocation of potential loss to non-controlling interests in cases when it would result in the total negative balance of non-controlling interests. In the reporting period, the Bank did not reduce the share or lose a control in any subsidiary.
IAS 39 Financial Instruments: Recognition and Measurement – amendment: "Eligible hedged items"	The amendment covers hedged items and the assessment of hedge effectiveness in purchased options and inflation in a hedged financial item. The Bank does not provide any such items which are related to this amendment.
Annual Improvements to IFRS 2009 – new standard	Annual improvements amend 10 standards to the total of 13 points and two interpretations with the objective of predominantly removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.
IFRIC 17 Distributions of Non-cash Assets to Owners – new interpretation	The interpretation covers the accounting for and valuation of non-cash dividends in an entity paying dividends. The interpretation does not relate to the distribution of dividends in the form of non-cash assets in the Bank. In 2010 the Bank paid only cash dividends.

3.4.3. STANDARDS AND INTERPRETATIONS ADOPTED EFFECTIVE FROM 1 JANUARY 2011 OR THEREAFTER

The below-listed standards and interpretations or their amendments are in effect. However, they do not apply to reporting periods beginning on 1 January 2010 and the Bank has decided not to use the possibility to apply them earlier.

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

The application of requirements of IFRS 9 will primarily mean that non-equity instruments classified in the "financial assets available-for-sale" portfolio will be remeasured to profit or loss rather than to other comprehensive income provided they do not comply with the conditions for measurement at amortised cost. With respect to equity instruments classified in this portfolio, the Bank will have to decide upon the first-time application of the standard whether it will remeasure these to profit or loss or whether it will use the possibility to recognise changes in their fair value in other comprehensive income.

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

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 1 First-time Adoption of IFRS – amendment: "Limited exception from Comparative IFRS 7 Disclosure"	The amendment permits first-time adopters to not disclose comparative information in respect of the previous period for the classification of financial instruments' fair values in a hierarchy of fair value (Same exception is including in IFRS 7.44 G).	1 July 2010
IFRS 1 First-time Adoption of IFRS – amendment: "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	The amendment removes the fixed dates to provide relief for 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
IAS 24 Related Party Disclosures – revised standard	The scope of the standard was extended. The revised standard newly requires disclosures on relations and commitments and specifies that the required information should be disclosed both in consolidated and separate financial statements. In addition, the definition of a related party was changed/extended. A definition of a state and its related parties was added and exceptions from disclosures were introduced for these related parties.	1 January 2011

IAS 32 Financial instruments: Presentation – amendment: "Classification of rights issues"	The amendment adds that rights issues, options and warrants for the acquisition of a fixed number of an entity's own capital instruments for a fixed amount in any currency are capital instruments provided they are offered proportionally to all current owners of the specific group of non-derivative capital instruments of the entity. The Group issued no rights to acquire its own capital instruments.	1 February 2010
IFRS 9 Financial Instruments – new standard	The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for capital instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application. Derivatives embedded in financial assets are no longer separated according to the standard. In October 2010 the requirements in IAS 39 for classification and measurement of financial liabilities and for derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk.	1 January 2013
Annual Improvements to IFRS 2010 – new standard	Annual improvements amend 5 standards to the total of 10 points and one interpretation, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2010, or 1 January 2011
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – amendment: "Minimum funding requirement"	The amendment specifies the recognition of benefits available through a decrease of future contributions with a non-existence of minimum funding requirements and recognition of prepaid contributions with the existence of minimum funding requirements. The amendment specifies that if an entity arrives at an amount lower than zero through adjusting the recognised asset and including the amount of potential paid contributions in the determined minimum funding requirements then it will not disclose the liability.	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – new interpretation	The interpretation covers accounting for and valuation of extinguishing financial instruments through the issue of capital instruments on the part of the issuer.	1 July 2010

3.4.4. STANDARDS AND INTERPRETATIONS VOLUNTARILY ADOPTED EARLY AND APPLIED TO THE REPORTING PERIOD BEGINNING 1 JANUARY 2010

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

3.5. PRINCIPAL ACCOUNTING POLICIES

3.5.1. TRANSACTIONS IN FOREIGN CURRENCIES

3.5.1.1. FUNCTIONAL AND PRESENTATION CURRENCY

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

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

3.5.1.2. TRANSACTIONS AND BALANCES TRANSLATION

Transactions realised in foreign currency (i.e. in a currency other than the functional currency of the Bank) are at the date of the initial recognition translated into the functional currency using the spot exchange rate announced by the Czech National Bank (hereafter only "CNB") for the respective foreign currency.

At the end of a reporting period all items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:
(i) foreign currency monetary items are translated using the closing rate (exchange rate announced by CNB at the end of the reporting period);
(ii) non-monetary items that are measured in term at historical cost are translated using CNB's exchange rate at the date of the translation;
(iii) non-monetary items that are measured at fair value in a foreign currency are translated using CNB's exchange rate at the date when the fair value was determined.

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

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

3.5.2. RECOGNITION OF INCOME AND EXPENSES

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

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following three categories of fees:
– fees and commissions that comprise an integral part of the effective interest rate of a financial instrument, for which the effective interest rate is used, are recognised in the line "Interest income and similar income";
– fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line "Net fee and commission income";
– fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line "Net fee and commission income".

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

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

3.5.3. CASH AND CASH EQUIVALENTS

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

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

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

3.5.4. FINANCIAL INSTRUMENTS

3.5.4.1. DATES OF RECOGNITION AND DERECOGNITION

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

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

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

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

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

3.5.4.2. INITIAL MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

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

3.5.4.3. 'DAY 1' PROFIT OR LOSS

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

3.5.4.4. FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION AND SUBSEQUENT MEASUREMENT

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

(i) Financial assets and liabilities at fair value through profit or loss;
(ii) Held-to-maturity investments;
(iii) Loans and receivables;
(iv) Available-for-sale financial assets ;
(v) Financial liabilities at amortised cost.

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

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

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

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

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

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

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

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire portfolio would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

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

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

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

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

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

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

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

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

In an event of the repurchase of its own debt securities, the Bank derecognises these securities, i.e. the item "Securities issued" is decreased. Gains and losses arising as a result of repurchasing the Bank's own debt securities are recognised as at the date of their repurchase in the Income statement in the line "Net profit on financial operations".

3.5.4.5. RECLASSIFICATION OF FINANCIAL ASSETS

The Bank does not reclassify any financial assets into the Financial assets at fair value through profit or loss portfolio after initial recognition. In rare circumstances, if non-derivative financial asset at fair value through profit or loss are 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 Bank may also reclassify a non-derivative trading asset out of the Financial assets at fair value through profit or loss portfolio and into the Loans and receivables portfolio if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Bank may also reclassify, in certain circumstances, financial assets out of the Available-for-sale portfolio and into the Loans and receivables portfolio. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

3.5.4.6. FAIR VALUE AND HIERARCHY OF FAIR VALUE

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

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of financial instruments. The hierarchy of fair values has the following three levels:
– Level 1: Prices quoted for specific financial instruments on active markets (without modification);
– Level 2: Prices quoted on active markets for similar financial instruments or other valuation techniques for which all significant input information is based on data identifiable on the market;
– Level 3: Valuation techniques for which no significant input information is based on data identifiable on the market.

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

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

If there is no active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.
(i) quoted prices for similar assets or liabilities in active markets;
(ii) quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
(iii) inputs other than quoted prices, e.g. inputs based on interest rates, yield curves, etc.;
(iv) inputs derived principally from or corroborated by observable market data.

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

3.5.4.7. EFFECTIVE INTEREST RATE METHOD

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

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

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

3.5.4.8. RENEGOTIATED LOANS

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

3.5.4.9. IMPAIRMENT AND UNCOLLECTIBILITY OF FINANCIAL ASSETS

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

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

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

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

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

The Bank assesses all significant impaired credit exposures on individual basis. The remaining impaired exposures are impaired using statistical models based on collective approach (refer to chapter 42 (A)). Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

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

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

3.5.4.10. REPURCHASE AGREEMENTS

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

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

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

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

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

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

3.5.4.11. DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 42(C).

3.5.4.12. EMBEDDED DERIVATIVES

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

3.5.5. ASSETS HELD FOR SALE

The line “Assets held for sale” represents assets for which the Bank supposes that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Bank assumes that the sale of assets will be completed, the market situation permitting, within one year from the date of the assets’ classification as “held for sale”.
Assets held for sale are measured at the lower of:
– the carrying amount of a respective asset at the date of its classification as “held for sale”;
– fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, whose estimates are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as “Assets held for sale” are no longer depreciated.

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

3.5.6. INCOME TAX

3.5.6.1. CURRENT INCOME TAX

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

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

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

3.5.6.2. DEFERRED INCOME TAX

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

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

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

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

3.5.7. LEASING

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

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

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

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

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

The Bank as lessee

Operating lease

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

Finance leases

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

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

3.5.8. TANGIBLE AND INTANGIBLE ASSETS

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

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

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

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

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

	2010	2009
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lift, electrical installation	25	25
– Roof, facade	30	30
– Net book value – building or technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as part of internal projects)	According to the useful life, typically 4	According to the useful life, typically 4
Licenses – software	4	4
Other rights of use	According to contract	According to contract

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

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

3.5.9. PROVISIONS

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

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

Among others, the Bank recognises provisions for credit related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit related commitments into which the Bank enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit related commitments are created on the same basis as are allowances for loans portfolios (refer to Note 33).

3.5.10. EMPLOYEE BENEFITS

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

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

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

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

3.5.11. SHARE CAPITAL

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

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

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

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

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

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

3.5.13. OPERATING SEGMENTS

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

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

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

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

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

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

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

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

3.5.14. REGULATORY REQUIREMENTS

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

3.6. RECLASSIFICATION

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

Reconciliation of categories in the Income Statement:

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

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

Reconciliation of categories in the Statement of Financial Position:

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

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

4. Segment reporting

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

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

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

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

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

5. Net interest income and similar income

Net interest income and similar income comprise:

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

‚Interest income and similar income' includes interest on substandard, doubtful and loss loans of CZK 560 million (2009: CZK 513 million) due from customers and interest of CZK 0 million (2009: CZK 0 million) on securities that have suffered impairment.

‚Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 9,081 million (2009: CZK 10,182 million) and ‚Interest expenses and similar expense' includes interest expenses from hedging financial derivatives of CZK 7,753 million (2009: CZK 9,188 million). ‚Net interest income' from these derivatives amounts to CZK 1,328 million (2009: CZK 994 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

‚Income from dividends' includes received dividends from subsidiaries and associates of CZK 632 million (2009: CZK 670 million) and received dividends from financial assets available for sale of CZK 85 million (2009: CZK 84 million).

