ANNUAL REPORT 2009

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Československá obchodní banka, a. s.

MMIX

Business name:	**Československá obchodní banka, a. s.**
Registered office:	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
Legal status:	Joint-stock company
Registration:	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration:	21 December 1964
ID No.:	00001350
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 224 111 111
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz

KEY FIGURES

Consolidated, EU IFRS [1]	2009	2008	2007 pro forma [2]
Financial statements figures			
Balance sheet at the year end (CZKm)			
Total assets	858,972	824,485	782,898
Loans and receivables – net (excl. credit institutions) [3]	386,390	393,592	340,489
Client deposits (excl. credit institutions) [3, 4]	573,147	534,686	513,254
Debt securities in issue [3]	32,572	43,907	41,774
Subordinated debt [3]	11,970	11,965	12,161
Shareholders' equity	68,951	55,955	55,109
Statement of income (CZKm)			
Operating income	40,684	19,055	27,429
Operating expenses	14,659	15,014	14,012
Impairment of loans and receivables	5,477	2,130	1,113
Profit before tax	19,876	374	12,638
Profit for the year [5]	17,368	1,034	9,902
Underlying profit for the year [5]	10,487	12,616	10,447
Ratios (%)			
Underlying return on average assets (ROAA) [6]	1.2	1.6	1.5
Underlying return on average equity (ROAE) [7]	17.1	21.6	18.8
Underlying cost/income ratio [8]	45.2	46.9	49.9
Capital adequacy ratio – Bank [9, 10]	12.3	8.65	n/a
Capital adequacy ratio – consolidated [9, 10]	14.98	10.31	n/a
Total shareholders' equity to total assets [9]	8.03	6.79	7.04
Loans to deposits [9, 11]	71.1	75.2	64.3
General information [9]			
Number of clients – Bank (thousands) [12]	3,061	3,047	2,995
FTEs	8,018	8,468	8,224
Number of contact points [13]	300	284	251
ATMs [14]	734	680	637
Financial market rates			
CZK/EUR (average)	26.45	24.94	27.76
Pribor 3M (%, average)	2.19	4.04	3.09

Credit Rating [9]	Effective since	Long-term	Short-term	Financial Strength	Individual	Support
Moody's	23 February 2007	A1	Prime-1	C		
Fitch	14 May 2009	A-	F2		C	1

1) International Financial Reporting Standards as adopted by the EU
2) Until 31 December 2007, ČSOB had been active in both the Czech Republic and Slovakia. As at 1 January 2008, operations in Slovakia were transferred into a separate legal entity with a banking license. The 2007 pro Forma Figures are for the Czech Republic only and for comparison purposes only.
3) Doesn't include accrued interest
4) The "Deposits at amortized cost received from other than credit institutions" item from the consolidated balance sheet
5) Attributable to equity holders of the bank
6) Underlying net profit for the year attributable to equity holders of the bank to the average of total asset balances at the respective year ends.
7) Underlying net profit for the year attributable to equity holders of the bank to the five point average of total shareholders' equity attributable to equity holders of the bank calculated based on the closing balances of the preceding five quarters
8) Underlying operating expenses to underlying operating income
9) As at the year end
10) According to the ČNB methodology; based on Basel II
11) Methodology in line with KBC
12) Figures according to the methodology for unique clients statistics
13) Includes ČSOB branches and PSB financial centers, i.e. without approximately 3,320 post offices
14) Includes ČSOB's and PSB's ATMs, i.e. without some 4,360 cash desks of Albert and COOP stores and ČEPRO EuroOil petrol stations

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OPENING STATEMENT BY THE CEO

Ladies and Gentlemen,

2009 was yet another year marked by many dramatic events and changes with varying degrees of both positive and negative impacts on us.

The financial crisis was the prevailing theme for 2009 in the Czech Republic, albeit with a milder impact on the financial industry than elsewhere. The Czech economy contracted as exports declined and the unemployment rate increased, resulting in lower consumption and higher savings levels by the general public. Consequently, ČSOB group also witnessed a decrease in the volumes of its corporate and SME credit portfolios, while the growth of retail credits slowed. Indeed, clients preferred to place their money in traditional savings accounts instead of investments products.

Our group results were therefore not immune to all of these market trends. ČSOB group's credit costs also increased but this was in line with its expectations. The underlying net profit attributable to equity holders of the Bank, which excludes the extraordinary items was almost CZK 10.5 bn. This result was 17% down compared to the previous year, which was in line with the market. At the same time, ČSOB group maintained a rather sound liquidity position with a loan-to-deposit ratio of 71.1% and strengthened its solvency position, as the capital adequacy ratio reached 14.98%.

The dramatic market changes have had an impact on all the players in the financial markets. ČSOB has certainly not remained unharmed but we have proved again our resilience and performance sustainability. We would like to thank our customers for their loyalty in times of the turbulent financial climate and we also would like to thank all our employees for sharing their professional skills and forces to help ČSOB protect its market position through these times. We are committed to continue to further earn clients trust.

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

General Economic and Market Indicators

The ČSOB group's business is exclusively conducted in the Czech Republic and is, therefore, influenced especially by macroeconomic trends in the country. In 2009, real GDP in the Czech Republic decreased by 4.2% compared to a 2.5% increase in 2008. The main reason for the slowdown of the Czech economy was the global financial crisis, which led to slower growth or recession in the economies of the majority of the Czech Republic's trading partners. The slower growth or recession in these countries resulted in a reduction in the Czech Republic's export and negatively affected the Czech Republic's GDP growth.

The following table sets out key Czech macroeconomic indicators for the periods indicated.

Indicator	Measurement unit	2009	2008	2007	2006	2005
Nominal GDP [1)]	CZKbn	3,627	3,689	3,535	3,222	2,984
Real GDP growth [1)]	% change, Y/Y	(4.2)	2.5	6.1	6.8	6.3
Real GDP per capita	CZKths	278.8	292.9	288.8	273.6	257.0
Real GDP growth per capita	% change, Y/Y	(4.8)	1.4	5.6	6.5	6.0
Inflation rate (CPI) [1)]	%, at year-end	1.0	3.6	5.4	1.7	2.2
Unemployment rate [1)]	%, average	6.7	4.4	5.3	7.1	7.9
General government budget balance/nominal GDP [1)]	%	(6.0) [e]	(2.7)	(0.7)	(2.6)	(3.6)
General government debt/ nominal GDP [1)]	%	35.4 [e]	30.0	29.0	29.4	29.7
Exports of goods and services	% change, Y/Y	(11.5)	0.8	14.7	14.3	9.2
Imports of goods and services	% change, Y/Y	(13.7)	0.9	12.9	14.3	4.5
Trade balance/nominal GDP	%	5.0	2.8	3.4	2.0	2.0
Interest rate (three month PRIBOR) [2)]	%, average	2.2	4.0	3.1	2.3	2.0
CZK/EUR exchange rate [2)]	average	26.4	24.9	27.8	28.3	29.8

Source:
1) Czech Statistical Office
2) Czech National Bank
e International Monetary Fund estimate

REPORT OF THE BOARD OF DIRECTORS

ČSOB group's aim is to deliver to its clients the best banking and insurance offer in the Czech Republic tailored to the needs of the Czech market. The strategy of the ČSOB group is fully aligned with KBC's strategy for the region of Central and Eastern Europe. As part of its renewed strategy, KBC decided in November 2009 to concentrate its longer-term regional presence in the Czech Republic, Slovakia, Hungary, Poland and Bulgaria. In each of these markets, KBC owns significant banking, insurance and asset management operations.

1. Highlights and Main Events

With total assets of CZK 859 billion as at 31 December 2009, and total net profit of CZK 17.4 billion in 2009, the ČSOB group is one of the three largest banking groups in the Czech Republic, which together comprise almost 60% of total assets and 67% in client deposits in the Czech banking sector. As at 31 December 2009, the ČSOB group had CZK 567 billion of customer deposits [1)] and CZK 403 billion of customer loans [2)], which comprised over 21% of client deposits and 19% of gross customer loans in the Czech banking sector according to the CNB.

- ČSOB group reported a net profit for FY 2009 of CZK 17.4 bn.
- The underlying net profit for FY 2009 reached CZK 10.5 bn (-17% Y/Y), despite the recession of the Czech economy in 2009.
- Operating income +1%, operating expenses -2%. High credit costs stemming from the economic downturn in line with expectations.
- The reported net profit was positively impacted by one-off revenue (+ CZK 6 bn net of tax) from selling the remaining share in ČSOB Slovakia to KBC and the positive revaluation of the CDO portfolio (+ CZK 0.9 bn net of tax).
- Customer deposits [1)] increased by 6% to CZK 566.6 bn and customer loans [2)] remained flat (-0.2%) at CZK 403.4 bn.
- Capital and liquidity position remains strong with capital adequacy ratio of 14.98% and loan to deposit ratio of 71.1%.

1) Deposits from other than credit institutions according to IFRS plus deposits from credit institutions less repo transactions and deposits received by pension funds.
2) Loans and receivables less recievables from banks, non-credit receivables, securities in HTM, AFS and FVPL portfolios, allowances for credit losses and accrued interest income.

Key ratios	2009 (%)	2008 (%)	Y/Y change (pp)
C/I ratio (reported)	36.0	78.8	(42.8)
C/I ratio (underlying) [1)]	45.2	46.9	(1.7)
ROAC (underlying)	34.8	47.9	(13.1)
ROAA (underlying) [2)]	1.2	1.6	(0.4)
ROAA (reported) [3)]	2.1	0.1	2.0
ROAE (underlying) [4)]	17.1	22.5	(5.4)
ROAE (reported) [5)]	27.5	1.8	25.7
NIM [6)]	3.24	3.06	0.2

1) Underlying cost/income ratio represents operating expenses before net provisions as a percentage of underlying operating income.
2) Underlying ROAA is underlying net profit for the year as a percentage of the five point average of total assets calculated based on the closing balances of the preceding five quarters
3) ROAA is net profit for the year as a percentage of the five point average of total assets calculated based on the closing balances of the preceding five quarters
4) Underlying ROAE is underlying net profit for the year as a percentage of the five point average of total shareholders' equity calculated based on the closing balances of the preceding five quarters
5) ROAE is net profit for the year as a percentage of the five point average of total shareholders' equity calculated based on the closing balances of the preceding five quarters
6) Net interest margin is net interest income as a percentage of total average interest-earning assets excluding repo-operations (representing the quarterly average closing balances for the applicable period)

	31. 12. 2009 (%)	31. 12. 2008 (%)	Y/Y change (pp)
L/D ratio	71.1	75.2	(4.1)
CAD group (Basel II)	14.98	10.31	4.67
Solvency ratio (ČSOB Pojišťovna)	264	193	71.0

Main Events of 2009

On 18 November 2009, KBC announced that it had reached an agreement with the European Commission relating to the state aid KBC had received, including an intention to make a public offering of a minority stake in ČSOB that would be listed on the Prague Stock Exchange.

On 1 June 2009, ČSOB, KBC GS and KBC GS CZ entered into the ICT Frame Agreement. The agreement provides for the general framework of transferring ČSOB's IT unit to KBC GS CZ (which included a transfer of 520 FTEs from ČSOB and ČSOB Pojišťovna), and regulates the terms and conditions for the provision of services to ČSOB. The purpose of the contract was to outsource the ICT operations from ČSOB to KBC GS in order to create synergy and leverage within KBC group, and to develop and run ICT services on a more efficient, cost effective and improved quality basis.

Events regarding ČSOB's stake in ČSOB SK:

- On 1 July 2009, Istrobanka, which had been acquired by KBC in July 2008, was merged into ČSOB SK. Following the merger, KBC's shareholding interest in ČSOB SK increased to 50.46% with the ČSOB group holding the remaining 49.54% (including the minority shareholdings of ČSOB Leasing and ČSOB Factoring of 1.66% and 1.20%, respectively).
- On 14 December 2009, as part of the KBC group's internal reorganization to improve efficiency, KBC completed the purchase of the remaining 49.54% stake in ČSOB SK from the ČSOB group (ČSOB, ČSOB Leasing CZ and ČSOB Factoring CZ) for a total consideration of EUR 484 million (CZK 12.5 billion), as a result of which the ČSOB group no longer holds any shareholding interest in ČSOB SK. The ČSOB group reported a net profit before tax of CZK 6.1 billion on the transaction (CZK 6.0 billion after tax) recorded under net realized gains on available-for-sale financial assets in the income statement.
- Additionally, in July 2009, the ČSOB group received a dividend from ČSOB SK of CZK 244 million from the 2008 profit.

Awards in 2009

In 2009, the ČSOB group received a number of awards attesting the quality of its services. The major awards include:

The ***Zlatá koruna*** contest: 7 medals in 18 categories (4 gold, 2 silver and 1 bronze).

Employer of the Year: The Most Desired Company

Specialized awards from the ***Global Finance*** magazine

- Best Trade Finance 2009
- Best Foreign Exchange Provider 2009
- Best Sub-custodian 2009
- Best Bank in Acquisition Finance 2009

Industry awards for ***ČSOB Pojišťovna***

- The Hospodarske noviny daily's Best Insurance Award: silver medal
- INI Service Excellence Award
- World Finance Global Insurance Award

Innovation Leadership

New/Innovative Services in 2009

- ČSOB: New saving account with a bonus - it combines a saving account and a time deposit.
- ČSOB, PSB and Hypoteční banka offer their clients to participate in the Zelena usporam (Green light to savings) government program to subsidize energy savings in buildings.
- In a pilot stage, ČSOB and PSB launched deposit ATMs which offer the option to deposit money in addition to withdrawals.
- Each month, ČSOB on average launches one capital protected fund and unit-linked life insurance product, e.g. ČSOB Fixovany click, ČSOB World growth Plus in the CPFs and Maximal Invest ČSOB Premium in life insurance.
- Products bought using ČSOB credit cards newly enjoy a 90-day purchase protection and a prolonged guarantee period.

Significant Enhancement/Client Comfort in 2009

- When concluding a mortgage contract in a Financial Centre, clients of PSB can obtain a statement from the Cadastre free of charge.
- The PaySec payment system launched a special gift button that allows quick donations to the handicapped.
- CashBack expanded to cashiers in COOP in the whole Czech Republic.
- Using the Fast withdrawal option, clients see the last withdrawn amount in the main menu on an ATM.
- ČSOB opened a second call centre in Nachod.

Electronic Services in 2009

- Clients of PSB can conclude insurance of ČSOB Pojišťovna online directly at PSB's website.
- An upgrade of ČSOB's and PSB's Internet banking rolled out.
- Comfortable statement: The service enables delivery bills for third party services in an electronic form directly into the Internet banking and its immediate and safe payment by Internet banking.
- Clients of PSB can easily control their household's financial situation using a web calculator of indebtedness.
- ČSOB offers e-shops a free e-commerce application for payments with Visa a MasterCard cards. The application is imbedded into the existing e-shop and can save significant costs to the e-shops.

2. Financial Results

Consolidated Income Statement

The following table sets forth consolidated income statement information for the ČSOB group for the years ended 31 December 2009 and 2008:

	2009 (CZKm)	2008 (CZKm)	Change (%)
Interest income	33,886	37,742	(10.2)
Interest expense	(10,868)	(16,477)	(34.0)
Net interest income	23,018	21,265	8.2
Fee and commission income	8,738	8,687	0.6
Fee and commission expense	(2,188)	(2,043)	7.1
Net fee and commission income	6,550	6,644	(1.4)
Dividend income	447	117	282.1
Net gains/(losses) from financial instruments at fair value through profit or loss and foreign exchange	3,374	(11,050)	N/A
Net realized gains on available-for-sale financial assets	6,340	49	12,838.8
Other net income	955	2,030	(53.0)
Operating income	40,684	19,055	113.5
Staff expenses	(6,355)	(6,686)	(5.0)
General administrative expenses	(6,973)	(6,972)	0.0
Depreciation and amortization	(1,443)	(1,457)	(1.0)
Provisions	112	101	10.9
Operating expenses	(14,659)	(15,014)	(2.4)
Impairment losses	(6,509)	(3,783)	72.1
Share of profit of associates	360	116	210.3
Profit before tax	19,876	374	5,214.4
Income tax benefit/(expense)	(2,459)	720	N/A
Profit for the year	17,417	1,094	1,491.5
Attributable to:			
Equity holders of ČSOB	17,368	1,034	1,579.7
Minority interests	49	60	(18.3)

Net Interest Income

Despite the challenging market conditions, the ČSOB group generated 8.2% higher net interest income in 2009 compared to 2008, mainly as a result of a further increase in the volume of client deposits and higher risk spreads on loans granted. The net interest margin increased from 3.06% in 2008 to 3.24% in 2009 on average interest earning assets.

The 10.2% decrease in interest income in 2009 compared to 2008 was mainly driven by the decrease in interest income from reverse repo loans with the CNB and money market deposits with other banks. These decreases were primarily driven by the decrease in interest rates in 2009, but were also supported by volume decreases.