6. Net fee and commission income

Net fee and commission income comprises:

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

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

7. Net profit on financial operations

Net profit on financial operations comprises:

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

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

A loss of CZK 300 million (2009: CZK 152 million) on the fair value of interest rate swaps for foreign currency risk hedging is included in 'Net realised and unrealised gains/(losses) on interest rate derivatives'. This amount matches the gain arising from the retranslation of hedged loan receivables and financial assets available for sale reported in the same line.

8. Other income

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

9. Personnel expenses

Personnel expenses comprise:

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

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

'Personnel expenses' include the use of the restructuring provision of CZK 63 million (2009: charge of CZK 10 million) relating to provisions for restructuring in relation to the project of the reorganisation and centralisation of back office divisions and also the release and use of the restructuring provision of CZK 6 million (2009: CZK 0 million) relating to the project of the change in the legal status of Komerční banka Bratislava a.s. to a foreign branch of the Bank (refer to Note 33).

10. General administrative expenses

General administrative expenses comprise:

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

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

11. Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

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

12. Cost of risk

Allowance for loan impairment and provisions for other credit commitments
The movement in the Allowances and Provisions was as follows:

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

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

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

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

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

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

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

13. Loss on subsidiaries and associates

The profit on subsidiaries and associates includes the following:

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

The company ALL IN REAL ESTATE LEASING, a.s., v likvidaci was expunged from the register of companies in October 2010. The loss in the amount of CZK 37 million (2009: CZK 0 million) is included in Loss from the disposal of investments in subsidiaries and associates. This loss was fully covered by use of allowance in the amount of CZK 37 million (2009: CZK 0 million) and is included in Use of allowances (refer to Note 25).

At 1 January 2010 as effective date the Bank merged with its 100% controlled subsidiary Komerční banka Bratislava, a.s. (hereafter ´KBB´). The merger was entered in the Commercial Register at 31 December 2010 and KBB was dissolved without liquidation. The loss in the amount of CZK 34 million (2009: CZK 0 million) included in Loss from the disposal of investments in subsidiaries and associates is caused due to the fact that hedge accounting hedge foreign currency investments in KBB was designed since December 2004 and not since the founding of KBB.

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

(CZKm)	31 Dec 2010	31 Dec 2009
Balance at 1 January	(392)	(390)
Charge for allowances	0	(2)
Use of allowances	37	0
Balance at 31 December	**(355)**	**(392)**

Allowances for investments in subsidiaries and associates principally comprise allowances charged in respect of Komerční pojišťovna, a.s. on the basis of losses incurred in prior periods (for further information see Note 25).

14. Income taxes

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

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

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

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

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

The corporate tax rate for the year ended 31 December 2010 is 19 percent (2009: 20 percent). The Bank's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 34.

15. Distribution of net profit

For the year ended 31 December 2010, the Bank generated a net profit of CZK 12,035 million. The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 270 per share that represents in total amount CZK 10,263 million. The proposal is subject of the Supervisory Board's review and subsequently of the approval of General Shareholders meeting.

In accordance with the resolution of the General Meeting of Shareholders held on 29 April 2010, the aggregate balance of the net profit of CZK 10,369 million for the year ended 31 December 2009 was allocated as follows: CZK 6,452 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. Since 2008 the reserve fund achieved the level required by the Commercial Code and the Articles of Association of the Bank, i.e. 20 percent of the share capital of the Bank.

16. Earnings per share

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

17. Cash and current balances with central banks

Cash and current balances with central banks comprise:

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

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

18. Financial assets at fair value through profit or loss

As at 31 December 2010 and 2009, financial assets at fair value through profit or loss included securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any financial assets as at fair value through profit or loss.

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

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

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

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

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Finance Ministry at a fair value of CZK 9,003 million (2009: CZK 1,110 million).

As at 31 December 2010, the portfolio of trading securities includes securities at a fair value of CZK 13,785 million (2009: CZK 10,962 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 9,993 million (2009: CZK 2,553 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Trading shares and participation certificates at fair value comprise:

(CZKm)	31 Dec 2010	31 Dec 2009
Shares and participation certificates		
– Czech crowns	1	0
Total trading shares and participation certificates	**1**	**0**

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

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

Debt trading securities at fair value comprise:

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

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

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

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

19. Financial assets available for sale

Financial assets available for sale comprise:

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

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

As at 31 December 2010, the available-for-sale portfolio includes securities at a fair value of CZK 68,018 million (2009: CZK 64,482 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 702 million (2009: CZK 791 million) that are not publicly traded.

In 2010, the Bank sold the equity investment in Visa Inc. The net gain from the sale for the Bank amounted to CZK 30 million. In 2009, the Bank sold the equity investment in MasterCard Inc. The net gain from the sale for the Bank amounted to CZK 64 million (refer to Note 7).

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

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

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

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

'Shares and participation certificates available for sale issued by banks in the Czech Republic' include the Bank's 13 percent shareholding in Českomoravská záruční a rozvojová banka, a.s. Based on an analysis of regularly paid dividends and an estimate of probable future cash flows, the value of the investment was determined at CZK 640 million (2009: CZK 640 million) over the acquisition cost in the amount of CZK 60 million.

Debt securities available for sale at fair value comprise:

(CZKm)	**31 Dec 2010**	**31 Dec 2009**
Fixed income debt securities		
– Czech crowns	37,692	33,478
– Other currencies	21,359	21,935
Total fixed income debt securities	**59,051**	**55,413**
Variable yield debt securities		
– Czech crowns	8,185	8,242
– Other currencies	782	827
Total variable yield debt securities	**8,967**	**9,069**
Total debt securities available for sale	**68,018**	**64,482**

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

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

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

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

20. Assets held for sale

As at 31 December 2010, the Bank reported assets held for sale at a carrying amount of CZK 25 million (2009: CZK 233 million) comprising buildings and land owned by the Bank which management of the Bank decided to sell as part of the plan to optimise the distribution network. These buildings are not depreciated.

21. Amounts due from banks

Balances due from banks comprise:

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

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

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

Securities acquired as loans and receivables

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

22. Loans and advances to customers

Loans and advances to customers comprise:

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

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

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

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

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

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

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

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

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

The majority of loans (99%) were provided to entities on the territory of the Czech Republic.

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

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

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

Loans and advances to customers – restructured

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

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

Trade finance losses

During 1999, the Bank incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Bank. As at 31 December 2010, the statement of financial position included loans to this client in the amount of CZK 1,310 million (2009: CZK 1,284 million) that was fully provided for. The increase in the balance between 2010 and 2009 arises from a foreign exchange rate difference. The Bank did not report any off balance sheet receivables from this client in 2010 and 2009. The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

23. Investments held to maturity

Investments held to maturity comprise:

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

Note: *) Amortised acquisition cost.

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

Debt securities held to maturity comprise:

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

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

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

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

24. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

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

Other assets includes mainly provided advances and receivables for Other debtors

25. Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

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

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

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

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

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

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

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

(CZKm)	Investment at cost at 1 Jan 2010	Additions	Decreases	Investment at cost at 31 Dec 2010
ALL IN REAL ESTATE LEASING, a.s., v likvidaci	39	0	(39)	0
Komerční banka Bratislava, a.s.	848	0	(848)	0
Penzijní fond Komerční banky, a.s.	530	0	(300)	230
Factoring KB, a.s.	1,190	0	0	1,190
Protos, uzavřený investiční fond, a.s.	11,705	0	0	11,705
Bastion European Investments S. A.	3,661	0	(57)	3,604
ESSOX s.r.o.	1,165	0	0	1,165
Modrá pyramida stavební spořitelna, a.s.	4,323	550	0	4,873
Total subsidiaries	**23,461**	**550**	**(1,244)**	**22,767**
Komerční pojišťovna, a.s.	837	0	0	837
CBCB, a.s.	0*	0	0	0*
Total associates	**837**	**0**	**0**	**837**

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

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

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

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

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

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

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

26. Intangible assets

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

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

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

27. Tangible assets

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

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

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

28. Financial liabilities at fair value through profit or loss

As at 31 December 2010 and 2009, financial liabilities at fair value through profit or loss include only liabilities arising from sold securities and negative fair values of financial derivative instruments held for trading. The Bank designated no other financial liability as at fair value through profit or loss upon initial allocation.

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

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

29. Amounts due to banks

Amounts due to banks comprise:

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

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

30. Amounts due to customers

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

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

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

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

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

31. Securities issued

Securities issued comprise bonds of CZK 539 million (2009: CZK 615 million) and mortgage bonds of CZK 31,314 million (2009: CZK 30,116 million). Publicly tradable mortgage bonds are issued to fund the Bank's mortgage activities.

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

(CZKm)	31 Dec 2010	31 Dec 2009
In less than one year	0	0
In one to five years	12,904	0
In five to ten years	5,278	18,824
In ten to twenty years	0	0
Over twenty years	13,671	11,907
Total debt securities	31,853	30,731

During the year ended 31 December 2010, the Bank repurchased the mortgage bonds with the aggregate nominal volume of CZK 411 million and increased the nominal volume by CZK 1,784 million, refer to the following table.

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

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2010 CZKm	31 Dec 2009 CZKm
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 Aug 2005	3 Aug 2015	2,478	2,892
HZL Komerční banky, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	10,426	10,490
HZL Komerční banky, a.s., CZ0002000854	3.74%	EUR	1 Sept 2006	1 Sept 2016	649	800
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,175	3,188
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06% for the first twelve annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	2,480	2,486
HZL Komerční banky, a.s., CZ0002001340, CZ0002001357	5.02% for the first eleven annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,050	1,055
HZL Komerční banky, a.s., CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	2,030	2,030
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	2,806	2,690
HZL Komerční banky, a.s., CZ0002001746	Rate of the interest rate swap sale in CZK for 5 years plus 150 bps	CZK	28 Dec 2007	28 Dec 2037	1,339	0
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest rate swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	3,966	3,646
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	915	839
Dluhopisy Komerční banky, a.s., CZ0003701427	4.22%	CZK	18 Dec 2007	1 Dec 2017	539	615
Total bonds					**31,853**	**30,731**

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

32. Accruals and other liabilities

Accruals and other liabilities comprise:

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

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

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

Deferred income fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 22 million (2009: CZK 22 million).

33. Provisions

Provisions comprise:

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

In 2010, the Bank adjusted the amount of the provision for restructuring in respect the project of the change in the legal status of Komerční banka Bratislava a.s. to a foreign branch of the Bank. The change in the provisioning amount includes the use of the provision to cover the expenses in 2010 and the charge for the provision reflecting changes in the project. During 2010 the Bank completed the project of reorganization and centralization of back office services and the provision was completely utilized. The charge for and use of provisions is reported in the income statement lines 'Personnel costs' and 'General administrative expenses'.