The 1.1% year-on-year decrease in interest income from loans granted to other than credit institutions in 2009 compared to 2008 resulted from a decrease in loan interest rates, while the total amount of loans, based on the quarterly average data, increased from CZK 377.3 billion in 2008 to CZK 392.8 billion in 2009 (i.e. by 4.1%). The increase was driven by mortgages and building savings loans, which increased by CZK 18 billion and CZK 10 billion, respectively, between 31 December 2008 and 2009.

The 34.0% year-on-year decrease in interest expense was mainly driven by lower interest rates. The most significant decreases in 2009 compared to 2008 were experienced in interest expense from money market deposits, repo loans and current accounts. Interest expense from savings accounts increased, driven by higher deposit interest rates offered to the clients.

Net Fee and Commission Income

Net fees and commission income slightly decreased in 2009 compared to 2008, mainly as a result of: (i) a decrease in fees from collective investments due to reduction in mutual funds sales fees since the beginning of the financial crisis in the second half of 2008 mainly due to lower sales volumes, (ii) a gradual increase in the share of electronic payments, which are cheaper than traditional payment methods, and (iii) a decrease in payment services fees due to a general reduction in volumes of foreign payments. These decreases were partially offset by fees from undrawn credit lines and an increase of retail loan volumes (mortgages, consumer finance and building savings loans).

Other Items

Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange recorded a gain of CZK 3.4 billion in 2009, compared to a loss of CZK 11.1 billion in 2008. Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange have been significantly affected by the revaluation of CDOs. In 2008, CDOs accounted for a vast majority of the total loss of CZK 11.1 billion. In 2009, CDOs accounted for a gain of CZK 1.2 billion (before tax) out of the total gain of CZK 3.4 billion.

Net realized gains on available-for-sale financial assets totaled CZK 6.3 billion in 2009, compared to CZK 0 billion in 2008. The largest contribution was a profit of CZK 6.1 billion from the sale of ČSOB SK in December 2009.

Operating Expenses

The following table sets forth a breakdown of the components of operating expenses for the years ended 31 December 2009 and 2008.

	2009 (CZKm)	2008 (CZKm)	Change (%)
Staff expenses	(6,355)	(6,686)	(5.0)
General administrative expenses	(6,973)	(6,972)	0.0
Depreciation and amortization	(1,443)	(1,457)	(1.0)
Provisions	112	101	10.9
Total operating expenses	(14,659)	(15,014)	(2.4)

Staff expenses decreased 5.0% or CZK 331 million in 2009 compared to 2008, largely driven by: (i) a transfer of 419 ICT employees from ČSOB into KBC GS CZ in June 2009, resulting in staff expense savings of CZK 231 million in 2009, and (ii) a reduction in the number of employees. The number of the ČSOB group's employees decreased from 8,468 FTEs as at 31 December 2008 to 8,018 FTEs employees as at 31 December 2009 (both figures include the IT employees transferred to KBC GS CZ).

General administrative expenses remained largely unchanged in 2009 compared to 2008. Excluding the impact of invoicing for the outsourced ICT branch staff, general administrative expenses decreased by CZK 230 million. This was a result of measures taken at the end of 2008 addressing savings in professional fees, business travel expenses, marketing expenses and other costs related to the reduced number of employees.

Depreciation charges and provisions remained at approximately the same level in 2009 compared to 2008.

Impairment Losses

Total impairment losses in 2009 reached CZK 6,509 million, which is a year-on-year increase of 72.1%. The significant increase in impairment losses in 2009 compared to 2008 was primarily a result of the CZK 3.3 billion increase in impairment of loans and receivables. The increase mainly related to the deterioration of the leasing, SME and the corporate loan portfolio. Signs of the gradual deterioration of loan portfolio quality were also reflected in the creation of increased impairments on mortgages and building savings loans.

AFS impairments mainly related to the AFS shares portfolio in the ČSOB pension funds. Impairment losses were also recorded in ČSOB and ČSOB IS mainly due to a deterioration in the quality of financial assets.

Consolidated Balance Sheet

The following table provides an overview of key data relating to the ČSOB group as at and for the years ended 31 December 2009 and 2008.

(CZKm, except where indicated otherwise)	2009	2008
Consolidated balance sheet		
Total assets	858,972	824,485
Customer loans	403,381	404,196
Customer deposits	567,378	537,686
Shareholders' equity	68,951	55,955
Other information		
Assets under management *	148,113	156,576
Loan to deposit ratio (%)	71.1	75.2
Core tier 1 capital ratio (%)	11.9	8.9
Capital adequacy ratio (%)	15.0	10.3

** Including assets managed through pension and mutual funds, excluding deposits and off-balance sheet items*

The ČSOB group relies principally on four sources of funding consisting of: (i) deposits and other amounts owed to other than credit institutions, comprising mainly current accounts (CZK 283 billion as at 31 December 2009), term deposits (CZK 170 billion as at 31 December 2009) and building savings deposits (CZK 82 billion as at 31 December 2009), (ii) debt securities in issue (including certificates of deposit), (iii) interbank deposits and other amounts owed to credit institutions, and (iv) subordinated debt.

The ČSOB group's primary sources of funding consist of deposits and other amounts owed to customers. As at 31 December 2009, the ČSOB group had a loan-to-deposit ratio of 71.1%. As at 31 December 2009 and 2008 deposits by customers other than credit institutions totaled CZK 573.1 billion and CZK 534.7 billion, respectively, which represented approximately 70% of total liabilities.

End of period total equity does not reflect retained earnings until shareholders' approval of the audited financial statements in the following year. From December 19, 2007, until March 2, 2010, the total authorized share capital of ČSOB was CZK 5.9 billion, consisting of 5,855,000 ordinary book-entry shares in registered form with a nominal value of CZK 1,000 per share, and has been fully paid. In respect of the 2008 financial year, ČSOB paid a dividend of CZK 0.7 billion.

Regulatory Capital Adequacy

The table below sets forth the consolidated capitalization and risk weighted assets of the ČSOB group as at 31 December 2009 and 2008.

(CZKm, unless indicated otherwise)	2009	2008
Core Tier 1 capital	44,582	42,131
Tier 1 capital	44,582	42,131
Tier 2 capital	11,970	11,967
Deductible items of Tier 1 *	(695)	(6,182)
Deductible items of Tier 2 *	(695)	(6,182)
Total capital	55,162	41,734
Risk weighted assets	368,150	404,733
Total capital requirement	29,452	32,379
Tier 1 ratio (in %)	11.9	8.9
Core Tier 1 ratio (in %)	11.9	8.9
Capital adequacy ratio (in %)	15.0	10.3

** Deductible items comprise 50% of carrying value of non-consolidated financial entities as at December 31 of the respective year*

Note: End of period regulatory capital (ratios) do not reflect retained earnings until shareholders' approval of the audited financial statements in the following year

The disposal of ČSOB SK in 2009 resulted in a significant reduction of deductible items of Tier 1 and Tier 2, as participations in non-consolidated financial institutions, such as the ČSOB group's ownership interest in ČSOB SK prior to the disposal, are deducted from capital adequacy calculations.

Between 31 December 2008 and 2009, the ČSOB group's capital requirement decreased mainly in the area of credit risk requirement, due to the decrease of the outstanding loan portfolio in the corporate and SME units and a reduction of off-balance sheet capital requirements.

Consolidated Income Statement – Underlying

The ČSOB group calculates the underlying net profit attributable to equity holders of ČSOB and underlying operating profit by eliminating the impact of certain items that the management of ČSOB believes represent non-recurring items, and the results from revaluation of ALM derivatives used for hedging, from the reported IFRS net profit attributable to equity holders of ČSOB. A majority of the adjustments relate to the adverse impact of the global financial crisis on the bank's investment portfolio; management believes that the application of these adjustments provides supplemental information that more closely reflects the underlying financial performance of the ČSOB group's business and enhances the comparability of the financial information across periods.

The 2009 underlying net profit of the ČSOB group amounted to CZK 10.487 bn, i.e. 17% lower than the 2008 result. The differences between the underlying and reported profits include especially the sale of ČSOB Slovakia (CZK +6.0 bn after tax) and the positive revaluation of CDO portfolio (CZK +948 m after tax) in 2009.

The following table sets forth the underlying profit and loss report, including the lines which are behind the difference between the reported and underlying net profit attributable to to equity holders of ČSOB.

Consolidated Profit and Loss Statement – Underlying

(CZKm)	2009	2008	Change (%)
Interest income	33,886	37,742	(10)
Interest expense	(10,868)	(16,477)	(34)
Net interest income	23,018	21,265	8
Net fee and commission income	6,550	6,644	(1)
Net gains from financial instruments at FVPL*	1,204	1,889	(36)
Other operating income*	1,652	2,196	(25)
Operating income	32,424	31,994	1
Staff expenses	(6,355)	(6,686)	(5)
General administrative expenses	(6,973)	(6,972)	0
Depreciation and amortisation	(1,443)	(1,457)	(1)
Provisions	112	101	11
Operating expenses	(14,659)	(15,014)	(2)
Impairment losses*	(5,660)	(2,458)	130
Impairment of loans and receivables*	(5,363)	(2,130)	152
Impairment of available-for-sale securities*	0	(165)	(100)
Impairment of other assets*	(297)	(163)	82
Share of profit of associates*	360	211	71
Profit before tax	12,464	14,733	(15)
Income tax expense*	(1,927)	(2,057)	(6)
Profit for the period	10,537	12,676	(17)
Attributable to:			
Equity holders of the parent	10,487	12,616	(17)
Minority interest	49	60	(18)

Notes: FVPL = fair value through profit and loss
Other operating income = Net realised gains on available-for-sale fin. assets, dividend income, other net income
** Marked lines make the difference between reported and underlying figures*

3. Business Results

As at 31 December 2009, the ČSOB group had CZK 567 billion of customer deposits and CZK 403 billion of customer loans, which comprised over 21% of client deposits and 19% of gross customer loans in the Czech banking sector according to the CNB. Assets under management (including assets managed through pension and mutual funds, excluding deposits and off-balance sheet items) were CZK 148.1 billion down from CZK 156.6 billion as at the end of 2008.

ČSOB Group Market Position

2

Mortgages 1)	27.3%	↗
Factoring 2)	23.6%	↗
Leasing 2)	9.6%	↘

1

Building Loans 1)	44.1%	↗
Building Savings 1)	36.1%	↗
Mutual Funds 3)	34.2%	↗
Housing Loans 1), 5)	33.9%	↗

3

Pension Funds 4)	16.2%	↗
Corp./SME Loans 1)	13.6%	↘
Consumer Loans 1)	15.4%	↗

Insurance	MS		Rank
Life 2)	9.4%	↘	5
Non-life 2)	5.0%	↘	6
Total 2)	**6.9%**	↘	**4**

Notes: Arrows show Y/Y change. Market shares as at 31 December 2009

1) Market share according to outstanding volume at the given date
2) Market share according to volume of new business in the year to the given date
3) Inc. institutional funds and third parties funds; market share according to outstanding volume at the given date
4) Market share according to the number of clients at the given date
5) Comprise mortgages and building savings loans

Source: CNB, financial associations

Business Results by Operational Segments

Retail and SME

The retail and SME segment is the largest segment of the ČSOB group's operations. The segment focuses on deposits, lending and certain ancillary services for retail and SME customers. Retail customers are private individuals, including mass-affluent and affluent customers (private banking clients), as well as all categories of "mass" customers (targeted primarily through PSB). SME customers include small and medium-sized enterprises (with annual turnover of up to CZK 300 million), housing cooperatives and municipalities. In total, the ČSOB group has more than 4 million retail and SME customers in the Czech Republic and has a leading market position in a number of products and services provided to retail and SME customers in the Czech Republic.

The following table provides an overview of key data relating to the ČSOB group's retail and SME products as at 31 December 2009 and 2008.

(CZKm, except where indicated otherwise)	2009	2008
Customer loans – retail	153,236	134,171
Customer loans – SME	66,906	69,798
Customer loans – building savings loans	65,595	55,508
Deposits – retail and SME	387,774	355,141
Deposits – building savings	82,457	79,252
Penetration – ČSOB retail brand (number of products per customer)	4.3	4.0
Penetration – SME (number of products per customer)	4.1	3.9

The ČSOB group is one of the largest providers of mortgage loans to individuals and households in the Czech Republic through its specialized subsidiary, Hypoteční banka. As at 31 December 2009, the ČSOB group had approximately 107,000 mortgage loan customers and the average size of the ČSOB group's outstanding mortgage was CZK 1.3 million.

The following table sets forth a breakdown of the individual business loan products provided by the ČSOB group to entrepreneurs and SMEs, by type, as at 31 December 2009.

	As at 31 December 2009	
	(%)	(CZKm)
Investment loans	68	45,568
Overdrafts	19	12,475
Revolving	12	7,967
Other loans	1	896
Total	100	66,906

Corporate

The ČSOB group corporate segment focuses on providing financial services and products to domestic companies with an annual turnover in excess of CZK 300 million, local subsidiaries of international corporations, and selected institutional customers, including non-bank financial institutions, banks and central public institutions. The ČSOB group's corporate segment principally targets medium-sized or "mid-cap" corporations, and seeks to combine local market expertise and Western-style products and standards of service.

The following table sets forth ČSOB group's lending in the corporate segment, as at 31 December 2009 and 2008.

(CZKm)	2009	2008
Corporate loans – balance as at the year end	85,081	105,981
Factoring – new sales in the period	3,220	2,636

ALM and Financial Markets

The ALM and financial markets segment focuses on trading and sales activities and asset liability management.

The ALM sub-segment performs the group investment function (primarily as a result of excess liquidity position), as well as interest rate and foreign exchange risk management, funding and liquidity management and internal pricing. Within these roles, the ALM sub-segment focuses on placements of excess liquidity into fixed income instruments (mostly government and Czech mortgage bonds), keeping foreign exchange positions at a technical minimum, long-term funding and investment decisions, setting up adequate reward for loans and deposits and reflection of cost of liquidity.

The financial markets sub-segment focuses on customer-driven activities for retail and SME and corporate (including institutional) customers, while trading is a support tool for sales activities. Income generated through customers is accounted for within the retail/SME and corporate segments, while the operating income reported within the ALM and financial markets segment is generated primarily by proprietary trading.

Group Center

The group center segment consists of the ČSOB group's non-banking subsidiaries, headquarters and elimination and reconciling amounts.

Insurance

ČSOB Pojišťovna is the fifth largest life insurance company in the Czech Republic with a 9.4% market share in terms of gross written premiums for life insurance, and the sixth largest non-life insurance company in the Czech Republic with a 5.0% market share in terms of gross written premiums for non-life insurance as at 31 December 2009 (according to the Czech Insurance Association). As at 31 December 2009, ČSOB Pojišťovna had approximately 855,000 customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations. ČSOB Pojišťovna has had a rating of A- with stable outlook from Standard & Poor's since 2007.

The following table sets for the information on the gross written premiums for the individual insurance products provided by ČSOB Pojišťovna, by type, for the year ended 31 December 2009.

	2009	
	(%)	(CZKm)
Single life insurance	31	2,977
Regular life insurance	27	2,587
Car insurance	25	2,426
Industrial	11	1,020
Other	6	628
Total	100	9,638

Bancassurance

In 2009, nearly three out of four mortgages provided through ČSOB branches were linked with life insurance and more than 90% of them with property insurance.

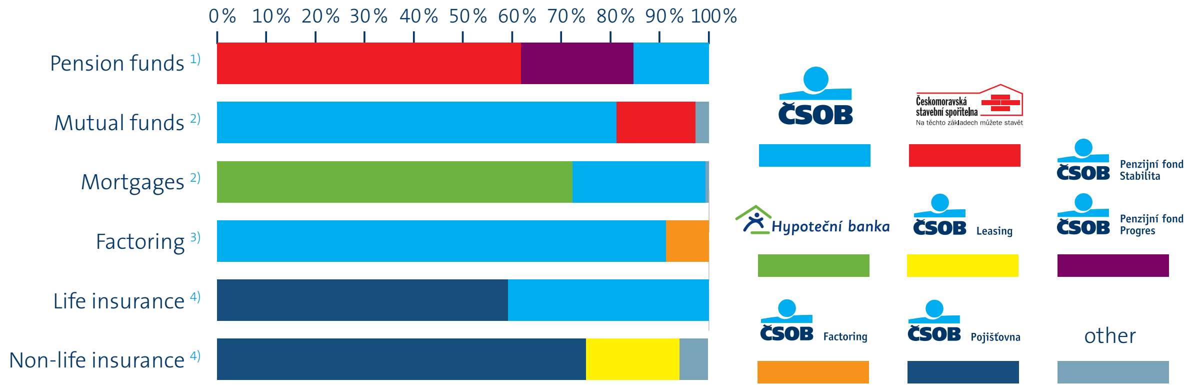
(%)	2009	2008	2007
Life insurance/ČSOB mortgages	68	69	68
Property insurance/ČSOB mortgages	91	88	75
Consumer loans insurance/ČSOB consumer loans	75	78	77

Note: Number of new contracts insured/all insurable

ČSOB Group Synergies

The concept of multibranding and multichannel distribution gives ČSOB a competitive advantage. The following chart documents the 2009 cross-selling activities within the ČSOB group. This multibranding and multichannel distribution model allows the ČSOB group to combine diversification with specialization.