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

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

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

Movements in the provisions for contracted commitments are as follows:

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

34. Deferred tax liability

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

Deferred tax is as follows:

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

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

Deferred tax recognised in the financial statements:

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

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

35. Subordinated debt

As at 31 December 2010 the Bank had subordinated debt of CZK 6,001 million (2009: CZK 6,001 million). The nominal value of the subordinated debt received by the Bank at the end of 2006 is CZK 6,000 million. The subordinated debt was issued by the parent company of the Bank, Société Générale S. A. The subordinated debt carries a floating rate linked to one-month PRIBOR and has a 10-year maturity until with the Bank's option for early repayment after five years and thereafter as at any interest payment date. Interest payments are made on a monthly basis.

36. Share capital

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

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

Name of the entity	Registered office	Ownership percentage
SOCIETE GENERALE S. A.	29 Bld Haussmann, Paris	60.35
CHASE NOMINEES LIMITED	125 London Wall, London	4.97
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.59
STATE STREET BANK & TRUST COMPANY	1776 Heritage Drive, Boston	4.42

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

As at 31 December 2010, the Bank held 54,000 treasury shares at a cost of CZK 150 million
(2009: 54,000 treasury shares at a cost of CZK 150 million).

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

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

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

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

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

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

The Bank monitors the upcoming changes in regulatory requirements affecting the capital, and analyzes their potential impact on the capital planning process.

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

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

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

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

38. Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2010.
Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 177 million (2009: CZK 126 million) for these legal disputes (refer to Note 33). The Bank has also recorded an accrual of CZK 147 million (2009: CZK 360 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2010, the Bank assessed lawsuits filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

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

Capital commitments

As at 31 December 2010, the Bank had capital commitments of CZK 267 million (2009: CZK 401 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

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

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

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

Financial commitments and contingencies comprise:

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

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

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As at 31 December 2010, the Bank recorded provisions for these risks in the amount of CZK 570 million (2009: CZK 1,019 million) – for further information see Note 33.

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

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

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

39. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As at 31 December 2010, the Bank was controlled by Société Générale which owns 60.35 percent of its issued share capital.

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

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

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

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

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

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

Interest income from loans granted to Group companies:

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

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

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

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

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

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

Principal balances owed to the Société Générale Group entities include:

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

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

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading (refer also to Note 21), issued bonds and subordinated debt (refer also to Note 35).

As at 31 December 2010, the Bank also carried off balance sheet exposures for the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 148,764 million (2009: CZK 133,988 million) and CZK 181,426 million (2009: CZK 142,646 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As at 31 December 2010 and 2009, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2010, the Bank made a total income of CZK 22,295 million (2009: CZK 14,749 million) and total expenses of CZK 21,187 million (2009: CZK 13,585 million). Income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise expenses of interbank deposits and subordinated debt, a loss from financial operations, interest expenses on hedging derivatives and expenses related to the provision of management, consultancy and software services.

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

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

Note: *) Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2010 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2010 but including bonuses for 2009, figures for expatriate members of the Management Board include remuneration net of bonuses for 2010 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Management Board does not include accommodation related services.

**) Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2010 to the current and former members of the Supervisory Board, amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.

***) Remuneration to the Directors' committee members represents the sum of compensation and benefits paid in 2010 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2009, the total balance reflects his/her aggregate annual remuneration.

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

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

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

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

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

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

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

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

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

42. Risk management and financial instruments

(A) CREDIT RISK

Credit rating of borrowers

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

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

In 2010, the Bank predominantly focused on four core areas – (1) review of selected models of credit risk in order to optimally take into account the current macroeconomic situation and set goals of Bank, (2) regular analysis of the profitability of individual client portfolios in order to optimize the criteria for approving the Bank's credit products, (3) complete the implementation of preventive instruments increasing the protection of the Bank from the untrustworthy parties, in particular the system for the identification and coordinated response on suspicion of credit fraud and innovative internal registry of negative information, and (4) increase the effectiveness of monitoring the risk profile of individual client portfolios and the quality of tools and models of credit risk.

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

a) Ratings for business clients

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

For large and medium-sized clients, the obligor rating is the combination of the financial rating based primarily on financial data and an economic rating obtained through the evaluation of non-financial information relating to a particular client. In 2010, the Bank updated both components of the obligor rating, updated models now show both the period before and during the economic crisis. The Bank also has implemented several improvements to regular monitoring and back-testing of these models.

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Bank. When clients are funded using simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour in the Bank (behavioural rating). In 2010, the Bank began the process of updating all of these models with the aim to reflect the experience gained during the economic crisis and support the targets set by the Bank.

In the municipalities segment, the obligor rating is the combination of the financial rating based on data in the financial statements and an economic rating acquired through the assessment of non-financial information relating to specific municipalities. In the last quarter of 2010 the Bank carried out a remapping of the model to more accurately assess the expected level of risk assessed subjects.

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

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

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

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

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

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

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

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

e) Credit registers
During 2010, the evaluation of data from credit registers was one of the principal factors impacting the assessment of applications for client funding, predominantly in the retail clients sector. During the year, the Bank principally focused on optimising the rules for reflecting information from credit registers in the approval process, predominantly with respect to the behavioural rating and individual assessment of applications for funding (approval of the transaction denied by a rating model).

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

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

Credit risk concentration
Concentration of credit risk is the risk of such excess losses related to credit transactions, which in particularly difficult circumstances could jeopardize the financial stability of the Bank. The Bank's credit concentration risk is actively managed in the overall credit risk management usingstandard tools (evaluation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. The system of internal limits is established such that the Bank complies with regulatory limits set in respect of concentration risk. Refer to Note 22 and 38 for quantitative information about credit risk concentration.

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

	Total exposure			Applied collateral		
(CZKm)	**Statement of financial position**	**Off-balance sheet***	**Total credit exposure**	**Statement of financial position**	**Off-balance sheet***	**Total collateral**
Balances with central banks	**5,943**	**x**	**5,943**	**0**	**X**	**0**
Financial assets at fair value through profit or loss	**34,296**	**x**	**34,296**	**0**	**X**	**0**
Positive fair value of hedging financial derivative transactions	**11,845**	**x**	**11,845**	**0**	**X**	**0**
Financial assets available for sale	**68,720**	**x**	**68,720**	**0**	**X**	**0**
Amounts due from banks	**108,329**	**4,972**	**113,301**	**71,468**	**0**	**71,468**
Loans and advances to customers	**347,327**	**192,128**	**539,455**	**154,304**	**13,620**	**167,924**
Corporates**	219,829	180,436	400,265	65,043	12,814	77,857
Of which: top corporate clients	89,115	110,406	199,521	37,218	6,328	43,546
Individuals	127,394	11,692	139,086	89,261	806	90,067
Of which: mortgage loans	108,773	3,582	112,355	88,451	786	89,237
consumer loans	14,744	392	15,136	810	14	824
Other amounts due from customers	104	x	104	0	x	0
Investments held to maturity	**954**	**x**	**954**	**0**	**x**	**0**
Total	**577,414**	**197,100**	**774,514**	**225,772**	**13,620**	**239,392**

Note: *) Undrawn amounts, commitments, guarantees, etc.
**) This item also includes loans provided to individuals entrepreneurs

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

The Bank's maximum credit exposure as at 31 December 2009:

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

Note: *) Undrawn amounts, commitments, guarantees, etc.
**) This item also includes loans provided to individuals entrepreneurs

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

Classification of receivables

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

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

Characteristics of receivables that are not categorised

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

Allowances for receivables

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

The remaining exposures are provisioned based on statistical models. These models were developed based on the Basel II principles using the LGD (Loss Given Default) database which is established in respect of historically observed losses for clients not individually assessed. This new model was implemented in August 2007. In November 2009, the model used in the calculation of allowances was updated based on new information on incurred losses for the most recent period including the reflection of the current phase of the economic cycle. On the basis of regular back testing of models conducted on a quarterly basis, the Bank confirmed the validity of values Expected Loss (EL) and Expected Loss Best Estimate (ELBE) for calculating of allowances and provisions for 2010.

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

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

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

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

		Past due loans, not impaired						
(CZKm)	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	Total
Banks								
Standard	107,663	0	0	0	0	0	0	107,663
Watch	652	0	0	0	0	0	0	652
Total	**108,315**	**0**	**0**	**0**	**0**	**0**	**0**	**108,315**
Customers								
Standard	307,264	5,769	294	1	0	0	6,064	313,328
Watch	10,241	190	222	77	0	0	489	10,730
Total	**317,505**	**5,959**	**516**	**78**	**0**	**0**	**6,553**	**324,058**

As at 31 December 2009, the Bank reported the following loans before due date and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	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	Total
Banks								
Standard	131,063	0	0	0	0	25	25	131,088
Watch	800	0	0	0	0	0	0	800
Total	**131,863**	**0**	**0**	**0**	**0**	**25**	**25**	**131,888**
Customers								
Standard	291,640	7,030	35	1	3	0	7,069	298,709
Watch	10,852	246	157	70	0	0	473	11,325
Total	**302,492**	**7,276**	**192**	**71**	**3**	**0**	**7,542**	**310,034**

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

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

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

In 2009, the Bank finalised the on-line connection to the state-run Real Estate Register for reviewing and acquiring data on pledged real estate in approving mortgages and in the process of regular monitoring of selected events that may put the pledge of the Bank on the real estate at risk.

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

In 2010, together with the principal activity involving real estate valuation, the Bank focused on the ongoing monitoring of the real estate market with the aim of promptly identifying a negative development and taking appropriate measures as required. The Bank monitors both the residential real estate market and the commercial real estate market. The integral part of the monitoring is the revaluation of selected real estate depending on the Basel II requirements. Result of the statistical monitoring of market prices of residential real estate was mass decrease of the residential real estate values by appropriate discount factor (only in selected regions with a significant decline in prices of residential property over the valuation originally made)), which took place in the last quarter of 2010. In line with this activity, a regular annual process of updating discount factor values which are used to update the values of residential real estates was set up.

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

Given the growing volume of the loans portfolio in recovery, the Bank continues improving the efficiency and process of the recovery. These efforts also involve the intensified and enhanced use of external recovery capacities which cover approximately 17 percent of the total portfolio of exposures in recovery and 82 percent of the total number of clients in recovery. During 2010, the Bank continued regular monthly sales of groups of uncollateralised retail receivables to selected investors, so the maximum achievable recovery rate is obtained. The main emphasis is on further automation of recovery process, including the replacement of existing applications of recovery by the new ones.

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

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

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

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

As at 31 December 2010, the Bank posted a credit exposure of CZK 13,860 million (2009: CZK 16,017 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as at 31 December 2010 of all outstanding agreements. The netting agreement is taken into account where applicable.

The Bank put limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients, which could arise due to movements in market prices. On a daily 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 ("back-to-back).

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

The Value-at-Risks for a one-day holding period with a confidence level of 99 percent were EUR (548,000) and EUR (419,000) as at 31 December 2010 and 2009, respectively. The average Global Value-at-Risks were EUR (447,000) and EUR (605,000) for the years ended 31 December 2010 and 2009, respectively.

The accuracy of the VaR model is validated through back-testing calculation, when actual sales results and hypothetical results (ie, results excluding deals closed during the day) are compared with the VaR results. The number of exceedances should not occur in more cases than 1% of days for given period. In 2010, 2% of the daily losses (actual or hypothetical) exceeded 99% of VaR Unprecedented developments in market conditions in connection with the ongoing crisis has resulted in the emergence of some new market factors that are not currently fully covered by the existing VaR model.

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

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

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

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

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

The indicator of sensitivity to a change in market interest rates shows a change in the Bank's market value upon an instant, one-off and adverse parallel shift of the market yield curve of 1 percent p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As at 31 December 2010, the interest rate risk sensitivity was CZK (152) million (2009: CZK (247) million). The Bank is limited by this indicator and the level of the limit is determined to be approximately 2 percent of capital.

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

(C) FINANCIAL DERIVATIVES

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

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

Financial derivative instruments designated as held for trading:

(CZKm)	31 Dec 2010 Notional value Assets	31 Dec 2010 Notional value Liabilities	31 Dec 2009 Notional value Assets	31 Dec 2009 Notional value Liabilities	31 Dec 2010 Fair value Positive	31 Dec 2010 Fair value Negative	31 Dec 2009 Fair value Positive	31 Dec 2009 Fair value Negative
Interest rate instruments								
Interest rate swaps	338,422	338,422	267,757	267,757	5,482	5,515	4,579	5,038
Interest rate forwards and futures*	116,280	116,280	204,296	204,296	32	41	374	335
Interest rate options	48,395	48,395	617	617	473	473	0	0
Total interest rate instruments	**503,097**	**503,097**	**472,670**	**472,670**	**5,987**	**6,029**	**4,953**	**5,373**
Foreign currency instruments								
Currency swaps	102,176	102,840	75,848	76,016	580	1,186	843	1,016
Cross currency swaps	32,553	32,419	17,741	17,867	946	720	354	428
Currency forwards	31,352	31,907	38,360	38,206	164	665	784	565
Purchased options	19,882	19,814	30,964	30,576	633	0	1,634	0
Sold options	19,814	19,882	30,576	30,964	0	633	0	1,633
Total currency instruments	**205,777**	**206,862**	**193,489**	**193,629**	**2,323**	**3,204**	**3,615**	**3,642**
Other instruments								
Futures on debt securities*	100	100	1,218	1,218	0	0	0	0
Forwards on debt securities	26	26	155	155	0	0	1	1
Forwards on emission allowances	12,481	12,437	10,667	10,610	1,916	1,839	2,189	2,062
Commodity forwards	1,055	1,055	1,297	1,297	55	54	81	76
Commodity swaps	8,300	8,300	1,228	1,228	223	218	48	46
Purchased commodity options	128	128	1,320	1,320	14	0	98	0
Sold commodity options	128	128	1,320	1,320	0	14	0	98
Total other instruments	**22,218**	**22,174**	**17,205**	**17,148**	**2,208**	**2,125**	**2,417**	**2,283**
Total	**731,092**	**732,133**	**683,364**	**683,447**	**10,518**	**11,358**	**10,985**	**11,298**

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

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

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

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

Financial derivative instruments designated as held for trading at nominal values per remaining maturity as at 31 December 2009:

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

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

Financial derivative instruments designated as hedging:

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

Remaining maturity of derivatives designated as hedging 31 December 2010:

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

Remaining maturity of derivatives designated as hedging 31 December 2009:

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

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

			31 Dec 2010			31 Dec 2009
(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
Cash inflows	2,052	3,028	293	2,725	4,242	414
Cash outflows	(2,638)	(8,468)	(4,896)	(3,003)	(9,345)	(5,363)
Net cashflow	**(586)**	**(5,440)**	**(4,603)**	**(278)**	**(5,103)**	**(4,949)**

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

During 2010, the Bank recorded the following hedges:

(i) Interest rate risk hedge:

a. The fair value of provided long-term loans/investments in long-term governmental securities classified into the Available for sale portfolio is hedged by an interest rate swap and cross currency swap, respectively;

b. Future cash flows of a portfolio of current assets traded on the interbank market are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's income statement on an ongoing basis); and

c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's income statement on an ongoing basis).

(ii) Foreign exchange risk hedge:

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

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

(iii) Hedge of an investment in a foreign subsidiary:

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

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

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

(D) INTEREST RATE RISK

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

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

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

(CZKm)	Up to 3 months	3 months to 1 yea	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	4,279	0	0	0	8,715	12,994
Financial assets at fair value through profit or loss	3,262	15,615	2,837	2,064	10,518	34,296
Positive fair values of hedging financial derivative transactions	0	0	0	0	11,845	11,845
Financial assets available for sale	1,090	4,795	33,080	29,054	701	68,720
Assets held for sale	0	0	0	0	25	25
Amounts due from banks	98,340	3,985	6,004	0	0	108,329
Loans and advances to customers, net	155,936	55,158	109,398	14,342	0	334,834
Investments held to maturity	10	6	938	0	0	954
Income taxes receivable	0	0	0	0	38	38
Prepayments, accrued income and other assets	0	0	0	0	1,903	1,903
Investments in subsidiaries and associates	0	0	0	0	23,249	23,249
Intangible assets	0	0	0	0	3,363	3,363
Tangible assets	0	0	0	0	6,556	6,556
Total assets	**262,917**	**79,559**	**152,257**	**45,460**	**66,913**	**607,106**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	2,608	0	0	0	11,358	13,966
Negative fair values of hedging financial derivative transactions	0	0	0	0	6,935	6,935
Amounts due to banks	28,624	455	0	0	0	29,079
Amounts due to customers	83,242	13,430	3,723	51	340,839	441,285
Securities issued	3,007	0	11,770	17,076	0	31,853
Deferred tax liability	0	0	0	0	991	991
Accruals and other liabilities	0	0	0	0	6,951	6,951
Provisions	0	0	0	0	1,030	1,030
Subordinated debt	6,001	0	0	0	0	6,001
Total liabilities	**123,483**	**13,885**	**15,493**	**17,127**	**368,104**	**538,092**
Statement of financial position interest rate sensitivity gap at 31 December 2010	139,434	65,674	136,764	28,333	(301,191)	69,014
Derivatives*	338,666	240,099	169,396	145,239	0	893,401
Total off balance sheet assets	**338,666**	**240,099**	**169,396**	**145,239**	**0**	**893,401**
Derivatives*	388,169	247,496	198,584	58,402	0	892,652
Undrawn portion of loans**	(3,753)	(740)	3,725	767	0	0
Undrawn portion of revolving loans**	(536)	(58)	538	56	0	0
Total off balance sheet liabilities	**383,880**	**246,698**	**202,848**	**59,225**	**0**	**892,652**
Net off balance sheet interest rate sensitivity gap at 31 December 2010	**(45,214)**	**(6,599)**	**(33,451)**	**86,014**	**0**	**749**
Cumulative interest rate sensitivity gap at 31 December 2010	**94,220**	**153,294**	**256,607**	**370,954**	**69,763**	**x**
Total assets at 31 December 2009	275,560	75,679	142,937	42,821	68,089	605,086
Total liabilities at 31 December 2009	152,031	14,415	2,126	27,887	345,937	542,396
Net statement of financial position interest rate sensitivity gap at 31 December 2009	123,529	61,264	140,811	14,934	(277,848)	62,690
Net off balance sheet interest rate sensitivity gap at 31 December 2009	(24,206)	2,144	(48,521)	71,154	0	571
Cumulative interest rate sensitivity gap at 31 December 2009	99,323	162,731	255,021	341,109	63,261	x

Note: *) Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
**) Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

Average interest rates as at 31 December 2010 and 2009:

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

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

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

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

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

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

				31 Dec 2010				31 Dec 2009
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and balances with central banks	0	4,279	8,715	12,994	0	4,084	10,084	14,168
Financial assets at fair value through profit or loss	20,271	3,507	10,518	34,296	10,278	3,237	10,985	24,500
Positive fair values of hedging financial derivative transactions	0	0	11,845	11,845	0	0	9,590	9,590
Financial assets available for sale	59,051	8,967	702	68,720	55,413	9,069	791	65,273
Amounts due from banks	9,259	98,996	74	108,329	8,843	123,024	43	131,910
Loans and advances to customer	196,954	135,823	2,057	334,834	188,094	125,341	8,299	321,734
Investments held to maturity	954	0	0	954	1,272	0	0	1,272
Liabilities								
Amounts due to central banks	1	0	0	1	2	0	0	2
Financial liabilities at fair value through profit or loss	0	0	13,966	13,966	0	0	12,318	12,318
Negative fair values of hedging financial derivative transactions	0	0	6,935	6,935	0	0	6,531	6,531
Amounts due to banks	3,175	25,742	162	29,079	4,815	14,381	236	19,432
Amounts due to customers	4,463	434,362*	2,460	441,285	3,030	452,005*	1,724	456,759
Securities issued	15,704	16,149	0	31,853	15,932	14,799	0	30,731
Subordinated debt	0	6,001	0	6,001	0	6,001	0	6,001

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up are included in the 'No interest' category.
*) This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) LIQUIDITY RISK