New Production in 2009 – shares of distribution channels per product type:



Notes:
1) Number of new contracts
2) Gross sales
3) New turnover
4) Written premium

Company Profile

ČSOB Profile

Československá obchodní banka, a. s. is a universal bank operating in the Czech Republic. ČSOB was established by the state in 1964 as a bank to provide foreign trade financing and convertible currency operations. It was privatized in 1999 when KBC Bank, a member of the Belgian KBC group, became the majority owner. ČSOB took over Investiční a Poštovní banka (IPB) in 2000. After the buyout of minority shareholders in 2007, KBC Bank became the sole shareholder of ČSOB. ČSOB was active in both Czech and Slovak markets until 2007; the Slovak branch was separated as at 1 January 2008. In December 2009, ČSOB sold the remaining interest in the Slovak activities to KBC Bank.

ČSOB is operating under two retail brands in the Czech Republic – ČSOB and Poštovní spořitelna (Postal Savings Bank – PSB). Clients are served via ČSOB branches, PSB's Financial Centers and post offices of the Czech Post. In addition to its own products, ČSOB is distributing products and services of the whole ČSOB group. Services under the ČSOB and PSB brands are also distributed through the entire ČSOB group and through various direct-banking channels.

Since KBC became ČSOB's owner in 1999, the integration of the both groups has been deepening, allowing for business synergies, such as client distribution channels, integration of systems, transfer of expertise and product innovation. The integration steps also included the transition to IFRS and the application of KBC policies in the area of management reporting, risk management and internal audit. One of the most significant integration elements is the provision of ICT services to the ČSOB group through a common centrally managed ICT system within the KBC Group, which was implemented in 2009.

The ČSOB group is a leading financial services provider in the Czech Republic. ČSOB is a universal bank offering to its customers a wide range of banking products and services, including the products and services of the entire ČSOB group. The ČSOB group's product portfolio includes financing housing needs (mortgages and building savings loans), insurance and pension fund products, collective investment products and asset management and specialized services (leasing and factoring). The ČSOB group conducts its operations in the Czech Republic through a number of subsidiaries, and operates through four leading brands, namely ČSOB, PSB, Hypoteční banka, and ČMSS. ČSOB provides its services to all groups of customers, i.e. retail as well as SME, corporate and institutional clients. The ČSOB group's operations are divided into the following segments: retail and SME; corporate; ALM and financial markets; and group center.

ČSOB Group in Figures

(as at 31 December 2009)

Employees (FTE) [1]	8 018
Customers	>4 million
Users of direct banking (the Bank)	2,083 ths
Payments cards (the Bank)	2 million
Branches	590
– ČSOB retail/SME branches	237
– ČSOB corporate branches	11
– PSB – financial centers	52
– Others [2]	290
PSB – outlets of Czech Post Offices	cca 3 320
ATMs [3]	734

Notes:
1) FTE, including employees who were transferred to KBC Global Services Czech Branch in June 2009
2) Including branches of Hypoteční banka, ČMSS, ČSOB Leasing CZ a ČSOB Pojišťovna
3) Plus cash desks (CashBack) of Albert and COOP stores and ČEPRO EuroOil petrol stations

With total assets of CZK 859 bn as at 31 December 2009 and total net profit of CZK 17.4 bn in 2009, the ČSOB group is one of the top three banking groups in the Czech Republic. As at 31 December 2009, the ČSOB group had CZK 567 bn of customer deposits and CZK 403 bn of customer loans, which comprised over 21% of client deposits and 19% of gross customer loans in the Czech banking sector according to the CNB.

KBC Group Profile

ČSOB is a wholly-owned subsidiary of KBC Bank NV. The sole shareholder of KBC Bank is KBC Group NV, which was formed in early 2005 as a result of the merger of the KBC Bank and Insurance Holding Company and its parent company, Almanij.

The KBC Group is a multi-channel bancassurance group with a traditionally strong market share position in Belgium and a significant financial market position in Central and Eastern Europe. The KBC group caters mainly for retail customers, SMEs and private banking clientele but is also active in corporate banking and financial market activities. The KBC group occupies leading positions on its home markets – of Belgium, the Czech Republic, Slovakia, Hungary, Poland and Bulgaria – and operates in other countries and regions around the world.

KBC Group's Shareholders

(as at 31 December 2009)

Shareholder	(%)
KBC Ancora	23
Cera	7
MRBB (a farmers' association)	12
Other core shareholders	11
KBC group companies	5
Free float	42
Total	100

Source: www.kbc.com

KBC Group is controlled by a syndicate of core shareholders. Shares are traded on NYSE Euronext exchange in Brussels.

KBC Group in Figures

(as at 31 December 2009)

Total assets	EURbn	324.2
Net profit	EURbn	(2.5)
Net profit excluding direct impact from financial crisis and other exceptional items	EURbn	1.7
Tier 1 ratio, group (Basel II)	%	10.8
Headcount	FTEs	54,185

For more information please refer to the KBC's corporate website www.kbc.com – to the 2009 Annual Report of KBC

Long-term Ratings

(as at 31 December 2009)

Long-term ratings	Fitch	Moody's	S & P
KBC Bank	A	Aa3	A
KBC Insurance	A	-	A
KBC Group	A	A1	A-

For more information please refer to the KBC's corporate website www.kbc.com.

ČSOB as a Controlled and Controlling Entity

Within the KBC group and the ČSOB group, ČSOB acts as both controlled entity and controlling entity as defined in the Commission Regulation (EC) No 809/2004.

ČSOB is a **controlled entity**. KBC Bank NV (identification number 90029371) is the sole shareholder of ČSOB. KBC Group NV (identification number 90031317) is the sole shareholder of KBC Bank. Both KBC Group and KBC Bank have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

KBC Group and KBC Bank control ČSOB as they dispose with 100% of votes, based on the KBC Bank's ownership interest in ČSOB. The Bank meticulously follows the legislation applicable on the territory of the Czech Republic to prevent any abuse of this control. ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January 2009 and 31 December 2009.

Information about the KBC group operations in the Czech Republic as at 31 December 2009 is available on pages 20 of this Annual Report.

For a detailed overview of companies of the KBC group please refer to pages 140 – 141 of the 2009 Annual Report of KBC.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2009 as defined by Section 66a of the Commercial Code please refer to chapter Companies of the ČSOB group; the chart of their relations is available on pages 34 – 36 of this Annual Report.

ČSOB is not dependent on other entities in the concern, into which ČSOB belongs.

Information about KBC Group

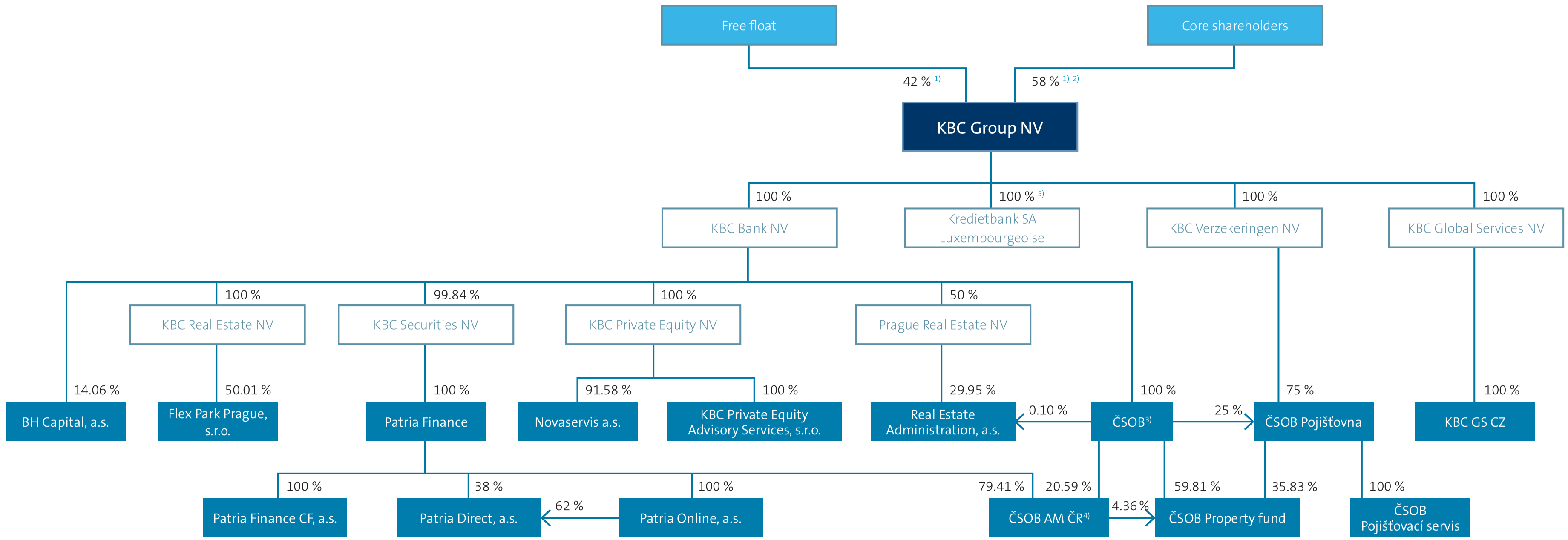
Companies with a Direct Ownership Interest Held by KBC Group

(as at 31 December 2009)

		% in registered capital	
	Country	Direct	Indirect
Fidabel NV	BE	99.20	0.80
Gebema NV	BE	100.00	0
KBC Asset Management NV	BE	48.14	51.86
KBC Bank NV	BE	100.00	0
KBC Global Sevices NV	BE	100.00	0
KBC Verzekeringen NV [1)]	BE	100.00	0
Kredietbank SA Luxembourgeoise [2)]	LUX	92.46	7.54
Kredietcorp SA	LUX	99.99	0.01
Valuesource NV	BE	99.99	0.01

1) i.e. KBC Insurance
2) i.e. KBL European Private Bankers

Companies of KBC Group in the Czech Republic as at 31 December 2009



Notes:
Percentages in the chart denote the ownership interest
Of the KBC group companies with residence outside the Czech Republic, the scheme contains the main subsidiaries of KBC group and companies with a direct or indirect participation in one of the Czech companies
1) Source: www.kbc.com
2) Including 5% of shares owned by KBC group companies
3) Scheme of companies controlled by ČSOB as at 31 December 2009 is part of the chapter Companies of the ČSOB group
4) Voting rights in ČSOB AM CZ are distributed as follows: ČSOB 52.94%, Patria Finance 20.59% and KBC Asset Management NV 26.47% Shares in registered capital and voting rights in ČSOB AM CZ of KBC Asset Management NV and Patria Finance were transfered to KBC Renta Conseil Holding SA as at 1 February 2010
5) Includes both direct and indirect ownership interest

Corporate Social Responsibility

Corporate social responsibility is one of the cornerstones of the ČSOB group's philosophy and it is part and parcel of its business.

ČSOB feels responsible not only for the assets under management but also for the society in which it conducts its business. Our clients, consumers, environment and employees are important partners for us and, therefore, social responsibility is considered a long-term investment in a sustainable future and **indicates our way of thinking and acting and ČSOB's overall approach to business**.

2009 was a year of success. ČSOB was **honoured with VIA Bona**, an esteemed award, for its support to education and expansion of financial literacy in the Czech society, the "Helping Together" volunteering program for employees, the "ČSOB and PSB Support Regions" program focused on the improvement of life in regions through support provided to small non-governmental organizations and other philanthropic activities.

What We Bring to Our Customers

Knowing that our customers play a key role for the ČSOB group, our trained advisers provide them with impartial and accurate information at points of sales. The quality of the branch and adviser network is ensured through a comprehensive training and satisfaction survey system. **The ČSOB group also strictly observes business ethic principles and always approaches financing in a responsible manner.**

The public was given an opportunity to join ČSOB in its support to philanthropic projects carried out by non-governmental organizations, particularly by voting in the Public's Award, within the nation-wide "ČSOB and PSB Support Regions" program. As a new initiative, citizens of small municipalities up to 2 thousand inhabitants could nominate their mayors in the first "Mayor of the Year" contest by PSB.

Our Employees Are Crucial

Our employees form a backbone of the ČSOB group's activities and the employee care program is one of the most significant parts of our corporate social responsibility. Therefore, the group creates an environment where our employees can feel comfortable when carrying out their work duties and otherwise. In each selection process and existing employee evaluation every individual receives due respect regardless of gender, race, faith or belief.

ČSOB group offers good work conditions to parents to aid the work-life balance, including part-time work, flexible working hours, etc. This is complemented by the recently implemented Mothers and Fathers' Program. Moreover, a wide range of education and training courses is available to all employees who can choose according their specialization and needs.

We Care for the Environment

The ČSOB headquarters are based in an **ecological building in Radlice**, Prague. In 2008, this was the only building in Europe to receive a golden certificate in the internationally acknowledged Leadership in Energy and Environmental Design (LEED) and other awards. In its approving process ČSOB has integrated the Equator Principles issued by the World Bank under which the banking sector determines, evaluates and manages social and environmental risks in project financing. Moreover, the group funds renewable resource projects. Its support to environmental issues is also reflected in its philanthropic projects.

Our Community

Support to education, namely **financial literacy**, integration of the physically and socially disadvantaged and Internet security became priorities of our philanthropy support. The "ČSOB and PSB Support Regions" program and the "Helping Together" volunteering program are considered of equal importance.

More than ten years of **co-operation with the Education Fund, Committee of Good Will – The Olga Havlová Foundation**, make this project a tradition. In the course of the time, ČSOB has granted more than CZK 12 million to physically and socially disadvantaged students. In 2009, ČSOB engaged its employees in the Education Fund as patrons of health impaired students. ČSOB enhanced its unique **co-operation with Ergotep**, a co-op associating persons with disabilities. The co-op ensures production and distribution of marketing materials for PSB and processes some banking operations in its new administration centre.

The financial literacy program is now successfully in progress to offer independent and specialized consultancy rendered together with the Association of Civil Advice Centres and cover personal finance, debt trap and basic finance. ČSOB succeeded in supporting and implementing additional philanthropic projects targeting enhancement of financial literacy of the Czech public, and children in particular. Teaming with other significant players in the Czech financial sector, ČSOB financially supports operations and further expansion of "Counselling in Stringency", a debt advisory centre where experts advise people on prudent indebtedness and help them cope with problems in case of overindebtedness.

The third year of the **"ČSOB and Poštovní spořitelna Support Regions"** program effectively covered all regions of the Czech Republic and ČSOB launched several new initiatives. Three big investment grants supporting environmental protection and landscape restoration were granted for the first time, and the PSB "Mayor of the Year" was awarded for the first time in the history.

2009 was the second year of our **"Helping Together" volunteering program**. An amount of CZK 1 million was granted to philanthropic activities of our employees who help in the non-profit sector in their free time. ČSOB's employees were also given an opportunity to take part in the Volunteering Days and, by doing that, have a look in the non-profit world. This year, our managers used Volunteering Days as a good chance for team building. ČSOB organized even more volunteering activities, for example the Christmas markets to offer products from sheltered workshops and fair-trade products, a benefit tournament in indoor football to support the Sue Ryder Home, collection of used clothing, fundraising collections for Kapka naděje, Centrum Paraple and Cystic Fibrosis Club, charity autograph session with actors from the Dejvické Theatre etc.

ČSOB Group

The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bancassurance KBC group which is active in Belgium and the CEE region.

As at 31 December 2009, ČSOB had ownership interests in 40 legal entities and, in addition to ČSOB, other 28 companies were included in the group of consolidated companies.

The ČSOB group offers its clients in the Czech Republic the following types of services:

– Banking services

– Building savings and mortgages

– Pension funds

– Leasing

– Factoring

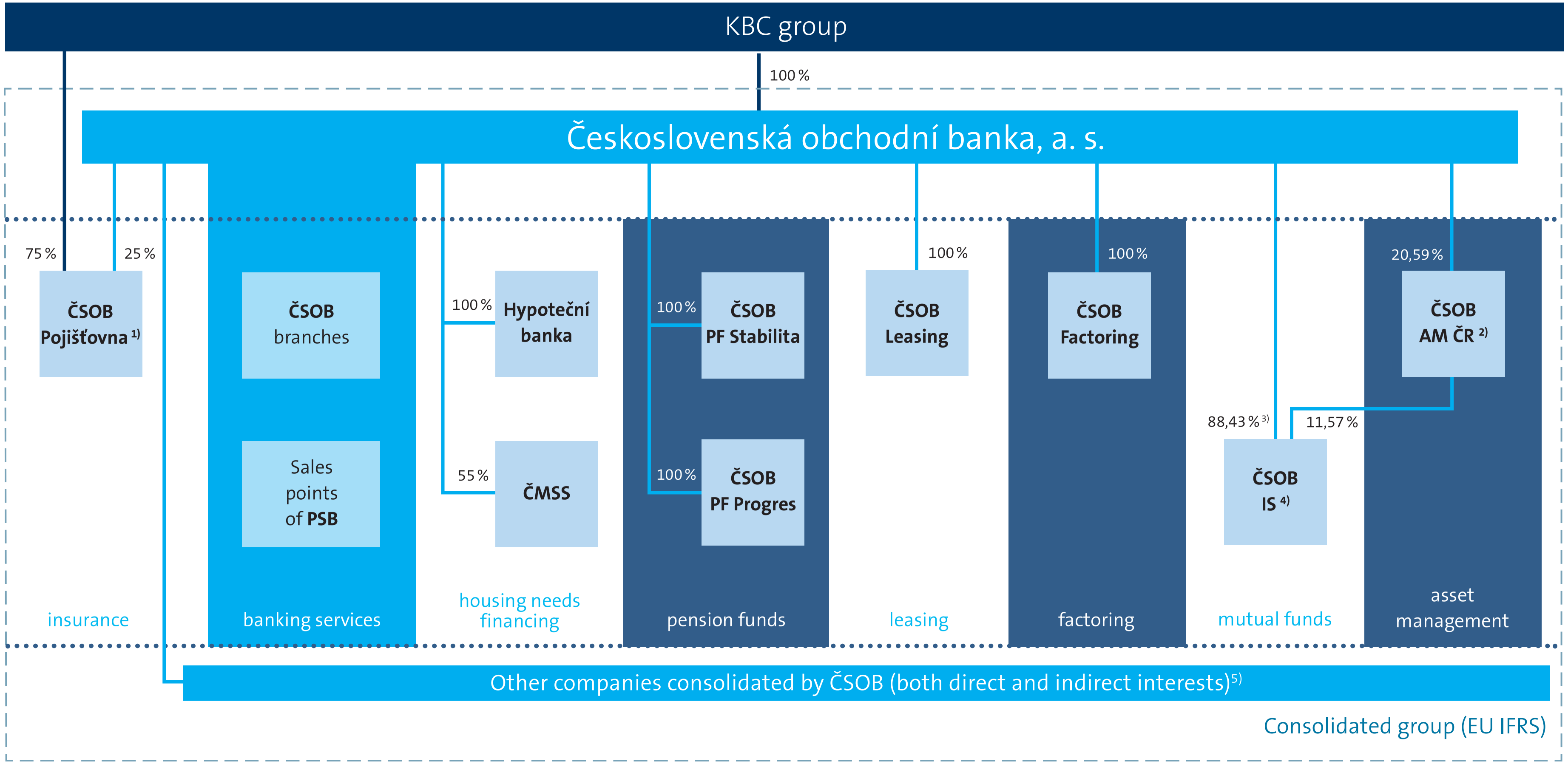
– Asset management

– Mutual funds

– Securities brokerage

– Insurance

Key Companies of the ČSOB Group



Percentages show ownership interests as at 31 December 2009

Notes:

1) Voting rights: ČSOB 40%, KBC group 60%

2) Share in registered capital: Patria Finance 79.41%; voting rights: ČSOB 52.94%, KBC Asset Management 26.47%, Patria Finance 20.59%; The shares of KBC Asset Management and Patria Finance in registered capital and voting rights were transfered to KBC Renta Conseil Holding SA as at 1 February 2010

3) Direct (73.15%) and indirect (15.28% via subsidiary Auxilium) share on company's registered capital

4) Voting rights: ČSOB Asset Management 84.72%, ČSOB 15.28% (via subsidiary Auxilium)

5) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2009

Hypoteční banka, a.s.

Date of establishment:	10. 1. 1991
Business activities:	Provision of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Share capital as at 31. 12. 2009:	CZK 5,076,331 ths
Shareholders as at 31. 12. 2009: *% of registered capital / % of voting rights*	100% Československá obchodní banka, a. s.

Key Indicators

		2009	2008
Volume of receivables from clients	CZKm	136,760	119,813
Market share in the Czech Republic (by volume of newly approved mortgage loans for citizens according to MMR's methodology)*	%	36	33

** Source: Ministry for Regional Development (MMR)*

Hypoteční banka focuses exclusively on providing mortgage loans. Hypoteční banka has the most extensive portfolio of products and services in the Czech market and offers all possibilities for housing financing, including mortgage insurance. Hypoteční banka uses an individual approach to all its clients and offers them tailored solutions; its services are distributed via a network of own mortgage advisors. It is the largest issuer of mortgage bonds in the Czech Republic.

Hypoteční banka offers mortgages not only via its distribution network (26 branches, points of advice and a wide network of third-party mortgage advisors across the entire Czech Republic) but also prepares mortgage products for the ČSOB group, incl. ČMSS, and other partners.

Hypoteční banka, the number one in mortgages among Czech banks, won the category Mortgage of the Year in the Bank of the Year 2009 contest. This is not the only success of Hypoteční banka in 2009. The www.hypotecnibanka.cz site was awarded as the best site in the Finance category of the WebTop 100 contest. In the Zlatá koruna contest, Hypoteční banka won the silver medal in the Mortgage category and the bronze medal in the Innovation category.

Hypoteční banka is a fully consolidated subsidiary of ČSOB.

Contact

Address:	Radlická 333/150, 150 57 Praha 5
Telephone:	+420 224 116 515
Fax:	+420 224 119 722
E-mail:	info@hypotecnibanka.cz
Internet:	www.hypotecnibanka.cz

Českomoravská stavební spořitelna, a.s.

Date of establishment:	26. 6. 1993
Business activities:	Building savings and loans
Identification number:	49241397
Share capital as at 31. 12. 2009:	CZK 1,500,000 ths
Shareholders as at 31. 12. 2009:	55% Československá obchodní banka, a. s.
% in registered capital / % in voting rights	45% Bausparkasse Schwäbisch Hall AG

Key Indicators *

		2009	2008
Loans and bridging loans	CZKm	118,478	100,423
Volume of client deposits	CZKm	150,796	145,133
Market share (by volume of target amounts of newly concluded contracts) **	%	48.2	45.8

** Based on internal management reporting system*
*** Source: expert estimates*

ČMSS is a leading provider of financial services in the Czech Republic. ČMSS's product portfolio comprises deposits, housing loans, pension products and elementary banking services. In 2009, ČMSS has intermediated more than 514,000 contracts in all product groups.

The key to ČMSS's success is an attractive product offer, high-quality client service and efficient, wide and mobile distribution network. Over 2,900 financial advisors of ČMSS are the cornerstone as well as the most productive part of the distribution network.

ČSOB holds a 55% share in ČMSS, while Bausparkasse Schwäbisch Hall AG holds the remaining 45%. Due to the set-up of voting thresholds required for adopting a resolution on the shareholder level, ČMSS is a joint venture undertaking of ČSOB and Bausparkasse Schwäbisch Hall AG.

ČMSS is accounted for using the proportional consolidation method in the ČSOB group's consolidated financial statements.

Contact

Address:	Vinohradská 3218/169, 100 17 Praha 10
Telephone:	+420 225 221 111
Fax:	+420 225 225 999
E-mail:	info@cmss.cz
Internet:	www.cmss.cz

ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group

Penzijní fond Stabilita

Date of establishment:	26. 10. 1994
Business activities:	Supplementary pension insurance with state contribution
Identification number:	61859265
Share capital as at 31. 12. 2009:	CZK 297,167 ths
Shareholders as at 31.12. 2009:	100% Československá obchodní banka, a. s.
% of registered capital / % of voting rights	

Key Indicators

		2009	2008
Funds registered in favour of participants	CZKm	16,697	15,775
– of which contributions of participants	CZKm	13,094	12,221
Market share in the Czech Republic (by the number of participants) *	%	9.5	9.5

** Source: The Association of Pension Funds of the Czech republic (APF ČR)*

ČSOB PF Stabilita provides supplementary pension insurance with state contributions and maintains a conservative investment strategy based mainly on investments to fixed income securities. ČSOB PF Stabilita had approximately 427,000 clients as at 31 December 2009. As at 31 December 2009, the total assets under management of ČSOB PF Stabilita amounted to CZK 16,697 million.

The ČSOB group offers its customers various financial products, i.e. voluntary pension funds, which benefit from support by the Czech state, including direct state contributions and tax relief granted to pension fund customers. The pension funds are distributed through the ČSOB group, mostly by ČMSS agents.

ČSOB PF Stabilita is a fully consolidated subsidiary of ČSOB.

Contact

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Telephone:	+420 224 116 767
Fax:	+420 224 119 536
E-mail:	csobpfstabilita@csob.cz
Internet:	www.csobpf.cz

ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group

Date of establishment:	14. 2. 1995
Business activities:	Supplementary pension insurance with state contribution
Identification number:	60917776
Share capital as at 31. 12. 2009:	CZK 320,000 ths
Shareholders as at 31.12. 2009:	100% Československá obchodní banka, a. s.
% of registered capital / % of voting rights	

Key Indicators

		2009	2008
Funds registered in favour of participants	CZKm	8,128	6,950
– of which contributions of participants	CZKm	6,563	5,588
Market share in the Czech Republic (by the number of participants)*	%	6.6	6.2

** Source: The Association of Pension Funds of the Czech republic (APF ČR)*

ČSOB PF Progres provides supplementary pension insurance with state contributions. ČSOB PF Progres had approximately 300,000 clients as at 31 December 2009. As at 31 December 2009, the total assets under management of ČSOB PF Progres amounted to CZK 8,128 million.

The ČSOB group offers its customers various financial products, i.e. voluntary pension funds, which benefit from support by the Czech state, including direct state contributions and tax relief granted to pension fund customers. The pension funds are distributed through the ČSOB group, mostly by ČMSS agents.

ČSOB PF Progres is a fully consolidated subsidiary of ČSOB.

Contact

Address:	Radlická 333/150, 150 57 Prague 5
Telephone:	+420 224 116 766
Fax:	+420 224 119 541
E-mail:	csobpfprogres@csob.cz
Internet:	www.csobpf.cz

ČSOB Leasing, a.s.

Date of establishment:	31. 10. 1995
Business activities:	Financial services (financial leasing, operating leasing and loans)
Identification number:	63998980
Share capital as at 31. 12. 2009:	CZK 3,050,00 ths
Shareholders as at 31. 12. 2009:	100% Československá obchodní banka, a. s.
% of registered capital / % of voting rights	

Key Indicators

		2009	2008
Volume of new leasing business in the Czech Republic	CZKm	9,241	22,070
Market share in the Czech Republic measured by the volume of new busines*	%	9.64	14.43

** Source: Czech Leasing and Financial Association (ČLFA); total market consists of leasing real estate market and a relevant market of hire purchase and consumer loans*

ČSOB Leasing CZ provides financing for all types of cars, motorcycles, machinery, equipment and information technology. ČSOB Leasing CZ provides individual and corporate clients with a complete range of financial products, including financial leasing, loans and operating leasing.

The ČSOB group provides its customers with leasing of motor vehicles, machinery and equipment, technology and ICT, and the key products include financial leases, operating leases and loans. Leasing products are mainly distributed through third-party dealerships, ČSOB Leasing CZ branches and sales offices and ČSOB branches.

ČSOB Leasing CZ is a fully consolidated subsidiary of ČSOB.

Contact

Address:	Na Pankráci 310/60, 140 00 Praha 4
Telephone:	+420 222 012 111
Fax:	+420 271 128 027
E-mail:	info@csobleasing.cz
Internet:	www.csobleasing.cz

ČSOB Factoring, a.s.

ČSOB Factoring

Date of establishment:	16. 7. 1992
Business activities:	Factoring
Identification number:	45794278
Share capital as at 31. 12. 2009:	CZK 70,800 ths
Shareholders as at 31. 12. 2009:	100% Československá obchodní banka, a. s.
% of registered capital / % of voting rights	

Key Indicators

		2009	2008
Turnover of receivables	CZKbn	23.6	28.6
Market share in the Czech Republic by turnover of factoring receivables*	%	23.6	21.4

Source: Association of Factoring Companies of the Czech Republic (AFS ČR)

ČSOB Factoring CZ provides complex factoring services, incl. financing, administration, collection and assumption of default risk for trade receivables. ČSOB Factoring CZ is one of the founding members of the Czech Association of Factoring Companies (AFS ČR) and is a member of Czech Leasing and Financial Association (ČLFA).

ČSOB Factoring CZ is a fully consolidated subsidiary of ČSOB.

Contact

Address:	Benešovská 2538/40, 101 00 Praha 10
Telephone:	+420 267 184 805
Fax:	+420 267 184 822
E-mail:	info@csobfactoring.cz
Internet:	www.csobfactoring.cz

ČSOB Asset Management, a.s., a member of the ČSOB group

Date of establishment:	31. 12. 1995
Business activities:	Management of clients' assets
Identification numbers:	63999463
Shareholders capital as at 31. 12. 2009:	CZK 34,000 ths
Shareholders as at 31. 12. 2009:	
% in registered capital	79.41% Patria Finance, a.s. 20.59% Československá obchodní banka, a. s.
% in voting rights	20.59% Patria Finance, a.s. 52.94% Československá obchodní banka, a. s. 26.47% KBC Asset Management NV

Key Indicators

		2009	2008
Assets under management*	CZKbn	116	107

** Volume of assets according to methodology of Czech Capital Market Association (AKAT), i.e. incl. institutions, private individuals, foreign funds and since 2009 Czech mutual funds*

ČSOB AM CZ provides its clients with the investment service of management of securities and belongs among the leading companies in the market. Clients of the company include insurance companies; pension funds; municipalities; trading, production and energy companies; trade unions; foundations and other non-profit organizations, as well as private individuals.

Asset management related to KBC group's and ČSOB IS's mutual funds is an additional important activity of ČSOB AM CZ.

ČSOB AM CZ is accounted for using the full consolidation method.

Contact

Address:	Radlická 333/150, 150 57 Prague 5
Telephone:	+420 224 116 702
Fax:	+420 224 119 548
E-mail:	csobam@csob.cz
Internet:	www.csobam.cz

ČSOB Investiční společnost, a.s., a member of the ČSOB group

Investiční společnost

Date of establishment:	3. 7. 1998 (transformed from O.B. INVEST, investiční společnost, spol. s r.o.)
Business activities:	Collective investment
Identification number:	25677888
Share capital as at 31. 12. 2009:	CZK 216,000 ths
Shareholders as at 31. 12. 2009:	
% in registered capital	73.15% Československá obchodní banka, a. s. 15.28% Auxilium, a.s. 11.57% ČSOB Asset Management, a.s., a member of the ČSOB group
% in voting rights	84.72% ČSOB Asset Management, a.s., a member of the ČSOB group 15.28% Auxilium, a.s.

Key Indicators

		2009	2008
Volume of assets under management*	CZKbn	8.6	8.3
Volume of assets in foreign funds**	CZKbn	72.8	75.8

** Incl. local (Czech) mutuals funds offered by ČSOB IS*
*** Incl. assets of foreign funds distributed by the ČSOB group in the Czech Republic*

ČSOB IS is an important collective investment company which participates in preparing of products for the entire ČSOB group. Distribution of KBC group's mutual funds in the Czech Republic is an additional important activity of ČSOB IS which further strengthens the synergy within the entire KBC group

ČSOB IS offers the services to clients via ČSOB and PSB branches and ČMSS agents.

ČSOB IS is accounted for using the full consolidation method.

Contact

Address:	Radlická 333/150, 150 57 Prague 5
Telephone:	+420 224 116 702
Fax:	+420 224 119 548
E-mail:	investice@csob.cz
Internet:	www.csobinvest.cz

ČSOB Pojišťovna, a. s., a member of the ČSOB holding

Date of establishment: 17. 4. 1992

Business activities: Life and non-life insurance for individuals and companies

Identification number: 45534306

Share capital as at 31. 12. 2009: CZK 1,536,400 ths

Shareholders as at 31. 12. 2009:

% in registered capital
75% KBC Verzekeringen NV
25% Československá obchodní banka, a. s.

% in voting rights
60% KBC Verzekeringen NV
40% Československá obchodní banka, a. s.

Key Indicators

		2009	2008
Volume of written premium	CZKm	9,638	9,485
Market share in the non-life insurance market*	%	5.0	5.1
Market share in the life insurance market*	%	9.4	9.6

** Source: Czech Insurance Association (ČAP)*

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance for individuals and companies. As at 31 December 2009, ČSOB Pojišťovna had approximately 855,000 customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations. Insurance products are mainly distributed through tied agents, brokers and ČSOB group's branches.

ČSOB Pojišťovna has had a rating of A- with stable outlook from Standard & Poor's since 2007.

ČSOB Pojišťovna won several major awards in 2009. In the Autumn, the World Finance magazine granted the Global Insurance Award to ČSOB Pojišťovna, based on an analysis of its product portfolio and financial health. The quality of ČSOB Pojišťovna's services was proved by the silver medal in the Hospodarske noviny daily's Best Insurance Award. In May, ČSOB Pojišťovna again won the Service Excellence Award from the International Network of Insurance – a hallmark of the best services among member insurers in a given country.

ČSOB Pojišťovna is accounted for using the equity method in the ČSOB group's consolidated financial statements.