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

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

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	9,063	0	0	0	0	3,931	12,994
Financial assets at fair value through profit or loss	990	1,709	12,604	6,314	2,160	10,519	34,296
Positive fair values of hedging financial derivative transactions	0	0	0	0	0	11,845	11,845
Financial assets available for sale	44	1,435	5,676	32,686	27,268	1,611	68,720
Assets held for sale	0	0	25	0	0	0	25
Amounts due from banks	38,734	56,909	3,852	6,430	710	1,694	108,329
Loans and advances to customers	3,147	32,315	57,838	86,887	133,577	21,070	334,834
Investments held to maturity	0	10	6	938	0	0	954
Income taxes receivable	0	0	29	0	0	9	38
Prepayments, accrued income and other assets	353	1	0	0	0	1,549	1,903
Investments in subsidiaries and associates	0	0	0	0	0	23,249	23,249
Intangible assets	0	0	0	0	0	3,363	3,363
Tangible assets	0	0	0	0	0	6,556	6,556
Total assets	**52,331**	**92,379**	**80,030**	**133,255**	**163,715**	**85,396**	**607,106**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss	2,608	0	0	0	0	11,358	13,966
Negative fair values of hedging financial derivative transactions	0	0	0	0	0	6,935	6,935
Amounts due to banks	22,514	1,789	230	733	3,813	0	29,079
Amounts due to customers	387,567	33,371	13,589	6,435	323	0	441,285
Securities issued	0	65	221	12,815	18,752	0	31,853
Deferred tax liability	0	0	0	0	0	991	991
Accruals and other liabilities	6,751	166	0	0	0	34	6,951
Provisions	6	53	174	161	128	508	1,030
Subordinated debt	0	1	0	0	6,000	0	6,001
Equity	0	0	0	0	0	69,014	69,014
Total liabilities	**419,447**	**35,445**	**14,214**	**20,144**	**29,016**	**88,840**	**607,106**
Statement of financial position liquidity gap at 31 December 2010	**(367,116)**	**56,934**	**65,816**	**113,111**	**134,699**	**(3,444)**	**0**
Off balance sheet assets*	23,215	72,491	71,857	50,803	15,878	0	234,244
Off balance sheet liabilities*	26,771	107,472	176,670	83,745	18,056	19,352	432,066
Net off balance sheet liquidity gap at 31 December 2010	**(3,556)**	**(34,891)**	**(104,813)**	**(32,942)**	**(2,178)**	**(19,352)**	**(197,822)**
Total assets at 31 December 2009	41,991	126,239	69,143	126,210	154,876	86,627	605,086
Total liabilities at 31 December 2009	413,323	45,279	17,201	6,433	40,769	82,081	605,086
Net statement of financial position liquidity gap at 31 December 2009	(371,332)	80,960	51,942	119,777	114,107	4,546	0
Net off balance sheet liquidity gap at 31 December 2009	(6,602)	(31,952)	(110,115)	(32,351)	(4,300)	(19,395)	(204,715)

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

(F) FOREIGN EXCHANGE POSITION

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

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	10,761	1,787	202	244	12,994
Financial assets at fair value through profit or loss	29,341	4,043	23	889	34,296
Positive fair values of hedging financial derivative transactions	11,220	486	139	0	11,845
Financial assets available for sale	46,579	19,581	2,560	0	68,720
Assets held for sale	25	0	0	0	25
Amounts due from banks	95,345	8,486	4,098	400	108,329
Loans and advances to customers	290,489	42,830	1,293	222	334,834
Investments held to maturity	0	762	192	0	954
Income taxes receivable	38	0	0	0	38
Prepayments, accrued income and other assets	1,746	144	13	0	1,903
Investments in subsidiaries and associates, net	19,645	3,604	0	0	23,249
Intangible assets	3,363	0	0	0	3,363
Tangible assets	6,545	11	0	0	6,556
Total assets	**515,097**	**81,734**	**8,520**	**1,755**	**607,106**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	12,788	1,085	42	51	13,966
Negative fair values of hedging financial derivative transactions	5,487	1,228	220	0	6,935
Amounts due to banks	18,775	7,512	2,769	23	29,079
Amounts due to customers	393,398	40,496	6,235	1,156	441,285
Securities issued	31,203	650	0	0	31,853
Deferred tax liability	989	2	0	0	991
Accruals and other liabilities	6,027	775	123	26	6,951
Provisions	679	300	44	7	1,030
Subordinated debt	6,001	0	0	0	6,001
Equity	69,139	(126)	0	1	69,014
Total liabilities	**544,487**	**51,922**	**9,433**	**1,264**	**607,106**
Net FX position at 31 December 2010	**(29,390)**	**29,812**	**(913)**	**491**	**0**
Off-balance sheet assets*	823,278	228,310	36,457	3,059	1,091,104
Off-balance sheet liabilities*	793,197	258,913	35,925	3,495	1,091,530
Net off balance sheet FX position at 31 December 2010	**30,081**	**(30,603)**	**532**	**(436)**	**(426)**
Total net FX position at 31 December 2010	**691**	**(791)**	**(381)**	**55**	**(426)**
Total assets at 31 December 2009	520,282	74,365	9,471	968	605,086
Total liabilities at 31 December 2009	547,378	48,504	7,817	1,387	605,086
Net FX position at 31 December 2009	(27,096)	25,861	1,654	(419)	0
Off balance sheet net FX position at 31 December 2009	27,729	(25,500)	(2,009)	398	618
Total net FX position at 31 December 2009	633	361	(355)	(21)	618

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

(G) OPERATIONAL RISK

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

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

(H) LEGAL RISK

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

(I) ESTIMATED FAIR VALUE OF ASSETS AND LIABILITIES OF THE BANK

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

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

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

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

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

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

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

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

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

		31 Dec 2010		31 Dec 2009
(CZKm)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and current balances with central banks	12,994	12,994	14,168	14,168
Amounts due from banks	108,329	108,520	131,910	132,378
Loans and advances to customers, net	334,834	344,545	321,734	328,507
Investments held to maturity	954	984	1,272	1,329
Financial liabilities				
Amounts due to central banks and banks	29,080	29,088	19,434	19,443
Amounts due to customers	441,285	441,327	456,759	456,734
Securities issued	31,853	32,861	30,731	32,021
Subordinated debt	6,001	6,003	6,001	6,003

(J) ALLOCATION OF FAIR VALUES OF FINANCIAL INSTRUMENTS AT FAIR VALUE TO THE HIERARCHY OF FAIR VALUES

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

(CZKm)	31 Dec 2010	Level 1	Level 2	Level 3	31 Dec 2009	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
– Securities	23,778	7,173	16,605	0	13,515	5,900	7,615	0
– Derivatives	10,518	1,916	8,602	0	10,985	2,190	8,795	0
Financial assets at fair value through profit or loss	**34,296**	**9,089**	**25,207**	**0**	**24,500**	**8,090**	**16,410**	**0**
Positive fair value of hedging financial derivative transactions	**11,845**	**0**	**11,845**	**0**	**9,590**	**0**	**9,590**	**0**
Financial assets available for sale								
– Shares and participation certificates	702	0	0	702	791	89	0	702
– Debt securities	68,018	43,028	24,990	0	64,482	38,331	26,151	0
Financial assets available for sale	**68,720**	**43,028**	**24,990**	**702**	**65,273**	**38,420**	**26,151**	**702**
Financial assets at fair value	**114,861**	**52,117**	**62,042**	**702**	**99,363**	**46,510**	**52,151**	**702**
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– Sold securities	2,608	2,608	0	0	1,020	1,020	0	0
– Derivatives	11,358	1,839	9,519	0	11,298	2,063	9,235	0
Financial liabilities at fair value through profit or loss	**13,966**	**4,447**	**9,519**	**0**	**12,318**	**3,083**	**9,235**	**0**
Negative fair value of hedging financial derivative transactions	**6,935**	**0**	**6,935**	**0**	**6,531**	**0**	**6,531**	**0**
Financial liabilities at fair value	**20,901**	**4,447**	**16,454**	**0**	**18,849**	**3,083**	**15,766**	**0**

Financial assets at fair value – Level 3:

	Year ended 31 Dec 2010		Year ended 31 Dec 2009	
(CZKm)	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	0	0
– in the statement of comprehensive income	0	0	0	0
– in other comprehensive income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 3	0	0	0	0
Balance at 31 December	**702**	**702**	**702**	**702**

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

43. Assets under management

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

LEGAL INFORMATION

Identification Details of the Company Entered in the Commercial Register as of 31 December 2010

Extract from the Commercial Register maintained by the Municipal Court in Prague Section B, File No. 1360

Date of registration:	5 March 1992
Trade name:	Komerční banka, a.s.
Registered office:	Prague 1, Na Příkopě 33, building identification number 969, postal code 114 07
Identification number:	45317054
Legal form:	public limited company

SCOPE OF BUSINESS ACTIVITIES:

I. The Bank shall conduct its business pursuant to the provisions of Act No. 21/1992 Coll., the Banking Act, as subsequently amended. The Bank's business activities shall include:

a) accepting deposits from the public,
b) granting loans,
c) investing in securities on the Bank's own account,
d) financial leasing,
e) operating a system of payments and clearing,
f) issuing and administering payment instruments, such as payment cards and traveller's cheques,
g) granting guarantees,
h) opening letters of credit,
i) administering cash collection,
j) providing investment services including:
   – main investment service of receiving and transmitting on behalf of a customer orders in relation to investment instruments,
   – main investment service of executing orders on behalf of another party in relation to investment instruments,
   – main investment service of dealing in investment instruments for the Bank's own account in relation to investment instruments,
   – main investment service of managing portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis where such portfolios include one or more investment instruments,
   – main investment service of underwriting in respect of issues of investment instruments and/or the placing of such issues,
   – ancillary investment service of safekeeping and administration in relation to one or more investment instruments,
   – ancillary investment service of safe custody,
   – ancillary investment service of granting credits or loans to an investor for the purpose of carrying out a transaction in investment instruments, where the provider of the credit or loan is involved in the transaction,
   – ancillary investment service of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and acquisitions of undertakings,
   – ancillary investment service related to underwriting in relation to investment instruments,
   – ancillary investment service of investment advice concerning one or more investment instruments,
   – ancillary investment service of conducting foreign-exchange operations where these are connected with the provision of investment services;
k) trading foreign currencies and gold for its own account or on behalf of clients,
l) engaging in financial brokerage,
m) providing foreign currency exchange operations (purchase of foreign currencies),
n) providing depository services,
o) providing banking information,
p) renting safe-deposit boxes,
q) issuing mortgage bonds,
r) other activities directly related to those mentioned in a) through q) above.

II. Moreover, the scope of business activities comprises activities conducted for other parties so long as these activities relate to the operation of the Bank and to the operation of other banks, financial institutions and businesses under its control and which provide ancillary banking services. The scope of such activities shall include:

a) accounting consultancy activities, bookkeeping, tax record keeping,
b) intermediating trades,
c) engineering activities in construction for investment purposes,
d) administering and maintaining real estate,
e) organising specialised courses, training, and other educational programmes including lectures,
f) business, financial, organisational, and economic consulting activities,
g) data processing, database services, network (web) administration.

STATUTORY BODY – BOARD OF DIRECTORS:

Chairman of the Board of Directors:	Henri Bonnet, birth number: 490706/439 Prague 5, Smíchov, Tichá 1472/1, postal code 150 00 Date of assuming office: 10 September 2009 Member of the Board of Directors from: 10 September 2009
Member of the Board of Directors:	Vladimír Jeřábek, birth number: 680407/0790 Brno, Útěchov, Mladá 95/2a, postal code 644 00 Member of the Board of Directors from: 1 June 2008
Member of the Board of Directors:	Peter Palečka, birth number: 591103/6692 Černošice, Jahodová 1565, Prague – West District, postal code 252 28 Member of the Board of Directors from: 7 October 2009
Member of the Board of Directors:	Aurélien Gérard Étienne Viry Date of birth: 2 November 1966 Prague 1, Štěpánská 625/42, postal code 110 00 Member of the Board of Directors from: 1 January 2011
Member of the Board of Directors:	Patrice Taillandier-Thomas, Date of birth: 12 November 1958 Prague 2, Vinohrady, Belgická 132/14, postal code 120 00 Member of the Board of Directors from: 1 February 2008
Member of the Board of Directors:	Jan Juchelka, birth number 710919/5148 Poděbrady V, Máchova 92, Nymburk District Member of the Board of Directors from: 2 July 2010

Acting on behalf of the Bank:
As the statutory body, the Board of Directors shall act on behalf of the Bank in all matters, either through 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 members of the Board jointly shall sign on behalf of the Bank.