Contact

Address:	Masarykovo nám. 1458, 532 18 Pardubice, Zelené předměstí
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Fax:	+420 467 007 444
E-mail:	info@csobpoj.cz
Internet:	www.csobpoj.cz

Companies of the ČSOB Group

(as at 31 December 2009)

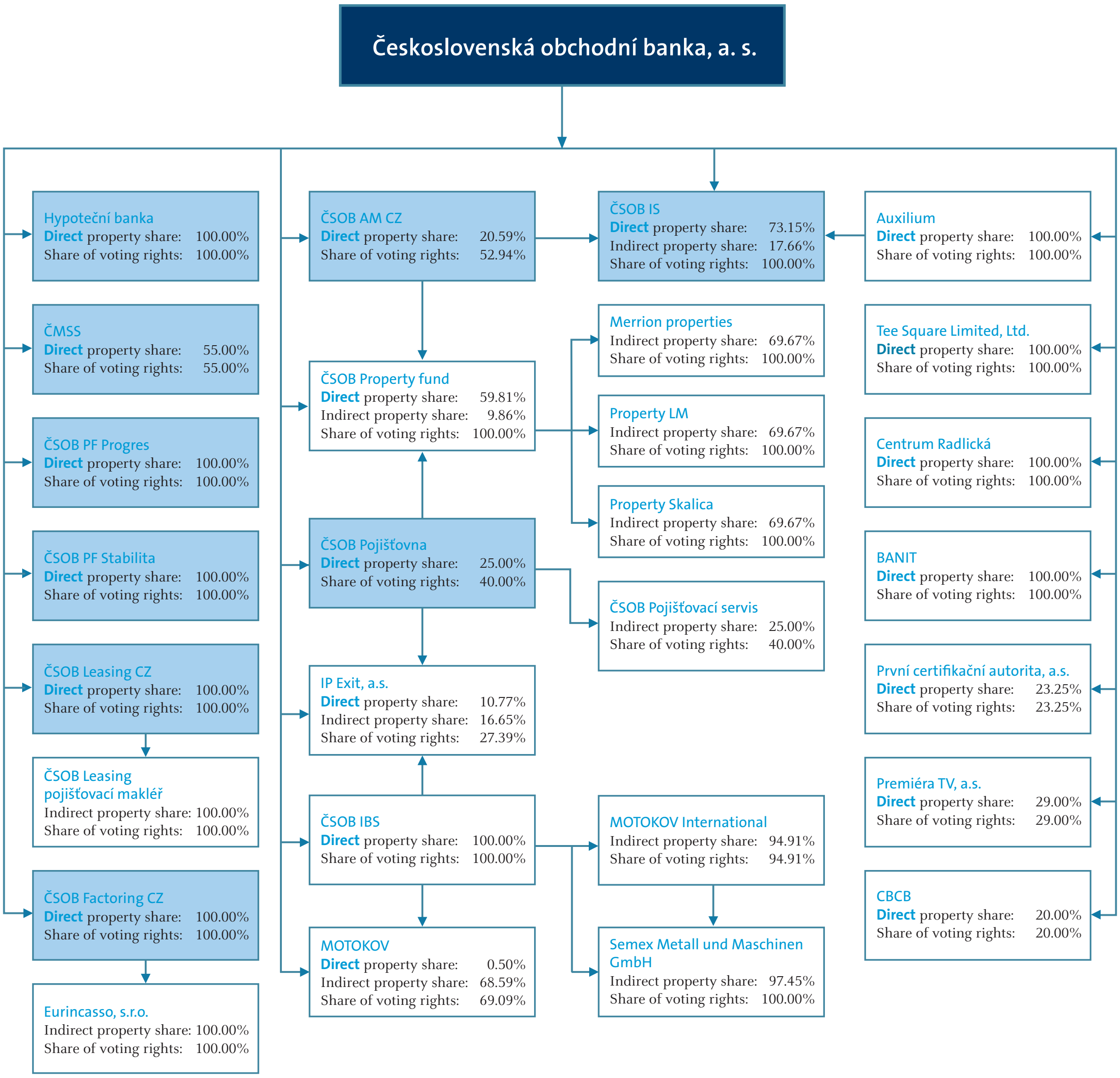
Legal entity				Total direct or indirect share of ČSOB in:		Cons. EU IFRS [1]
ID No.	Business name of legal entity / Business activities	Registered office	Registered capital (CZK)	Registered capital (%)	Voting rights (%)	Y/N
Controlled companies						
25636855	Auxilium, a.s. Advisory services	Praha 5, Radlická 333/150	1,000,000,000	100.00	100.00	Y
63987686	Bankovní informační technologie, s.r.o. Automated data processing and software development; creation of a network of payment card reading terminals	Praha 5, Radlická 333/150	20,000,000	100.00	100.00	Y
26760401	Centrum Radlická a.s. Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	500,000,000	100.00	100.00	Y
63999463	ČSOB Asset Management, a.s., a member of the ČSOB group Securities trader	Praha 5, Radlická 333/150	34,000,000	20.59	52.94	Y
45794278	ČSOB Factoring, a.s. Factoring	Praha 10, Benešovská 2538/40	70,800,000	100.00	100.00	Y
25677888	ČSOB Investiční společnost, a.s., a member of the ČSOB group Management of investmenst and mutual funds	Praha 5, Radlická 333/150	216,000,000	90.81	100.00	Y
27081907	ČSOB Investment Banking Services, a.s., a member of the ČSOB group Activity of entrepreneurial, financial, economic and organisation advisors	Praha 5, Radlická 333/150	2,000,000,000	100.00	100.00	Y
63998980	ČSOB Leasing, a.s. Leasing	Praha 4, Na Pankráci 310/60	3,050,000,000	100.00	100.00	Y
27151221	ČSOB Leasing pojišťovací makléř, s.r.o. Insurance broker	Praha 4, Na Pankráci 60/310	2,000,000	100.00	100.00	Y
60917776	ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group Pension insurance	Praha 5, Radlická 333/150	320,000,000	100.00	100.00	Y
61859265	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group Pension insurance	Praha 5, Radlická 333/150	297,167,000	100.00	100.00	Y
27924068	ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group Collective investment	Praha 5, Radlická 333/150	1,424,000,000	69.67	100.00	Y
61251950	Eurincasso, s.r.o. Activity of economic and organisation advisors; recovery of receivables	Praha 10, Benešovská 2538/40	1,000,000	100.00	100.00	Y
13584324	Hypoteční banka a.s. Mortgage banking	Praha 5, Radlická 333/150	5,076,331,000	100.00	100.00	Y
25617184	Merrion Properties, s.r.o. Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	6,570,000	69.67	100.00	Y
00000949	MOTOKOV a.s., in liquidation Wholesale of machines and technical equipment	Praha 8, Thámova 181/20	62,000,000	69.09	69.09	Y
00548219	MOTOKOV International a.s., in liquidation Other financial intermediary activity	Praha 8, Thámova 181/20	2,150,000	94.91	94.91	Y
36859516	Property LM, s.r.o. Real estate activity; rent of flats and non-residential spaces	Bratislava, Mostová 2, Slovak Republic	132,325	69.67	100.00	Y

Legal entity				Total direct or indirect share of ČSOB in:		Cons. EU IFRS [1]
ID No.	Business name of legal entity / Business activities	Registered office	Registered capital (CZK)	Registered capital (%)	Voting rights (%)	Y/N
Controlled companies						
36859541	Property Skalica, s.r.o. Real estate activity; rent of flats and non-residential spaces	Bratislava, Mostová 2, Slovak Republic	49,330,760	69.67	100.00	Y
9999999 [2]	Semex Metall und Maschinen GmbH No activity (in liquidation)	Dr. Georg Schäfer Strasse 17, 93437 Furth im Wald, SRN	0	97.45	100.00	Y
9999999 [2]	Tee Square Limited, Ltd. Advisory services for investment funds in the Caribbean area	British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986	7,532,790	100.00	100.00	Y
Joint venture						
49241397	Českomoravská stavební spořitelna, a.s. Building savings bank	Praha 10, Vinohradská 3218/169	1,500,000,000	55.00	55.00	Y
Others						
26199696	CBCB – Czech Banking Credit Bureau, a.s. Software development, IT advisory, data processing, network administration databank services	Praha 1, Na Příkopě 1096/21	1,200,000	20.00	20.00	Y
45534306	ČSOB Pojišťovna, a.s, a member of the ČSOB Holding Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	1,536,400,000	25.00	40.00	Y
27479714	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB Holding Insurance brokerage	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	400,000	25.00	40.00	Y
60736682	E.T.I., a.s. in liquidation Operation of electricity stations	Ratíškovice 502	45,000,000	10.00	10.00	N
45316619	IP Exit, a.s. No activity	Praha 1, Senovážné náměstí 32	13,382,866,400	27.43	27.39	Y
63078104	Premiéra TV, a.s. No activity	Praha 8, Pod Hájkem 1	29,000,000	29.00	29.00	Y
26439395	První certifikační autorita, a.s. Certification services and administration	Praha 9, Libeň, Podvinný mlýn 2178/6	20,000,000	23.25	23.25	Y
	Other companies where ČSOB has a share in registered capital/voting rights under 10%					N

Notes:
1) A list of entities belonging to the ČSOB consolidated group according to EU IFRS as at 31 December 2009
2) ID No. 99999999 – a foreign entity

Consolidation Scope of the ČSOB

(as at 31 December 2009, EU IFRS)



Managing and Supervisory Bodies

ČSOB's Board of Directors
(as at 31 December 2009)

ČSOB's Board of Directors functions as the Bank's statutory and supreme executive body and has **five members**. Member's term of office lasts 5 years.

First name and surname	Position	Membership since	The beginning of the member's current term of office
Pavel Kavánek	Chairman [1] Chief Executive Officer	17. 10. 1990	20. 5. 2009
Petr Knapp	Member Senior Executive Officer, Corporate Banking	20. 5. 1996	20. 5. 2009
Jan Lamser	Member Senior Executive Officer, Mass Market	26. 5. 1997	20. 5. 2009
Hendrik Scheerlinck	Member Senior Executive Officer, Finance and Risk Management	27. 9. 2006 [2]	21. 4. 2007
Petr Hutla	Member Senior Executive Officer, Distribution	27. 2. 2008	27. 2. 2008

1) Current chairman term since 20 May 2009
2) Co-opted

Personnel Change in the ČSOB's Board of Directors
Philippe Moreels, member of the ČSOB's Board of Directors and Senior Executive Officer responsible for Distribution (retail/SME), resigned from his position in ČSOB on 15 November 2009. Since 16 October 2009, the ČSOB's Board of Directors has had five members. Related to the resignation of Mr. Philippe Moreels, a member of the Board of Directors and Senior Executive Officer for Distribution, were changes in the list of agendas assigned to each member of the ČSOB's Board of Directors and top management. Mr. Petr Hutla who had been responsible for Human Resources and Transformation assumed, as from 16 November 2009, responsibility for Distribution. Human Resources Management and Communication, which were extracted from the former Human Resources and Transformation unit, now operate under direct management of Mr. Pavel Kavánek, Chief Executive Officer.

ČSOB's Top Management
(as at 31 December 2009)

The ČSOB's Top Management reports directly to the Board of Directors. The ČSOB's Top Management **consists of** the Chairman of the Board of Directors, who is also the Chief Executive Officer, other members of the Board of Directors, who also act as Senior Executive Officers, and other Senior Executive Officer – in 2009: **Karel Svoboda** (since 1 August 2008).

Introducing Members of the Board of Directors and Members of the ČSOB's Top Management

Pavel Kavánek
(Born on 8 December 1948)
Chairman of the Board of Directors and Chief Executive Officer

Education: University of Economics, Prague, and The Pew Economic Freedom Fellowship at Georgetown University. Mr. Kavánek has been working for ČSOB since 1972. He has been member of the Board of Directors of ČSOB since 1990 and its Chairman and CEO since 1993.

Membership in bodies of other companies:
Member of the Executive Board of the Czech Banking Association, Chairman of the Supervisory Board of the Dagmar and Václav Havel Foundation VIZE 97.

Petr Knapp
(Born on 7 May 1956)
Member of the Board of Directors and Senior Executive Officer, Corporate Banking

Education: University of Economics, Prague. Mr. Knapp originally joined ČSOB in 1979. He worked in Teplotechna Praha as Deputy Managing Director from 1984 and later as Director of Foreign Operations. He returned to ČSOB in 1991 and was appointed Director of ČSOB Corporate Finance Department and later Director of the Credits Section. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1996.

Membership in bodies of other companies:
Chairman of the Supervisory Board of ČSOB Factoring (CZ), member of the Board of Directors of Hospodářská komora Hlavního města Prahy (Prague Economic Chamber).

Jan Lamser
(Born on 8 December 1966)
Member of the Board of Directors and Senior Executive Officer, Mass Market

Education: Faculty of Mathematics and Physics and of Protestant Theological Faculty at Charles University of Prague; also graduated from University of Economics, Prague, and École des Hautes Études Commerciales, Paris. Mr. Lamser has been working for ČSOB since 1995. He has been a member of the Board of Directors since 1997. He worked in various managerial positions in ČSOB. At present, he is responsible for services provided to mass retail clientelle, including Postal Savings Bank.

Membership in bodies of other companies:
Deputy Chairman of the Supervisory Board of ČMSS (CZ); a member of: the Academic Council of the Faculty of Economics and Public Administration (VŠE), the Joris Karl Huysmans Society and the control commission of the Unijazz Association; a partner of Ticiana, s.r.o.

Hendrik Scheerlinck
(Born on 6 January 1956)
Member of the Board of Directors and Senior Executive Officer, Finance and Risk Management

Education: Law and economics at the Catholic University in Leuven, Belgium. He has been working for the Kredietbank/KBC group since 1984: he started at the international credit department in Brussels and held various positions in the United States (Senior Credit Adviser in the New York branch; Regional Manager in Atlanta), Taiwan (manager of the Kredietbank representative office in Taipei), Germany (General Manager of KBC Bank operations; Member of the Management Board of Merca Lease) and became General Manager of KBC North America in 1999. He joined ČSOB in the second half of 2006 and has been a member of the Board of Directors and Senior Executive Officer since 2006.

Petr Hutla
(Born on 24 August 1959)
Member of the Board of Directors and Senior Executive Officer, Distribution

Education: Czech Technical University, Faculty of Electrical Engineering. Petr Hutla worked for Tesla Pardubice between 1983 and 1993, as Economic Associate Director of Tesla Pardubice – RSD from 1991. He has been working for ČSOB since 1993: first as branch manager in Pardubice and main branch manager in Hradec Králové, then as branch manager in Prague 1 in 1997 – 2000. He then served as Senior Director, Corporate Accounts (2001 – 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (2005 – 2006), Human Resources and Transformation (2006 – 15 November 2009), Distribution (since 16 November 2009). Since 27 February 2008, Petr Hutla has been a member of the Board of Directors. Since 14 January 2009, he also has been the head of KBC Global Services Czech Branch.

Membership in bodies of other companies:
Member of the Board of Trustees of Czech Technical University in Prague and member of the Board of Directors of the Nadace Karla Pavlíka (foundation); member of the Supervisory Board (since 13 January 2010) and chairman of the Supervisory Board (since 25 February 2010) of Hypoteční banka (CZ).

Karel Svoboda
(Born on 12 April 1970)
Senior Executive Officer, Operations and Facilities

Education: University of Economics, Prague (1992); a post-graduate study program in statistics at the Texas A&M University, College Station, USA (1994). Mr. Svoboda worked as an assistant professor at the University of Economics, Prague in 1995 – 1997. Between 1998 and 2000, he worked as the Actuarial Manager in Commercial Union, life insurance company. Between June 2000 and October 2001, he worked as an actuary in ČSOB; between November 2001 and July 2008, he was a member of the Board of Directors in ČSOB Pojišťovna (membership terminated effective on 31 July 2008) and the Director of the Life Insurance Division. Since 1 August 2008, Karel Svoboda has been a member of ČSOB's Top Management as the Senior Executive Officer, Operations and Facilities.

Philippe Moreels
(Born on 25 February 1959)
Member of the Board of Directors and Senior Executive Officer, Distribution
(until 15 November 2009)

Education: Studied computer and social sciences in Belgium and graduated in business management studies at Solvay Business School. Mr. Moreels worked as a pension fund analyst and internal auditor with the Unilever Group. Afterwards, he worked for seven years as the Back Office Manager in the Standard Chartered Bank/Westdeutsche Landesbank group, followed by Slovakia's Tatra Banka as the Operations Manager since 1993 and as a member of the Board of Directors since 1998. He was a member of the Board of Directors and Senior Executive Officer of ČSOB from 1 March 2002 to 15 November 2009 and the Chairman of the Supervisory Board of Hypoteční banka (until 15 November 2009).

ČSOB's Supervisory Board

(as at 31 December 2009)

ČSOB's Supervisory Board has **nine members** and oversees the performance of the Board of Directors. Member's term of office lasts 5 years.