SUPERVISORY BOARD:

Chairman of the Supervisory Board:	Didier Alix, date of birth: 16 August 1946 14, bis Rue Raynouard, 75016 Paris French Republic Member of the Supervisory Board from: 30 April 2009 Date of assuming office: 30 April 2009
Vice-Chairman of the Supervisory Board:	Jean–Louis Mattei, date of birth: 8 September 1947 24, Rue Pierre et Marie Curie, 75005 Paris French Republic Member of the Supervisory Board from: 30 April 2009 Date of assuming office: 30 April 2009
Member of the Supervisory Board:	Ing. Bořivoj Kačena, birth number: 430224/105 Prague 4, Vavákova 1486/4A, postal code 148 00 Member of the Supervisory Board from: 29 April 2008
Member of the Supervisory Board:	Petr Laube, birth number 490708/118 Prague 5, Košíře, Kvapilova 958/9 Date of assuming office: 30 April 2009
Member of the Supervisory Board:	Christian Achille Frederic Poirier, date of birth: 30 November 1948 19, Rue Mademoiselle, 78000 Versailles French Republic Member of the Supervisory Board from: 30 April 2009
Member of the Supervisory Board:	Bernardo Sanchez Incera, date of birth: 9 March 1960 Paris, rue Saint Placide 44 French Republic Member of the Supervisory Board from: 1 October 2010
Member of the Supervisory Board:	Ing. Pavel Krejčí, birth number 631108/0644 Olomouc, Rolsberská 30, postal code 772 00 Member of the Supervisory Board from: 29 May 2009
Member of the Supervisory Board:	Dana Neubauerová, birth number 645507/0567 Havlíčkův Brod, Smetanovo náměstí 1860, postal code 580 01 Member of the Supervisory Board from: 29 May 2009
Member:	PaedDr. Karel Přibil, birth number 541214/1691 Kamenice, Nová Hospoda, Návršní 332, postal code 251 68 Member of the Supervisory Board from: 29 May 2009

SHARES:

38,009,852 dematerialised ordinary bearer shares, each in the nominal value of CZK 500

Share capital: CZK 19,004,926,000,
fully paid up

Other facts:

Komerční banka, a.s., as the successor company, was combined in a cross-border merger with the dissolved company Komerční banka Bratislava, a.s., Identification No. 31395074, having its registered office at Hodžovo námestie 1A, postal code 811 06, Bratislava, Slovak Republic, entered in the Commercial Register maintained by the District Court of Bratislava I, in Section Sa, File No. 835/B. The assets and liabilities of the dissolved company have passed over to the successor company.

Manner of the Company's establishment:
In accordance with the privatisation project for the state financial institution Komerční banka, having its registered office in Prague, Na Příkopě 28, approved by Resolutions of the Government of the Czech and Slovak 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 founder, established the public limited company Komerční banka, a.s. based upon the Founding Deed of 3 March 1992 in accordance with Section 172 of the Commercial Code.

Branch offices:
Name: Komerční banka, a.s., pobočka zahraničnej banky
Registered office: Bratislava, Hodžovo námestie 1A, postal code 811 06 Slovak Republic

SCOPE OF BUSINESS ACTIVITIES:

a) accepting deposits,
b) granting loans,
c) providing payment services as defined in Article 4 (3) of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market,
d) issuing and administering other payment instruments (e.g. traveller's cheques and bank drafts) insofar as this activity is not covered by letter c) above,
e) granting guarantees and commitments,
f) trading for its own account and for the accounts of customers in money market instruments, foreign exchange, financial futures and options, exchange rate and interest rate instruments, or transferable securities,
g) money brokering,
h) providing banking information,
i) issuing electronic money,
j) providing and engaging in investment services and activities: receiving and transmitting orders in relation to one or more financial instruments, which include:
   – transferable securities,
   – money market instruments,
   – units in collective investment undertakings;
   – options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash,
   – options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event),
   – options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF,
   – options, futures, swaps, forwards and any other derivative contracts relating to commodities that can be physically settled not otherwise mentioned above and not being for trading purposes which have the characteristics of other derivative financial instruments with regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;
   – derivative instruments for the transfer of credit risk,
   – financial contracts for differences,
   – options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned above and which have the characteristics of other derivative financial instruments with regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

Head of the organisational unit: Ing. Vlastimil Czabe, Birth no. 491127/237
Olomouc, Tylova 3, postal code 772 00
The head of the organisational unit is authorised to perform all acts relating to the organisational unit.

Information on Komerční banka Securities

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, 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 2010 was 555,996.

BONDS OF 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 2010)	Interest rate	Pay-out of interest	Quotation at PSE*
1.	HZL 2005/2015 ISIN 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	yes
2.	HZL 2005/2015 ISIN CZ0002000664 1)	21 October 2005 21 October 2015	10,000,000,000 1,000,000	4.40% p.a.	yearly	yes
3.	HZL 2006/2016 ISIN CZ0002000854 1)	1 September 2006 1 September 2016	EUR ths. 25,602 42,670	3.74% p.a.	yearly	no
4.	HZL 2007/2019 ISIN CZ0002001142 2)	16 August 2007 16 August 2019	3,000,000,000 30	5.00% p.a.	yearly	no

No.	Bond ISIN	Issue Date Maturity Date	Volume in CZK Number of pcs (as of 31 December 2010)	Interest rate	Pay-out of interest	Quotation at PSE*
5.	HZL 2007/20 ISIN CZ0002001324 2)	16 November 2007 16 November 2037	1,200,000,000 12	RS minus 0.20% p.a.	stated	no
6.	HZL 2007/2037 ISIN CZ0002001332 2)	16 November 2007 16 November 2037	1,200,000,000 12	RS minus 0.20% p.a.	stated	no
7.	HZL 2007/2037 ISIN CZ0002001340 2)	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
8.	HZL 2007/2037 ISIN CZ0002001357 2)	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
9.	HZL 2007/2037 ISIN CZ0002001365 2)	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
10.	HZL 2007/2037 ISIN CZ0002001373 2)	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
11.	HZL 2007/2037 ISIN CZ0002001381 2)	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
12.	HZL 2007/2037 ISIN CZ0002001399 2)	16 November 2007 16 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
13.	HZL 2007/2037 ISIN CZ0002001431 2)	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
14.	HZL 2007/2037 ISIN CZ0002001449 2)	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
15.	HZL 2007/2037 ISIN CZ0002001456 2)	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
16.	HZL 2007/2037 ISIN CZ0002001464 2)	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
17.	HZL 2007/2037 ISIN CZ0002001472 2)	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
18.	HZL 2007/2037 ISIN CZ0002001480 2)	30 November 2007 30 November 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
19.	HZL 2007/2037 ISIN CZ0002001498 2)	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
20.	HZL 2007/2037 ISIN CZ0002001506 2)	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
21.	HZL 2007/2037 ISIN CZ0002001514 2)	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
22.	HZL 2007/2037 ISIN CZ0002001522 2)	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
23.	HZL 2007/2037 ISIN CZ0002001530 2)	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
24.	HZL 2007/2037 ISIN CZ0002001548 2)	7 December 2007 7 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
25.	HZL 2007/2037 ISIN CZ0002001555 2)	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
26.	HZL 2007/2037 ISIN CZ0002001563 2)	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
27.	HZL 2007/2037 ISIN CZ0002001571 2)	12 December 2007 12 December 2037	1,100,000,000 11	RS minus 0.20% p.a.	stated	no
28.	HZL 2007/2037 ISIN CZ0002001589 2)	12 December 2007 12 December 2037	500,000,000 5	RS minus 0.20% p.a.	stated	no
29.	2007/2017 ISIN CZ0003701427 1)	18 December 2007 18 December 2017	613,600,000 767	4.216% p.a.	yearly 1 December	no
30.	HZL 2007/2017 ISIN CZ0002001761 1)	19 December 2007 19 December 2017	835,200,000 10440	4.09% p.a.	yearly	no
31.	HZL 2007/2037 ISIN CZ0002001753 1)	21 December 2007 21 December 2037	3,300,000,000 330	RS plus 1.5% p.a.	yearly	no
32.	HZL 2007/2037 ISIN CZ0002001746 1)	28 December 2007 28 December 2037	500,000,000 5	RS plus 1.5% p.a.	yearly	no

Note: *) Prague Stock Exchange
HZL = mortgage bonds, RS = reference rate
1 dematerialised bonds
2 bonds in documentary form

All bonds with the exception of mortgage bonds ("HZL") ISIN CZ0002000854 are denominated in CZK and made out to the bearer.

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
All heretofore unredeemed bonds presented in the table as quoted on the PSE were admitted for trading on the official free market of the Prague Stock Exchange.

Transferability
The transferability of the bonds is unlimited.

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 full 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.

INFORMATION ON REMUNERATION TO AUDITORS FOR SERVICES PROVIDED IN 2010

For services performed during 2010, KB and the consolidated KB Group provided remuneration to their auditors as follows:

Type of service – CZK thousand, excl. VAT	KB	KB Group
Statutory audit	16,642	23,270
Audit related services	313	486
Legal and tax related services	1,009	1,009
Other	12	12
Total	**17,977**	**24,777**

INFORMATION DISCLOSED PURSUANT TO SEC. 213 OF DECREE NO. 123/2007 COLL.

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 amounts 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 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 early repayment after 5 years and thereafter as of any interest payment date. The subordinated debt is part of Tier 2 capital. The Bank calculates capital both on stand-alone and consolidated bases.