First name and surname	Position	Membership since	The beginning of the member's current term of office
Jan Švejnar	Chairman [1]	9. 10. 2003 [2]	20. 5. 2009
John Arthur Hollows	Member	22. 4. 2006	22. 4. 2006
Dirk Mampaey	Member	14. 9. 2009	14. 9. 2009
Patrick Roland Vanden Avenne	Member	22. 4. 2006	22. 4. 2006
Riet Docx	Member	1. 12. 2004 [2]	20. 4. 2005
Hendrik George Adolphe Gerard Soete	Member	24. 2. 2007 [2]	21. 4. 2007
František Hupka	Member [3]	23. 6. 2005	23. 6. 2005
Libuše Gregorová	Member [3]	23. 6. 2005	23. 6. 2005
Martina Kopecká	Member [3]	23. 6. 2005	23. 6. 2005

1) Current chairman term since 3 June 2009
2) Co-opted
3) Elected by employees

Personnel Change in the ČSOB's Supervisory Board in 2009

Based on a decision of KBC Bank NV, the sole shareholder of ČSOB, Mr. Dirk Mampaey was, with effect from 14 September 2009, elected a new member of the ČSOB's Supervisory Board. He replaced Mr. Jan Vanhevel who was recalled from his position and became a new Chief Executive Officer and Chairman of the Executive Committee of KBC Group on 1 September 2009. Mr. Jan Vanhevel's membership in the ČSOB's Supervisory Board was terminated by the resolution adopted and effective on 14 September 2009.

Introducing Members of the Supervisory Board

Jan Švejnar
(Born on 2 October 1952)
Chairman of the Supervisory Board

Education: Industrial and Work Relations – Cornell University; Ph.D. in Economics – Princeton University. Mr. Švejnar is an independent economist living abroad since 1970. Since 1992, he has evenly divided his work capacity between activities in Prague and the USA. He has primarily devoted his academic career to economies in transition and, generally, to economic development. He is a Professor at the University of Michigan Business School.

Membership in bodies of other companies:
Chairman of the Board of the Center for Economic Research and Graduate Education (CERGE) of the Charles University, member of the Academic Council of Faculty of Social Sciences of the Charles University, member of the Board of the BOHEMIAE Foundation in liquidation.

John Arthur Hollows
(Born on 12 April 1956)
Member of the Supervisory Board

Education: Sydney Sussex College at the University in Cambridge, with a degree in economics and law. Mr. Hollows' professional career is connected with banking and with work in Industrial and Commercial Chambers. He gained experience in the area of financial services at Barclays Bank in London and Taipei and at KBC in Hong Kong, Shanghai, Singapore and Budapest. He held senior managerial positions in credits departments and in areas such as export finance, corporate and investment banking and treasury. He also focused on cost management. From August 2003 to April 2006, he was general manager of K&H Bank (KBC Group) in Budapest. In 2006, he came to the Supervisory Board of ČSOB as manager of the Central and Eastern Europe Business Unit of KBC. Since September 2009, he has been CEO of the KBC Group's Central and Eastern Europe and Russia Business Unit and member of the Executive Committee of the KBC Group.

Membership in bodies of other companies:
Member of the Board of Directors in: K&H Bank (Hungary); chairman of the Supervisory Board in: ČSOB (SK), WARTA TUiR (Poland), WARTA TUnZ (Poland), DZI General Insurance (Bulgaria), DZI Health Insurance (Bulgaria) a Absolut Bank (Russia); member of the Supervisory Board in: ČSOB IS (CZ), ČSOB PF Stabilita (CZ), ČSOB PF Progres (CZ), ČSOB Property Fund (CZ), ČSOB AM (SK), ČSOB d.s.s. (SK), KredytBank (Poland), NLB (Slovenia) a CIBank (Bulgaria).

Dirk Mampaey
(Born on 25 October 1965)
Member of the Supervisory Board

Education: Commercial Engineering at the Free University of Brussels and International Banking School in Switzerland and Philadelphia (USA). Mr. Mampaey started his professional career at Kredietbank in 1988. He has acquired wide experience in managerial positions in the areas of corporate banking, strategy and expansion and payments. In 2007 he was appointed Senior General Manager Banking Eastern Europe and Russia. In September 2009 his responsibilities were expanded to the coordination of banking activities in all Central & Eastern European countries and Russia at the KBC Directorate for Central Europe.

Membership in bodies of other companies:
Chairman of the Board of Directors in: KBC Banka (Serbia); member of the Board of Directors in: K&H Bank (Hungary); member of the Supervisory Board in: ČSOB (SK), KredytBank (Poland), CIBank (Bulgaria), Absolut Bank (Russia).

Patrick Roland Vanden Avenne
(Born on 15 February 1954)
Member of the Supervisory Board

Education: The Catholic University in Leuven (Belgium), with a degree in economics and law, and Stanford University (USA), with a degree in business administration. Mr. Avenne owns and manages a number of companies in the food processing industries and in logistics. As a significant shareholder of KBC, he has participated in the corporate governance of KBC Group since 1993. He has also been in managerial positions in Almanij (the former parent company of the KBC Group), Gevaert NV and, later, in KBC Bank and KBC Insurance. After the merger of Almanij and KBC in 2005, he was appointed to the position of Director of KBC Bank and became a member of the Audit Committee at KBC Bank.

Membership in bodies of other companies:
Member of the Supervisory Boards at the Catholic Universities in Leuven and Kortrijk, member of the managing committees of the Flemish Employers Union (VOKA) and the Belgian Federation of Food Industry (Bemefa).

Riet Docx
(Born on 15 September 1950)
Member of the Supervisory Board

Education: Economic studies at Antwerp University. Between 1976 and 1994, Ms. Docx worked in institutions operating in the banking and insurance sector. She held managerial positions in Benelux Bank and in the insurance companies Omniver NV and Omniver Leven NV. Since 1994, Mrs. Riet Docx has been working for KBC. In January 2005, she was appointed Executive Manager responsible for coordination of nankiny activities in Central European countries at the KBC Directorate for Central Europe.

Membership in bodies of other companies:
Member of the Board of Directors in: KBC Banka (Serbia); member of the Supervisory Board in: ČSOB (SK), K&H Bank (Hungary) and NLB (Slovenia).

Hendrik Soete
(Born on 9 November 1950)
Member of the Supervisory Board

Education: The Catholic University in Leuven (Belgium) with M.Sc. and Ph.D. degrees in Agricultural Sciences. Mr. Soete originally worked in production management at Procter & Gamble and at Lacsoons Dairy in Belgium. Between 1983 and 1994, he held several management positions, as well as that of managing director, with Borden Inc., in the U.K. and in Germany. After his return to Belgium, he was at the head of two food companies before joining the AVEVE Group in 1999. At present, he is Executive Chairman of the Board of Directors of the AVEVE Group. He is also the Chairman of the Intercoop Europe (Switserland).

Membership in bodies of other companies:
Member of the Board of Directors of several companies, namely of the KBC group, of affiliates of the AVEVE Group (Belgium), of the MRBB (Boerenbond) and its Financial Holding (Belgium).

František Hupka
(Born on 13 April 1971)
Member of the Supervisory Board elected by employees

Education: General secondary education exam. In 1991, Mr. Hupka joined ČSOB as an IT support specialist. At the present time, he is Chairman of the Working Committee of Trade Unions.

Membership in bodies of other companies:
Member of the Board of Directors of the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry (OZP).

Libuše Gregorová
(Born on 25 July 1959)
Member of the Supervisory Board elected by employees

Education: University of Economics, Prague. Ms. Gregorová joined ČSOB in 1989 and worked as IT manager from 1996 to 1998. Between 1998 and 2005, she worked as an analyst and IT application developer. Between 2006 and 2008, she managed the Credits and Deposits Products – Analysis department. Since 1 January 2009, she served as the Senior Manager of DEV Product factories. Since 1 June 2009, she has been working in the same position in KBC Global Services Czech Branch, organizational unit.

Membership in bodies of other companies:
Member of the Board of Directors of Bytové družstvo Vojáčkova 612 (housing cooperative).

Martina Kopecká
(Born on 19 September 1969)
Member of the Supervisory Board elected by employees

Education: University of Economics, Prague. Ms. Kopecká has been working at the ČSOB Pardubice branch since 1994, and in the position of Corporate Banker for Retail/SME clients since 2002.

Jan Vanhevel
(Born on 10 September 1948)
Member of the Supervisory Board
(from 22 April 2006 to 14 September 2009)

Education: The Catholic University in Leuven, with a degree in law, and the Flemish University of Economics VLECHO, with a degree in financial management. From 1971 until now, Mr. Vanhevel has worked in various managerial positions in the sector of financial services. He has acquired wide experience in legal services departments, in the credits area and in the area of corporate banking management and process management. In April 1996, he became a member of the Executive Committee of Kredietbank and, after its merger with other entities giving birth to KBC, he became (in June 1998) Managing Director and member of the Executive Committee of the KBC Group and Member of the Executive Committee KBC Bank. In 2006, he was appointed CEO Central and Eastern Europe supervising and responsible for banking and insurance activities for KBC Group. In 2007 he was appointed CEO Central and Eastern Europe and Russia for KBC Group in eight countries in Central and Eastern Europe. He is also a member of the Executive Committee KBC Bank. Since 1 September 2009, he has served as the Chief Executive Officer and President of the Executive Committee of the KBC Group.

The Work Address

of all members of the Board of Directors and the members of the ČSOB's Top Management as well as all the members of the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
Praha 5
Postal Code 150 57, Czech Republic

Conflict of Interests

under Commission Regulation (EC) No 809/2004

ČSOB hereby declares that it is not aware of any potential conflict of interests between any of the duties of any member of the Board of Directors, the ČSOB's Top Management and the Supervisory Board **to ČSOB and their private interests and/or other duties**.

Note:
ČSOB, pursuant to the applicable Czech legal principles, does not regard entering into banking transactions by the members of the Board of Directors, the members of the ČSOB's Top Management and the members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties of these persons to ČSOB and their private interests and/or other duties.

Emoluments and Benefits of Persons Discharging Managerial Responsibilities

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 118, paragraph 4, provisions f), g) and h)

Persons discharging managerial responsibilities within an issuer [1)] in ČSOB are:
(i) The Chairman of the Board of Directors, who is also the Chief Executive Officer, other Members of the Board of Directors, who also act as Senior Executive Officers, and other Senior Executive Officers (other Members of the Top Management) [2)] constitute the ČSOB's Top Management (refer to Managing and Supervisory Bodies), and (ii) Members of the Supervisory Board.

For description of areas of responsibility managed by ČSOB's Senior Executive Officers please refer to the ČSOB's Organisation Chart on page 48 of this Annual Report. Descriptions of work and decision-making processes are given in "Corporate Governance" on pages 45–47 of this Annual Report.

1) Persons discharging managerial responsibilities within an issuer (in Czech "osoby s řídící pravomocí") as defined in the act above
2) In 2009, this applied only to the Senior Executive Officer for Operations and Facilities

Monetary and Non-monetary Income

(Section 118, paragraph 4, provision f)

In 2009, **persons discharging managerial responsibilities** received the following income from both ČSOB and persons controlled by ČSOB:

(CZKths)	Monetary income		Non-monetary income	
	Received from		Received from	
	ČSOB	Persons controlled by ČSOB	ČSOB	Persons controlled by ČSOB
Members of the Board of Directors	71,699	-	6,399	-
Members of the Supervisory Board	5,436	-	-	-
Other members of the Top Management	4,133	-	321	-

The income of the Chairman and Members of the Board of Directors in 2009 included: CZK 69,857 thousands under the Contracts on the Performance of the Line Management Function, and bonuses totalling CZK 8,242 thousands under the Contracts on the Performance of the Function of the Member of the Board of Directors. The income of the Members of the Supervisory Board consisted of CZK 3,558 thousands under the Contract on the Performance of the Function of the Chairman / Member of the Supervisory Board, and the income under employment contracts of CZK 1,878 thousands. Non-monetary income includes e.g. a company car, fuels, costs of training, and also contributions to pension plans and life insurance.

Shares Issued by ČSOB

(Section 118, paragraph 4, provision g)

As at 31 December 2009, the Members of the Board of Directors and their next of kin, the members of the Supervisory Board and their next of kin, other persons discharging managerial responsibilities and their next of kin did not own any shares issued by ČSOB and were not holders of any purchase option on ČSOB shares.

Principles of Remuneration

(Section 118, Paragraph 4, provision h)

Members of the Board of Directors

Remuneration of the Members of the ČSOB's Board of Directors consists of a fixed component, pursuant to the Contract on the Performance of the Line Management Function, and a variable (bonus) component applicable under the Contract on the Performance of the Function of the Member of the Board of Directors. The variable component is approximately one third of their total income. The Remuneration Rules were set by the Compensation Committee of the Supervisory Board, whose Members in 2009 were Jan Švejnar, Jan Vanhevel and John Hollows. After Jan Vanhevel's resignation from the Supervisory Board, Dirk Mampaey, a newly appointed member of the Supervisory Board, took up the office in the Compensation Committee. The amount of the variable component is determined based on upfront performance targets (Key Performance Indicators; "KPIs"), including both financial (e.g. net underlying profit, cost revenue ratio, operating costs) and non-financial (e.g. overdue audit recommendations) parameters. The amount of the variable component is submitted to the Compensation Committee of the Supervisory Board for approval. KPIs are assessed on an annual basis at the end of ČSOB's fiscal year. Results achieved as at 31 December of the assessed year are taken into consideration. The variable component of the bonus is paid once in a year.

Members of the Supervisory Board

The Chairman of the Supervisory Board is contracted for fixed salary per year that is set by the Compensation Committee and approved by the General Meeting. Other members receive no remuneration from ČSOB or KBC for their Supervisory Board membership.

Supervisory Board members – KBC employees receive neither income from ČSOB for their Supervisory Board membership, nor any extra remuneration from KBC.

Other Persons Discharging Managerial Responsibilities

Remuneration of other persons discharging managerial responsibilities consists of fixed and variable components, pursuant to the Contract on the Performance of the Line Management Function, and the variable component is approximately one third of their total income. The Remuneration Rules were set by the Compensation Committee of the Supervisory Board. The amount of the variable component is determined based on upfront performance targets (Key Performance Indicators; "KPIs"), including both financial (e.g. net underlying profit, cost revenue ratio, operating costs) and non-financial (e.g. overdue audit recommendations) parameters.

The amount of the variable component is submitted to the Compensation Committee of the Supervisory Board for approval. KPIs are assessed on an annual basis at the end of ČSOB's fiscal year. Results achieved as at 31 December of the assessed year are taken into consideration. The variable component of the bonus is paid once in a year.

Corporate Governance Policy

Corporate governance and administration of Československá obchodní banka, a. s. are based on the OECD principles and, while executing them, experience collected by the KBC Group, ČSOB's shareholder, is extensively exploited. ČSOB professes principles formulated in the Code of Governance and seeks to observe them consistently in its day-to-day activities. The Code of Governance is available for inspection in the ČSOB's Corporate Office.

Board of Directors

The members of the **Board of Directors** are elected by the company's General Meeting and they went through mandatory assessment by the Czech National Bank, where their professional qualifications were thoroughly examined. In compliance with the Banking Act, ČSOB's Board of Directors has a full-scale executive composition. To combine the position of the Chairman of the Board of Directors with that of the Chief Executive Officer corresponds with this requirement. ČSOB's shareholders and clients receive regular reports including all relevant data on the members of the Board of Directors and their professional and personal qualifications as required by the applicable laws.

The ČSOB's Board of Directors performs its tasks within the framework of competencies defined for the statutory body by the Articles of Association and relevant management documents of the company. The Board of Directors fulfils its tasks with due professional care and bears full responsibility for them as required by the Commercial Code. In 2009, a change in the Board of Directors took place when Philippe Moreels resigned from his position as at 15 November 2009.

The Board of Directors meets regularly, usually once a week, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational nature submitted for discussion individually by the Board members. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of this top management body are attended by the director of the Bank's corporate office who acts as secretary of the Board and is responsible for preparing the meetings and taking their minutes.

The Board of Directors establishes expert committees to discuss specific agendas. Considering the importance of topics covered by the committees with company-wide scope of authority, a member of the Board of Directors primarily responsible for its activities usually presides over each committee. Should the responsible member of the Board of Directors be unable to take part in a committee meeting, such responsible member is substituted by a formally appointed deputy (usually another member of the Board of Directors). This approach makes it possible to achieve continuity of the consistent follow-up process focused on the committee's decision-making and to keep the Board of Directors directly informed. Depending on their roles and responsibilities, all ČSOB's units covering the subject matter are made involved in discussions and take part in committee meetings. This is why the head of such involved unit is authorized to take part and represent his/her unit in committee meetings. In his or her absence, committee meetings are attended by his or her deputy or another appointed employee unless forbidden by the applicable rule of procedure. Committee meetings are governed by the committee's rules of procedure.

Board of Directors Committees

Risk Committees

The Asset and Liability Committee (ALCO) is responsible for the development of market and liquidity risk strategy and implementation of principles, frameworks, policies and limits for the bank's investment portfolio. ALCO is responsible for key issues related to risk management, adopts principal decisions on risk management and follows up adhering to the decisions.

The Credit Risk Management Committee (CRC) has overall responsibility for the development of credit risk strategy and implementation of principles, frameworks, policies and limits for credit risk. CRC is responsible for key issues related to credit risk management, adopts principal decisions on credit risk management and follows up adhering to the decisions.

The Credit Sanctioning Committee (CSC) holds wide-ranging responsibilities and powers in the ČSOB group to decide on credit applications. Thus, CSC acts as the bank's supreme decision-making committee.