Information about consolidated capital	**31 December 2010**
	CZK million
b) Total original capital (Tier 1)	**49,363**
of which: paid up share capital entered in the commercial register	19,005
own shares	(150)
share premium	155
obligatory reserve funds	4,063
other funds from distribution of profit	794
retained earnings	31,505
goodwill from consolidation	(3,405)
final exchange rate differences from consolidation	1
minority interests	1,299
goodwill other than from consolidation	(146)
other intangible assets (besides goodwill)	(3,757)
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	**2,958**
of which: deductible items due to an insufficient coverage of expected credit losses	**1,585**
f) Total capital after the consideration of deductible items from original and additional capital and stipulated limits applicable to items of capital	**52,405**

Information about consolidated capital requirements	**31 December 2010**
	CZK million
Total capital requirements	**27,459**
a) relating to credit risk	**23,252**
relating to credit risk pursuant to the Standardised Approach in IRB, to total exposures	**3,064**
of which: to exposures to central governments and banks	1
to exposures to institutions	17
to corporate exposures	585
to retail exposures	2,445
to other exposures	16
relating to credit risk pursuant to the IRB Approach	**20,189**
of which: to exposures to central governments and banks	1,077
to exposures to institutions	2,236
to corporate exposures	12,020
to retail exposures	3,951
to equity exposures (simple risk weight approach)	1
of which: to exposures quoted on regulated markets	0
to other equity exposures	1
to securitised exposures	63
to other exposures	842
b) relating to settlement risk	**0**
c) relating to position, foreign exchange and commodity risk	**719**
d) relating to the operational risk	**3,487**

The Bank discloses no other capital requirement.

Ratios – Komerční banka, a.s standalone	31 December 2010
	CZK thousand
Capital adequacy	16.67%
Return on average assets (ROAA)	1.91%
Return on average equity (ROAE)	25.91%
Assets per employee	77,425
Operating costs per employee	1,304
Profit/Loss after tax per employee	1,557

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 2010	Number	Of which KB owns
Buildings	434	125

Note: See also Notes to the Unconsolidated Financial Statements according to IFRS, notes nos. 20 – Assets held for sale and 27 – Tangible fixed assets.

INVESTMENTS

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

CZK million, IFRS	31 December 2010	31 December 2009
Bonds and treasury bills	92,749	79,269
Shares	703	791
Emission allowances	0	0
Equity investments in subsidiary and associated undertakings	23,249	23,906
Total	**116,701**	**103,966**

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

CZK million, IFRS	31 December 2010	31 December 2009
Tangible fixed assets	6,556	7,164
Intangible fixed assets	3,363	3,343
Total tangible and intangible fixed assets	**9,919**	**10,507**
Tangible fixed assets held under financial leases	0	0

Note: * Net book value of investments
See also Notes to the Unconsolidated Financial Statements according to IFRS, notes nos. 26 – Intangible fixed assets and 27 – Tangible fixed assets.

Main ongoing investments – excluding financial investments
In 2010, the Bank made non-financial investments in a total of CZK 1.249 billion. Most of that amount was invested in the area of information technologies (CZK 0.6 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 2010, KB decided to build a new headquarters building in Prague, which is expected to be completed in 2012 and will became 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 2011 should not exceed CZK 1.9 billion (the figure does not include the new headquarters building, which should be purchased in 2012). 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.

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. 513/1991 Coll., the Commercial Code, as subsequently amended;
– Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on Amending the Trade Licensing Act;
– Act No. 563/1991 Coll., on Accounting, as subsequently amended.

Legal Disputes

With respect to its overall financial situation, the Bank regards as significant all litigations involving 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 2010, Komerční banka was a party to legal proceedings as a plaintiff in 9 significant litigations. The total sum involved in these litigations was CZK 728.5 million. The Bank is a bankruptcy creditor with a claim exceeding CZK 50 million in 40 bankruptcy proceedings. The total amount of claims filed in relation to these is about CZK 13.2 billion.

As of 31 December 2010, the Bank was a party to legal proceedings as the defendant in 11 significant litigations. The total sum involved in these litigations is about CZK 1.05 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 38 – Commitments and contingent liabilities.

Licences and Trademarks

In connection with provision of banking services there arises a need to protect the trademarks of the products and services offered by Komerční banka, a.s. The same holds true for the trademark of Komerční banka, a.s. itself. For that reason, Komerční banka, a.s. registers its own trademark and other trademarks with national registers in particular countries. In the Czech Republic this is the Industrial Property Office and in the Slovak Republic it is the Industrial Property Office.

Komerční banka, a.s. has registered 142 trademarks. These trademarks are mostly registered with the Industrial Property Office in the Czech Republic. A further 16 trademarks have been entered into the registration process and it is expected that these trademarks will be registered soon. Komerční banka, a.s. has also registered 5 trademarks in the Slovak Republic, all with the Industrial Property Office. In the course of doing banking business, Komerční banka, a.s. provides licences for certain of its trademarks to its subsidiaries and in some cases is also a licensee and sub-licensee.

Expenses on Research and Development

In 2010, Komerční banka had outlays through operating expenses of CZK 157 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.

REPORT ON RELATIONS AMONG RELATED ENTITIES FOR THE YEAR ENDED 31 DECEMBER 2010

(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 2010, that is, from 1 January 2010 to 31 December 2010 (hereinafter called the "reporting period").

I. Introduction

In the period from 1 January 2010 to 31 December 2010, 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 2010 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 Tokyo	Ark Mori Building, 12-32 Akasaka 1 chome, Minato-ku, 107-6015 Tokyo, Japan
SG Zurich	Sihlquai 253, 8031 Zurich, Switzerland
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Postfach 101935, Mainzer Landstrasse 36, D60325, 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

Note: *) including the branch offices

(b) SG's subsidiaries

Company	Registered office	SG's share of voting power
ALD Automotive s.r.o.	U Stavoservisu 527/1, Prague 10, 100 40, Czech Republic	100.00
Banca Romana Pentrui Devzoltare (B.R.D.)	Boulevard Ion Mihalache no.1-7, sector l, Bucharest, Romania	58.32
ECS International Czech Republic, s.r.o.	Prague 5, Smíchov, Anděl Park, Radlická 14/3201,150 00, Czech Republic	100.00*
Europe Computer Systemes	Immeuble Défense Parc 2, 106 rue des Trois Fontanot, 92000 Nanterre, France	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
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 (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
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 Cyprus Ltd.	7/9 Grivas Dighenis Avenue, Nicosia, Cyprus	51.00
SG Equipment Finance Czech Republic s.r.o	Antala Staška 2027/79, Prague 4 – Krč, 140 00, Czech Republic	100.00
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	97.95
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 Vostok	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
SG Asset Management Banque (SGAM Banque)	170 place Henri Renault, 92400 Courbevoie, France	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
Crédit du Nord	28 Place Rihour 59800 Lille, France	100.00
SG Maroccaine de Banques	55, boulevard Abdelmoumen, Casablanca, Morocco	56.91
Inter Europe Conseil	Tour Société Générale, 17 Cours Valmy, 92987 La Défense, Paris, France	100.00

Note: *) up to 28 October 2010

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, 130 00, Czech Republic	100.00
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128, č. p. 222, Prague 2, 120 21, Czech Republic	100.00
Penzijní fond Komerční banky, a.s.	Lucemburská 1170/7, Prague 3, 130 11, Czech Republic	100.00
Protos, uzavřený investiční fond, a.s.	Dlouhá 34, č. p. 713, Prague 1, 110 15, Czech Republic	100.00
Bastion European Investments S. A.	Place du Champ de Mars 5, Bastion Tour, 1050 Brussels, Belgium	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 26 branches and subsidiaries of the SG Group at the end of the reporting period. As of 31 December 2010, KB maintained a total of 50 accounts, of which 22 were loro accounts for branches and subsidiaries of the SG Group, 22 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 142 million, the average monthly credit balance (deposit) was CZK 252.8 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 48 million; the average monthly overdraft balance on these accounts was CZK 77.1 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 0.9 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 4.9 million. For the year ended 31 December 2010, KB paid CZK 0.001 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, SG Vostok and SG Zurich. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 35.6 million; the average monthly overdraft balance on nostro accounts was CZK 15.5 million. Interest income on nostro accounts for the reporting period was CZK 0.033 million; interest expenses amounted to CZK 0.104 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 9.5 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 1.3 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 2.1 million. Interest expenses paid by KB on loro accounts amounted to CZK 0.8 million and interest income amounted to CZK 2.3 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 918.7 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 6.1 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 444 loans in the aggregate amount of CZK 11, 277.8 million at the end of the reporting period. The average monthly balance of the loans during the reporting period was CZK 11, 662.2 million. The aggregate amount of interest income was CZK 462.0 million.

At the end of the reporting period, KB provided two entities from the SG Group with confirmed export letters of credit in the aggregate amount of CZK 13.5 million, two entities were provided with bank guarantees (payment, non-payment) in the amount of CZK 103.4 million, and the statement of guarantee was provided to two entities in the amount of CZK 669.8 million. The aggregate amount of income arising from the fees for the issued guarantees was CZK 1.5 million in the reporting period. As of 31 December 2010, commitments to extending loans, opening letters of credit and unutilised overdraft limits were provided to two entities of the SG Group in the amount of CZK 3,070.8 million.

At the end of the reporting period, KB received guarantees from 6 SG Group entities as collateral for the loans provided to clients in the aggregate amount of CZK 13,120.6 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 15 branches and subsidiaries from within the SG Group. The total number of transactions was 12,257 (2,726 on-balance sheet transactions and 9,531 off-balance sheet transactions) in the aggregate amount of CZK 1,320,982.4 million. The income from the investment banking transactions amounted to CZK 21,313 million and the costs were equal to CZK 20,851.1 million.

The aggregate amount of on-balance sheet transactions was CZK 554,634.4 million, of which:
– depository transactions – a total of 2,169 transactions in the aggregate amount of CZK 527,253.5 million;
– securities held for trading – a total of 557 transactions in the aggregate amount of CZK 27,830.9 million.

The aggregate amount of off-balance sheet transactions was CZK 766,348.0 million, of which:
– foreign currency transactions (spots, forwards, swaps) in the total number of 4,542 transactions in the aggregate amount of CZK 448,889.6 million;
– interest rate derivative transactions (interest rate swaps and futures) in the total number of 949 transactions in the aggregate amount of CZK 234,900.9 million;
– option transactions with currency instruments in the total number of 2,993 transactions in the aggregate amount of CZK 63,597.3 million;
– commodity transactions were realised only with SG Paris; KB implemented 766 transactions in the aggregate amount of CZK 11,728.0 million;
– emission allowance transactions – KB realised a total of 281 transactions in the aggregate amount of CZK 7,232.2 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
Amendment to Sub-Custodian service agreement	SG Paris	Contractual fee	Provision of custody	None
Amendment to Sub-Custodian service agreement	SG Paris	Contractual fee	Provision of custody	None
Custody contract	SG Paris	Administration of securities traded on a stock exchange	Fees according to the price list	None
Amendment No. 1 relating to agreement relating to the intermedation In the sale of market products linked to investment banking activity In the Czech Republic	SG Paris	Mediation of the sale of derivative financial instruments	Contractual fee	None
Amendment No. 1 ISDA Master Agreement	SG Paris	Modification of the terms and conditions	Modification of the terms and conditions	None
ISDA Master Agreement	SGBT Luxembourg	Framework agreement to make foreign exchange transactions	Contractual fee	None
Custody Agreement	SG Splitska Banka	Custody services	Contractual fee	None
Global Term of Business (UK branch)	Newedge Group	Contractual fees	Maintenance of clearing accounts and brokerage services	None
Termination of Master Netting Agreement	Newedge Group (UK branch)	Termination of contract (replaced by Global Terms of Business)	Termination of contract (replaced by Global Terms of Business)	None
Termination of General Agreement on Securities Lending and Borrowing	Newedge Group (Frankfurt branch)	Termination of contract (replaced by Global Terms of Business)	Termination of contract (replaced by Global Terms of Business)	None
Termination of Master Netting Agreement, Clearing Agreement on the Execution and Clearing of security transactions and forward transactions, Derivates Commissions list	Newedge Group (Frankfurt branch)	Termination of contract (replaced by Global Terms of Business)	Termination of contract (replaced by Global Terms of Business)	None
Amendment to the Contract for the provision of purchases or sales of securities	SG Equipment Finance Czech Republic s.r.o.	Mediation of the purchase and sale of securities traded on the Czech or foreign market	Contractual fee	None
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 operation interruption insurance	None
Directors & Officers Liability	SG Paris	Insurance premium	Liability insurance for members of the Board of Directors	None
EUR Account Maintenance & Clearing Service Agreement (update of the price list and business terms and conditions)	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
2x Contract for Temporary Assignment of employee to a job	SG Paris	Assignment of the employee	Provision of know-how	None
Agreement on the Organization of Periodic Control	SG Paris and MPSS	Provision of internal audit services	Contractual fee	None
Agreement for the termination of the Clearing agreement as of 31 December 2010	SG Zurich	None	None	None
Novation Agreement	SGAM AI	Contractual fee	Modification of the terms and conditions for securities trading	None
Amendments Nos. 7, 8, 9 and 10 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 for cooperation	Komerční pojišťovna, a.s.	Organisation of a contest for bank advisors	Contractual fee	None
Agreements to cut the commissions from the one-off or extra Brouček, VITAL and VITAL INVEST insurance premium	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the provision of services – outsourcing (HR-related services)	Komerční pojišťovna, a.s.	Provision of HR-related services	Contractual fee	None
Contracts for the pledge of securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	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
Framework contract for trading in the financial market	Komerční pojišťovna, a.s.	Conclusion of repurchase transactions collateralised by the transfer of securities	Contractual fee	None
Agreement to cut the commission from the sale of travel insurance	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Amendment No. 1 to Contract for the mediation of sale of MERLIN and PROFI MERLIN	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Amendment No. 1 to Contract for mutual cooperation	Komerční pojišťovna, a.s.	Provision of services	Provision of services	None
Amendment No. 2 to 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-related transactions	Contractual fee	None
Confidentiality agreement	Komerční pojišťovna, a.s.	Provision of data and protection of information	Provision of data and protection of information	None
Amendment No. 3 to Contract for the mediation of sale of VITAL PREMIUM	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Framework contract for the provision of services	Komerční pojišťovna, a.s.	Provision of services relating to IT infrastructure	Contractual fee	None
Accession to the Rules of cooperation in outsourcing and purchases between KB and Group entities	Komerční pojišťovna, a.s.	Provision of services	Payment of the 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 party to the contract	Damage incurred by KB
Contract for the lease of non-residential premises	ALD Automotive s.r.o	Lease of non-residential premises	Rent	None
4x Contract for the lease of non-residential premises	ALD Automotive s.r.o.	Provision of non-residential premises	Rent	None
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
Evaluation contract	ECS International Czech republic s.r.o.	Lease instalments	Lease of computers	None
Service Level Agreement	European Fund Services S.A.	Mediation of the purchase of securities	Settlement of securities transactions	None
Custody contract for VITAL INVEST FORTE	Komerční pojišťovna, a.s.	Administration of securities	Contractual fee	None
Amendment No. 1 to the Contract for cooperation as part of the group VAT registration	Komerční pojišťovna, a.s.	Representation of members of the group in relation to VAT payments	Contractual fee	None
Amendment No. 2 to the Contract for the collective insurance for KB credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 4 to the Contract for the collective insurance for MC, VISA and American Express payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 5 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. 8 to the Insurance contract for group insurance of persons	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Amendments Nos. 2 and 3 to the Contract for mediation of Risk life insurance of mortgages	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Amendments Nos. 1 and 2 to the Contract for collective insurance of consumer loans	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendments to the Framework contract for distribution	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	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
Contract for cooperation	Komerční pojišťovna, a.s.	Cooperation in the development of products and other business activities	Cooperation in the development of products and other business activities	None
Agreement on the payment of salary compensation for provision of vacation upon the change in employment of an employee	Komerční pojišťovna, a.s.	Approval of the provision of vacation to an employee	Payment of the salary compensation for vacation days	None
Agreement on sending electronic notices about clearing operations	Komerční pojišťovna, a.s.	Sending electronic notices about clearing operations	Fees according to the price list	None
Purchase Contract	Komerční pojišťovna, a.s.	Sale of the Epson DFX printer	Purchase price	None
License agreement	Komerční pojišťovna, a.s.	Provision of KB's trade mark	Contractual fee	None
Insurance contract – insurance of risks arising from the abuse of payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance and insurance benefits	None
Insurance contract for the group insurance of persons	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance premium	None
Framework contract for distribution	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Framework contract for making term deposits with an individual interest rate	Komerční pojišťovna, a.s.	Conclusion and maintenance of term deposits	Contractual fee	None
Framework contract for personal data processing	Komerční pojišťovna, a.s.	Processing of personal data	Provision of data	None
Framework contract for Spektrum insurance programme as amended by Amendment No.1	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Service Level Agreement	Komerční pojišťovna, a.s.	Sharing of internet services	Contractual fee	None
Contract for the collective insurance for payment cards including Amendments Nos. 1 a 2	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for investment advisory	Komerční pojišťovna, a.s.	Provision of investment advisory	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 the conclusion 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 collective insurance PATRON as amended by Amendment No. 1	Komerční pojišťovna, a.s.	Mediation of the conclusion 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
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 cooperation in organising a contest	Komerční pojišťovna, a.s.	Organisation of a contest for bank advisors	Contractual fee	None
Contract for the cooperation in the group registration for VAT	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 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 the conclusion of insurance contracts	Commission	None
Contract for the mediation of PATRON and PROFI PATRON	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	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
Contract for mediation of the sale of VITAL INVEST including its amendments	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of sale of VITAL PREMIUM including Amendment No.1	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of the Brouček product	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of Risk life				
insurance of mortgages including its amendments	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of VITAL PLUS including Amendments Nos. 1 a 2	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of TRAVEL INSURANCE	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of VITAL, VITAL GRANT and VITAL PLUS	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contracts for the lease of non-residential premises (Jihlava, Brno, Ostrava)	Komerční pojišťovna, a.s.	Lease of non-residential premises	Rent	None
Contract for the business representation in the sale of products in the VITAL and VITAL PLUS programme	Komerční pojišťovna, a.s.	Mediation of the conclusion 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 the conclusion 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
Transfer of Futures Accounts	Newedge Group (Frankfurt branch)	Contractual fees	Futures transactions in an organized market	None
Agreement	ORBEO	Framework agreement which stipulates contractual relations in transactions with emission allowances	Contractual fee	None
Credit Support Annex	ORBEO	Transactions with financial collateral to collateralise 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 fee	Securities transactions	None
Introduction Broker Agreement	SG Asset Management Alternative Investments	Mediation of purchases of SGAM funds	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 the lease of non-residential premises	SG Equipment Finance Czech Republic s.r.o.	Lease of non-residential premises	Rent	None
Contract for cooperation	SG Equipment Finance Czech Republic s.r.o.	Mediation of the 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

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
Contract for the provision 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 fees	None
Appointment Letter of Process Agent including its amendment	SG London	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the UK	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 the amendment	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the US	None
Service Level Agreement	SG New York	Fees according to the price list	Processing of payments	None
4x Agreement relating to the Structured product	SG Paris	Mediation of the sale of subscription for a structured product	Contractual fee	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	Provision of advisory services in the HR department	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 financial instruments	Contractual fees	None
Agreement relating to the use of the Class Custody Tool	SG Paris	Contractual fee	Provision of custody	None
Cash letter service agreement	SG Paris	Clearing of cheques	Issuance of cheques	None
Contingency agreement	SG Paris	Free of charge	Adjustment of conditions of the payment operations in n the case of accident or failure of SWIFT	None
Credit Support Annex	SG Paris	Transactions with financial collateral to collateralise transactions with emission allowances	Contractual fee	None
Custodian Services Agreement	SG Paris	Contractual fees	Provision of custody	None
Custody contract	SG Paris	Administration of securities traded on a stock exchange	Fees according to the price list	None
Amendment to Sub-Custodian service agreement KB Ametyst 2 and KB Ametyst 3	SG Paris	Contractual fee	Provision of custody	None
Amendment to Sub-Custodian service agreement KB Kapitál konzervativní and KB Kapitál růstový	SG Paris	Contractual fee	Provision of custody	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	Fees according to the price list	Review of swift reporting in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None
Service Agreement – SNAP services	SG Paris	Fees	Transfer of swift reports	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
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 reporting in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	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	Determining of framework conditions in the cooperation in the internal audit	Determining of framework conditions in the cooperation in the internal audit	None
Sub-Custodian Service Agreement	SG Paris	Contractual fee	Administration of securities traded in France	None
Sub-Custodian Service Agreement	SG Paris	Contractual fee	Custody for mutual funds	None
Subordinated Loan Agreement	SG Paris	Interest	Provision of the subordinated debt	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
Clearing Agreement	SG Zurich	Fees according to the price list	Maintenance of nostro account	None
Notification Regarding Global Data Sharing	SG Zurich	Provision of client data	Processing of client data	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 29 April 2010, the shareholder, SG Paris, received dividends for the year 2009 in the aggregate amount of CZK 3,921,167,300.00.

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 267.6 million, for the year 2010.

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 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 2011

Henri Bonnet
Chairman of the Board of Directors
Komerční banka, a.s.

Peter Palečka
Member of the Board of Directors
Komerční banka, a.s.

NOTES

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aF tK kP pP mD jO dS vB jP rV aV bČ eN

bS jK dC lM dN dP aR eL jH pS fD aS fM

gO hA iD hF mZ hM iB iC hB iH pTT iK

mH iR pL iS jA mK jB vK jČ bZ mV rS jS

rM jŠ jT kF pM mC kR aK bM kŠ pČ lK lL

dČ lP pJ lV lZ mB aM jV mG iM mJ hH mR

zV mŠ mT jD pŠ mU nB oP pA pB lD pT jJ

sK kK šK lS tB jN bD tF aH vG mP vJ mS