The Operational Risk Committee (ORC) has overall responsibility for the development of the operational risk strategy and implementation of principles, frameworks, policies and limits for operational risk. ORC is responsible for key issues related to operational risk management, adopts principal decisions on operational risk management and follows up adhering to the decisions.

Financial Markets Risk Committee (FMRC), which consists of the Senior Executive Officers of CSOB responsible for financial markets and risk management, has overall responsibility for the development of the Group' s market risk strategy and implementing principles, frameworks, policies and limits for the trading portfolio of the entire Group. The FMRC is responsible for fundamental risk issues, and the management and monitoring of the relevant risk decisions.

Other bodies

ICT Requirements Committee: the Committee manages and monitors transformation in business and IT management and assesses and manages methodologically processes falling within this category.

Retail / SME Executive Committee: the purpose of this Committee is to ensure implementation of business and strategic initiatives and customer value proposition for retail and SME in accordance with the powers delegated by the ČSOB's Board of Directors and the ČSOB group's strategic plan.

Corporate Clients and Financial Markets Executive Committee: the purpose of this Committee is to ensure implementation of business and strategic initiatives and customer value proposition for corporate banking and financial markets in accordance with the powers delegated by the ČSOB's Board of Directors and the ČSOB group's strategic plan.

Mass Market Executive Committee: the purpose of this Committee is to ensure implementation of business and strategic initiatives and customer value proposition for mass market in accordance with the powers delegated by the ČSOB's Board of Directors and the ČSOB group's strategic plan.

Corporate Social Responsibility Committee: the Committee defines the long-term sustainability strategy and deals with corporate topics and outputs escalated from the Expert Commission.

Supervisory Board

Pursuant to the Bank's Articles of Association, the **Supervisory Board** of Československá obchodní banka, a.s. has nine members. Six of them are elected by the General Meeting and three of them are elected by the employees of the Bank. Mr. Jan Oscar Cyriel Vanhevel was recalled from his position in the Supervisory Board as of 14 September 2009 and, as of the same day, Mr. Dirk Mampaey was elected a new member of the Supervisory Board by the General Meeting.

In compliance with its plan of work, the Supervisory Board held four meetings in 2009 where it discussed issues falling under its responsibility according to the Bank's Articles of Association. Background materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by the members of the Board of Directors who personally present materials to be discussed. During its meetings, the Supervisory Board raised requirements for additional materials, and these requirements were always satisfied at the next session.

Commitees of Supervisory Board

Both **working bodies of the Supervisory Board**, the Audit Committee and the Compensation Committee, held regular meetings and informed the Supervisory Board about their activities. The Supervisory Board approved recommendations of the two Committees regarding some matters discussed.

The Audit Committee is a ČSOB's body. Its authority and responsibilities are determined by the ČSOB's Articles of Association and the Audit Committee Charter. In particular, the Audit Committee monitors completion of the financial statement and the process of mandatory audit, supervises, monitors and reports on the quality of internal control, financial reporting, risk management, compliance with laws and regulations, and the work of internal audit, compliance unit and external auditor.

The Audit Committee is composed of three members who are also members of the ČSOB Supervisory Board: Mr. Dirk Mampaey (Chairman of the Audit Committee), Mr. Jan Švejnar and Ms. Riet Docx. The Audit Committee members were appointed by the General Meeting based on their expertise that is required to perform their control tasks in a professional manner. The CEO of ČSOB, the External Auditor, the General Manager of KBC Internal Audit and the Head of ČSOB Internal Audit participate as permanent guests in all meetings. Furthermore some line managers or other employees who can provide the Audit Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. In compliance with its plan of work, the Audit Committee held four meetings in 2009 where issues falling within the Audit Committee's competence were treated.

From 1 January 2010, the Audit Committee acts as an independent body of the company.

The Compensation Committee is composed of three members: Mr. John Hollows (Chairman), Jan Švejnar and Dirk Mampaey. The Compensation Committee meets whenever necessary, but no less than once a year. The Compensation Committee sets, judges and assesses remuneration of ČSOB's top managers.

In compliance with its competencies, the Supervisory Board selected an external auditor who attends all meetings of the Audit Committee, thus providing for an independent, comprehensive and qualified opinion of whether the ČSOB's financial statements express the ČSOB's situation and performance correctly in all material respects. Pursuant to the Rules of Conduct of the Supervisory Board, administrative and organizational support is provided by the Bank's corporate office, whose director is responsible for taking the minutes of the meetings.

General Meeting

Pursuant to §190 of the Commercial Code the sole shareholder exercises the powers of the ČSOB's General Meeting. Resolutions are always in writing; a notarial deed is required only in cases stipulated by the applicable laws. Preparation by the ČSOB's Board of Directors, including provision of all relevant documentation, usually precedes resolutions of the sole shareholder. The ČSOB's Board of Directors and Supervisory Board are notified of a resolution adopted by the sole shareholder in writing by the delivery of a written notice.

Internal Control Mechanisms to Eliminate Financial Reporting Process Risks

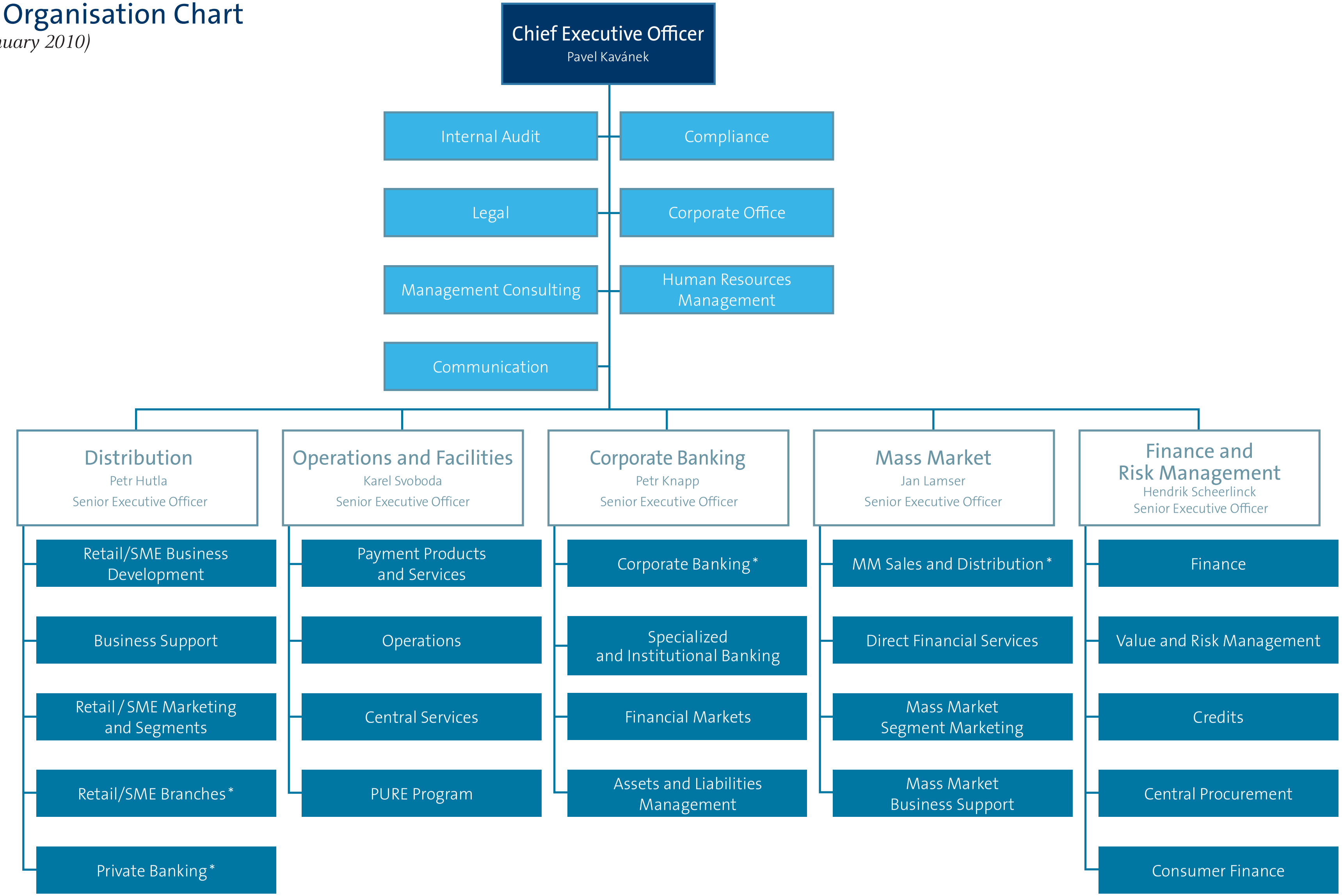
To ensure fair representation of both consolidated and separate financial statements account balances are subject to regular, no less than monthly, internal examination. Control procedures are established to eliminate the risk of material misstatement whether due to accounting error or fraud. Corrections of accounting errors are monitored centrally. Adequacy of accounting examinations is assessed on a regular basis and findings are reported to the Operational Risk Committee on a semi-annual basis.

Internal regulations determine authorities assumed by each staff member making entries in ČSOB's books in order to duly segregate responsibilities within the document flow. Control procedures are integrated into accounting systems, including access right authentication. Applicable accounting policies, e.g. rules for measuring the assets or principles of creation of allowances and provisions, are described in Note 2 to the Separate Financial Statement for the Year 2009 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the Year 2009 prepared in accordance with EU IFRS.

Control mechanisms are extended based on recommendations from internal audit and compliance or based on outcomes of the Risk Self Assessment organized within the operational risk management, please refer to Note 37.5 to the Separate Financial Statement for the Year 2009 prepared in accordance with EU IFRS and to Note 40.5 to the Consolidated Financial Statement for the Year 2009 prepared in accordance with EU IFRS.

ČSOB's Organisation Chart

(as at 1 January 2010)



** These units manage respective branch network*

FINANCIAL PART

ERNST & YOUNG

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

We have audited the accompanying consolidated financial statements of Československá obchodní banka, a. s. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 consolidated financial statements.

Management's Responsibility for the Financial statements

Management of Československá obchodní banka, a. s. 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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, International Standards on Auditing and 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 about 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 financial statements. The procedures selected depend on the auditor's judgment, including the 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 of the Group, 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 consolidated financial statements give a true and fair view of the financial position of Československá obchodní banka, a. s. as at 31 December 2009, and of 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

D.Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, License No. 2009

3 March 2010
Prague, Czech Republic

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2009	Reclassified 2008
Interest income	5	33,886	37,742
Interest expense	6	(10,868)	(16,477)
Net interest income		**23,018**	**21,265**
Fee and commission income		8,738	8,687
Fee and commission expense		(2,188)	(2,043)
Net fee and commission income	7	**6,550**	**6,644**
Dividend income		447	117
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	8	3,374	(11,050)
Net realised gains on available-for-sale financial assets	2.5	6,340	49
Other net income	9	955	2,030
Operating income		**40,684**	**19,055**
Staff expenses	10	(6,355)	(6,686)
General administrative expenses	11	(6,973)	(6,972)
Depreciation and amortisation	22, 23, 24	(1,443)	(1,457)
Provisions	30	112	101
Operating expenses		**(14,659)**	**(15,014)**
Impairment losses	12	(6,509)	(3,783)
Share of profit of associates	20	360	116
Profit before tax		**19,876**	**374**
Income tax (expense) / benefit	13	(2,459)	720
Profit for the year		**17,417**	**1,094**
Attributable to:			
Owners of the parent		17,368	1,034
Non-controlling interests		49	60
Earnings per share			
Equity holders of the Bank for the year:		CZK	CZK
Basic earnings per share	14	2,966.33	176.60
Diluted earnings per share	14	2,966.33	176.60

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2009	2008
Profit for the year		**17,417**	**1,094**
Exchange differences on translating foreign operation		197	(88)
Net (loss) / gain on cash flow hedges		(1,423)	1,729
Net (loss) / gain on available-for-sale financial assets		(997)	4,787
Net gain on hedge of net investments		-	32
Share of other comprehensive income of associates		53	39
Reorganisation reserve		(1,423)	1,423
Income tax expense relating to components of other comprehensive income		(100)	(662)
Other comprehensive income for the year, net of tax	32	**(3,693)**	**7,260**
Total comprehensive income for the year, net of tax		**13,724**	**8,354**
Attributable to:			
Owners of the parent		13,675	8,294
Non-controlling interests		49	60

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	31.12.2009	31.12.2008
ASSETS			
Cash and balances with central banks	16	23,050	16,602
Financial assets held for trading	17	160,117	131,342
Financial assets designated at fair value through profit or loss	17	16,987	23,514
Available-for-sale financial assets	18	101,567	90,454
Held-to-maturity investments	18	132,761	115,236
Loans and receivables	19	395,774	411,644
Derivatives used for hedging	21	8,040	7,215
Current tax assets		27	1,128
Deferred tax assets	13	271	1,248
Investment in associate	20	1,196	858
Investment property	22	791	1,002
Property and equipment	23	8,468	10,095
Goodwill and other intangible assets	24	3,922	4,852
Non-current assets held-for-sale	25	919	127
Other assets	26	5,082	9,168
Total assets		**858,972**	**824,485**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	27	23,036	35,064
Financial liabilities designated at fair value through profit or loss	27	105,057	62,796
Financial liabilities at amortised cost	28	644,982	649,371
Derivatives used for hedging	21	5,158	2,493
Current tax liabilities		883	133
Deferred tax liabilities	13	603	553
Other liabilities	29	8,644	16,238
Provisions	30	758	993
Total liabilities		**789,121**	**767,641**
Share capital	31	5,855	5,855
Share premium		7,509	7,509
Statutory reserve		18,687	18,687
Retained earnings		34,478	17,789
Reorganisation reserve	31	-	1,423
Available-for-sale reserve	31	2,814	4,145
Cash flow hedge reserve	31	(393)	743
Foreign currency translation reserve	31	1	(196)
Shareholders’ equity		68,951	55,955
Non-controlling interests, presented within equity		900	889
Total equity		**69,851**	**56,844**
Total liabilities and equity		**858,972**	**824,485**

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved for issue by the Board of Directors on 3 March 2010 and signed on its behalf by:

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

	Attributable to equity holders of the Bank					Non-controlling interest	Total Equity
(CZKm)	Share capital (Note: 31)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 31, 32)		
At 1 January 2008	**5,855**	**7,509**	**18,687**	**25,959**	**(1,145)**	**336**	**57,201**
Total comprehensive income for the year	-	-	-	1,034	7,260	60	8,354
Change in consolidation scope	-	-	-	(23)	-	-	(23)
Dividends paid (Note: 15)	-	-	-	(9,181)	-	-	(9,181)
Capital increase by non-controlling shareholders of subsidiaries	-	-	-	-	-	541	541
Dividends of subsidiaries	-	-	-	-	-	(48)	(48)
At 31 December 2008	**5,855**	**7,509**	**18,687**	**17,789**	**6,115**	**889**	**56,844**
At 1 January 2009	**5,855**	**7,509**	**18,687**	**17,789**	**6,115**	**889**	**56,844**
Total comprehensive income for the year	-	-	-	17,368	(3,693)	49	13,724
Change in consolidation scope	-	-	-	-	-	(23)	(23)
Dividends paid (Note: 15)	-	-	-	(679)	-	-	(679)
Dividends of subsidiaries	-	-	-	-	-	(15)	(15)
At 31 December 2009	**5,855**	**7,509**	**18,687**	**34,478**	**2,422**	**900**	**69,851**

[(1)] The statutory reserve represents accumulated transfers from retained earnings in compliance with the Czech Commercial Code. This reserve is not distributable.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2009	Reclassified 2008
OPERATING ACTIVITIES			
Profit before tax		19,876	374
Adjustments for:			
Change in operating assets	34	(58,189)	(120,799)
Change in operating liabilities	34	41,293	32,432
Non-cash items included in profit before tax	34	8,106	5,515
Transformation business in Slovakia	2.5	-	(1,977)
Sale of ČSOB SK	2.5	12,459	-
Net loss / (gain) from investing activities		6	(3)
Income tax received / (paid)		392	(1,028)
Net cash flows from / (used in) operating activities		**23,943**	**(85,486)**
INVESTING ACTIVITIES			
Purchase of investment securities		(27,230)	(17,450)
Maturity / disposal of investment securities		9,701	14,553
Purchase of property, equipment and intangible assets		(2,011)	(2,181)
Purchase of investment property	22	(3)	(148)
Disposal of property, equipment, intangible assets and assets held-for-sale		1,628	236
Disposal of investment property	22	13	-
Dividends from associates		75	-
Disposal of subsidiary, associate and joint venture companies	3	500	522
Net cash flows (used in) investing activities		**(17,327)**	**(4,468)**
FINANCING ACTIVITIES			
Issue of bonds		-	891
Repayment of bonds		(4,527)	(1,826)
Repayment of subordinated liability		-	(200)
Increase in non-controlling interests		11	553
Dividends paid	15	(679)	(9,181)
Net cash flows (used in) financing activities		**(5,195)**	**(9,763)**
Net increase / (decrease) in cash and cash equivalents		**1,421**	**(99,717)**
Cash and cash equivalents at the beginning of the year	34	28,151	127,868
Net increase / (decrease) in cash and cash equivalents		1,421	(99,717)
Cash and cash equivalents at the end of the year	34	**29,572**	**28,151**
Additional information			
Interest paid		(10,184)	(15,902)
Interest received		33,688	37,907
Dividends received		447	117

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by KBC Group NV (KBC Group).

Furthermore, the ČSOB group (Group) (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investment, pension insurance, leasing, factoring and distribution of life and non-life insurance products.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The consolidated financial statements are presented in millions of Czech Crowns (CZKm), which is the presentation currency of the Group.

Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Basis of consolidation

The consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity.

Joint ventures included in the Group consolidation are accounted for using proportionate consolidation. A venturer's share of assets, liabilities, income and expenses in the joint venture is combined with those of the venturer on a line-by-line basis. Joint control exists when two or more venturers are bound by a contractual arrangement whereby joint control is established.

2.2 Significant accounting judgements and estimates

While applying the Group accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit and liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments

The Group reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, management judgement is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine 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.

2.3 Changes in accounting policies

Effective in 2009

The accounting policies adopted are consistent with those used in the previous financial year except that the Group has adopted the following standards, amendments and interpretations. The adoption of them did not have any effect on the financial performance or position of the Group. However, they did give rise to additional disclosures.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard requires the Group to present all owner changes in equity and all non-owner changes in either one statement of comprehensive income or in two separate statements of income and comprehensive income. The income tax effect of each component of comprehensive income has to be disclosed. The Group has elected to present comprehensive income in two separate statements of income and comprehensive income.

IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments (Amendments)

The amendment requires disclosure of a three-level fair value hierarchy for all financial instruments recognised at fair value and specific disclosures related to the transfers between the levels. The amendments require additional liquidity disclosures.

IFRS 8 Operating Segments

The standard replaced the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. The operating segments determined according to IFRS 8 are equal to the business segments previously identified under IAS 14.

Furthermore, in 2009 the Group has adopted the following standards, which did not have material effect on the financial position or performance of the Group:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments).

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (Amendment). The amended standard clarifies the definition of vesting conditions and the accounting treatment of cancellations.

IAS 23 Borrowing Costs (Revised).

IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments). The amendments remove the definition of the "cost method" and require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments). The IAS 32 amendment clarifies under which circumstances puttable financial instruments and obligations arising on liquidation have to be treated as equity instruments. The amendment is limited in scope.

IFRIC 13 Customer Loyalty Programmes.

IFRIC 15 Agreements for the Construction of Real Estate.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

Effective in 2010 or later

The following standards, amendments and interpretations have been issued and are effective from 2010 onwards. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

IFRS 1 First-time Adoption of IFRS (Amendments) is effective for periods beginning on or after 1 January 2010.

IFRS 2 Share-based Payment (Amendments) is effective for periods beginning on or after 1 January 2010. This amendment clarifies the scope and accounting for group cash-settled share-based payment. The amendment incorporates the interpretations IFRIC 8 (Scope of IFRS 2) and IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions).

IFRS 3 Business Combinations (Amendments) is effective for periods beginning on or after 1 July 2009. This amendment broadens the scope of the original standard and amends the definition of business combinations. Business combinations will be measured at fair value of the acquiree and the costs in connection with the business combination will not be included in the cost of the acquiree. The assets acquired and liabilities assumed will be measured at their fair value at the date of acquisition.

IFRS 9 Financial Instruments (the first phase) is effective for periods beginning in or after 1 January 2013. The standard has not been endorsed by the European Union to date. The project to replace the current IAS 39 Financial Instruments: Recognition and Measurement has been divided into three phases. The first phase focuses on classification and measurement of financial assets. The new standard has reduced the number of measurement categories from four to two. Financial assets are classified at amortised cost or fair value on the basis of both:

- The entity's business model for managing financial assets; and
- The contractual cash flow characteristics of the financial asset.

Debt instruments may be measured at amortised cost if:

- The asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Reclassifications between the two categories are required when the entity changes its business model. All equity instruments are measured at fair value either through Other Comprehensive Income or profit or loss. IFRS 9 retains a fair value option. At initial recognition entities can elect to measure financial instruments at fair value, although they would otherwise qualify for amortised cost measurement. IFRS 9 removes the separation of derivatives and the instrument is assessed in its entirety as to whether it fulfils the above two conditions.

The standard will have a significant impact on the Group financial statements. Due to the uncertainties about the provisions of the subsequent two phases the impact of the IFRS 9 is not reasonably estimable. The IASB's work on the second phase on impairment of financial instruments, the third phase on hedge accounting, the accounting treatment of the financial liabilities and the derecognition of financial instruments are still ongoing.

IAS 24 Related Party Disclosures (Revised) is effective for periods beginning on or after 1 January 2011. The standard amends a definition of related parties and introduces a definition of government agencies. In addition, the standard requires disclosure of transactions and relationships with government agencies.

IAS 27 Consolidated and Separate Financial Statements (Amendments) is effective for periods beginning on or after 1 July 2009. This amendment relates to accounting of non-controlling interests and the loss of control of a subsidiary.

IAS 32 Financial Instruments: Presentation (Amendments) is effective for periods beginning on or after 1 February 2010. This amendment proposes a limited change specific to rights issues.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment) is effective for periods beginning on or after 1 July 2009. The amendment provides additional guidance on the designation of a hedged item.

IFRIC 14 Prepayment of a Minimum Funding Requirement (Amendments) is effective for periods beginning on or after 1 January 2011.

IFRIC 17 Distributions of Non-cash Assets to Owners is effective for periods beginning on or after 1 July 2009. The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments is effective for periods beginning on or after 1 July 2010. The interpretation addresses the accounting whereby the entity extinguishes financial liability by issuing equity shares.

2.4 Summary of significant accounting policies

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

(1) Foreign currency translation

Items included in the financial statements of each of the Group's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which are taken directly to equity until the disposal of the net investment, at which time they are recognised in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Exchange differences from non-monetary available-for-sale financial assets are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

The results and financial position of all the Group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities at the year-end exchange rates;
- income and expenses at the average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity in the Foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the statement of financial position at the fair value of the consideration given or received.

(3) Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Derivatives held for trading

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading (including interest income and expense) are included in Net gains/losses from financial instruments at fair value through profit or loss.

The Group occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Group cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value in the statement of financial position with changes in fair value reflected in the statement of income.

(ii) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the statement of financial position at fair value. Changes in fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract, or when the right to the payment has been established. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(v) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reversed and included in Net realised gains/losses on available-for-sale financial assets. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(vi) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(vii) 'Day 1' profit

Where the transaction price in a non-active market differs from the fair value of other observable current market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities designated at fair value through profit or loss or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Loans and receivables. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(5) Determination of fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(6) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that come to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of borrowers in the group; or
    - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Group assesses objective evidence of impairment individually or collectively for financial assets at amortised cost. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses.

(ii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Assets carried at fair value

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of a debt instrument classified as available-for-sale, the assessment of impairment is based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A significant decline is considered to be a 30% decline in the fair value. A prolonged decline is considered to be a decline of one year or longer. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

(7) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(8) Hedge accounting

The Group uses instruments, designated as hedging, as cash flow hedges or fair value hedges to manage the Group's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the profit or loss. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. A derivative is considered to be highly effective if the Group achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

The Group has complied with the amended standard, taking into account the 'carved out' parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss.

(9) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(10) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group company as a lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Group company as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as finance lease receivables in the statement of financial position in Loans and receivables. A receivable is recognised over the leasing period at an amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the statement of income.

Leases, in which the Group does not transfer substantially all the risks and benefits of ownership of the asset, are classified as operating leases. The Group leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Rental income and depreciation relating to operating lease assets is included as a net amount in Other net income.

(11) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Origination fees for loans that are probable of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on the completion of the underlying transaction. Recognition of portfolio and other management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Group's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding mandatory minimum reserves), loans and advances to credit institutions and deposits from credit institutions.

(13) Investment property

The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life. The accounting policy outlined for property and equipment also applies to investment property.

(14) Investments in associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method. The Group’s share of associates’ post-acquisition profits or losses is recognised in the statement of income, and its share of post-acquisition movements in equity is recognised in Retained earnings or in the Available-for-sale reserve.

(15) Property and equipment

Property and equipment includes Group occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Assets that are subject to depreciation are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(16) Business combinations and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the total of the fair values of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets of the acquired business or subsidiary company, the difference is recognised directly in the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

(17) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets.

Intangible assets are carried at cost less accumulated amortisation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Amortisation of the software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated using the diminishing balance method over its economic useful life. The economic useful life is the period over which the Group receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the assets. The resulting gains and losses are included as a net amount in Other net income.

(18) Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. Fees are recognised in the statement of income in Fee and commission income. Any increase and decrease in the liability relating to financial guarantees is included in Impairment losses.

(19) Employee retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Certain Group companies contribute to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

(20) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(21) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period. Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities for each separate consolidated entity.

(22) Fiduciary activities

The Group commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(23) Operating segments

The operating segments are determined according to the newly effective standard IFRS 8, which replaced IAS 14 on 1 January 2009. Operating segments are components of the Group that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Group level to assess their performance. Discrete information is available for each operating segment. The original primary business segments as reported in prior years are deemed equal to the operating segments.

2.5 Comparative balances

Transformation of business in Slovakia

In 2007, KBC Bank, as the sole shareholder of the Bank, decided to establish a new legal entity in the Slovak Republic, for KBC Group strategic reasons and with the aim of management in both countries (Czech and Slovak Republics) to report directly to the KBC Group. The foundation agreement of Československá obchodná banka, a.s. (ČSOB SK) was signed on 14 August 2007, with an effective date of 1 January 2008.

The structure of shareholders as at 1 January 2008 of ČSOB SK was as follows:

	Share on capital (%)	Fair value of share of capital (SKKm)
ČSOB	56.74	11,408
KBC Bank	39.80	8,000
ČSOB Leasing CZ	2.02	407
ČSOB Factoring CZ	1.44	289
Total	100.00	20,104

The share of ČSOB was represented by the non-cash contribution of assets and liabilities recorded in the books of ČSOB Slovakia branch as at 31 December 2007 and the additional deposit of shares of all the ČSOB subsidiaries incorporated in the Slovak Republic.

The KBC Bank share was represented by a cash deposit.

The ČSOB Leasing CZ and ČSOB Factoring CZ shares were represented by their shares in ČSOB Leasing SK and ČSOB Factoring SK.

Based on the Agreement on the exercise of voting rights signed on 14 August 2007, the execution of the voting rights of all other shareholders was transferred to KBC Bank. Therefore, since 1 January 2008, ČSOB SK has been controlled by KBC Bank. The share of the Group in this entity was classified as an available-for-sale financial asset.

The transaction was held between entities under common control and was treated as a reorganisation of the currently existing group. Starting on 1 January 2008, the ČSOB Group’s entities in the Slovak Republic were excluded from the ČSOB Group consolidation scope. These shares as well as the deposited assets and liabilities were replaced by the share in ČSOB SK.

The ČSOB subsidiaries incorporated in the Slovak Republic and contributed to ČSOB SK were as follows:

	Share on capital (%)
Business Center, s.r.o	100.00
ČSOB Asset Management, správ. spol., a.s.	100.00
ČSOB distribution, a.s.	100.00
ČSOB d.s.s., a.s.	100.00
ČSOB Factoring, a.s.	100.00
ČSOB Leasing, a.s. SK	100.00
ČSOB Leasing poisťovací maklér, s.r.o.	100.00
ČSOB stavebná sporiteľňa, a.s.	100.00

The net book value of assets contributed by the Group to ČSOB SK was CZK 5,409 m. The fair value of contributed assets was CZK 9,584 m. The difference between the net book value and the fair value of contributed assets was recognised in Reorganisation reserve (CZK 1,423 m) and Available-for-sale reserve (CZK 2,752 m) (Note: 32). The reorganisation reserve represented the dilution of the Group’s interest in the assets of the ČSOB Slovakia branch and subsidiaries in exchange for an interest in ČSOB SK into which KBC Bank was contributing cash.

The main effects on the ČSOB group consolidated financial statements are shown in Consolidated statement of cash flow and movement tables through item transformation business in Slovakia.

At the beginning of 2009 the original Group's share in ČSOB SK was 60.2%. In 2008, KBC Bank bought a 100% share in Istrobanka, a universal bank operating on the Slovak market. In 2009, it decided to merge ČSOB SK and Istrobanka via a contribution of its 100% share to ČSOB SK. The merger took place on 1 July 2009. As a result, the Group's share in ČSOB SK decreased to 49.54% as of the transaction date.

The structure of shareholders of ČSOB SK as at 1 July 2009 was as follows:

	Share on capital (%)
ČSOB	46.68
KBC Bank	50.46
ČSOB Leasing CZ	1.66
ČSOB Factoring CZ	1.20
Total	100.00

Following the merger, the Group agreed with KBC Bank to sell ČSOB SK shares.

The transfer simplified the KBC Group structure. ČSOB Leasing CZ and ČSOB Factoring CZ sold their shares to KBC Bank.The sales agreement was signed on 11 December 2009, with an effective date of 14 December 2009. The total consideration was CZK 12,459 m.

In connection with the sale the Group released the relating Reorganisation reserve in the amount of CZK 1,423 m (including tax effects of deferred tax in the amount of CZK (74) m), Foreign currency translation reserve in the amount of CZK (196) m and Available-for-sale reserve in the amount of CZK 4,790 m. The Group reported a realised gain in Net realised gains on available-for-sale financial assets in the statement of income amounting to CZK 6,091 m.

Interest accrual on non-performing loans

Until 2008, the Group accrued interest on non-performing loans in Interest income, which was reversed through an impairment charge in Impairment of loans and receivables. From 2009, the Group decided to reverse the interest accrued on non-performing loans directly within Interest income. The following table sets reclassifications made in the statement of income and in the statement of financial position for the year ended 31 December 2008, to reflect the above change:

(CZKm)	2008 As reported	Reclassifications	2008 Reclassified
Interest income	37,862	(120)	37,742
Impairment losses	(3,903)	120	(3,783)
Loans and receivables			
Gross loans	417,207	(450)	416,757
Allowance for impairment losses	(6,830)	450	(6,380)

The following table sets reclassifications made in the Statement of financial position as at 31 December 2007, to reflect the above change:

(CZKm)	2007 As reported	Reclassifications	2007 Reclassified
Loans and receivables			
Gross loans	418,428	(330)	418,098
Allowance for impairment losses	(7,299)	330	(6,969)

Reallocation of Expenses among Segments

Segmental reporting of the Group for the year ended 31 December 2008 was based on a different cost allocation methodology than the one used by the Group to report segmental results for the year ended 31 December 2009. To enhance the quality of the segmental reporting and comparability among the segments, in 2009, the Group started reporting its segmental results after allocating of overhead expenses from the Group Center to other segments. The segmental results for the year ended 31 December 2008 has been reclassified to be in line with this change in cost allocation methodology.

Outsourcing of ICT services

In accordance with the long-term objective of simplifying and increasing efficiency in the delivery of information and communication (ICT) services within the KBC Group, a decision was made in 2008 that selected Group companies should outsource ICT services. The decision anticipated the transfer of a number of employees and ICT-related assets to a separate entity.

A Czech branch of the Belgium-based KBC Global Services NV was registered on 14 January 2009 as KBC Global Services Czech Branch, organizační složka (hereafter referred to as KBC GS CZ).

Following Board of Directors' decisions, the ICT services functions of ČSOB and ČSOB Pojišťovna were transferred to KBC GS CZ as at 1 June 2009. Existing employment contracts of related ČSOB employees were transferred to KBC GS CZ in compliance with legal regulations.

A framework outsourcing contract "ICT Services Frame Agreement" between ČSOB, KBC Global Services NV and KBC GS CZ was drawn up on 1 June 2009 and provides the general terms and conditions governing ICT services including several service level agreements (SLAs) specifying the basic principles for interactions. Only a basic agreement on the charging principles between ČSOB Bank and KBC GS CZ was established. The process of transferring contracts with the main suppliers began in 2009.

As a result of the above changes, Staff expenses and a part of General administrative expenses are not fully comparable to the previous period. The main effects on the Group's financial statements and related disclosures are shown in General administrative expenses (Note: 11).

In 2010, the Group will proceed in its effort to centralise the purchase of ICT services. Therefore, ICT services outsourcing will be extended to the other Group companies, such as ČSOB Leasing CZ (Note: 39).

An asset purchase agreement was concluded between ČSOB and KBC Global Services NV and became effective in January 2010. The agreement transferred the ICT-related assets which were classified as Non-current assets held-for-sale in the Group's financial statements as at 31 December 2009 from the Group to KBC Global Services NV (Note: 25).

A full set of SLAs will be completed, initially the Memorandum of Understanding will be signed, which will specify the material agreements relevant for further SLA development, including the agreements on risks borne by the KBCGS CZ and by ČSOB, ČSOB Pojišťovna and ČSOB Leasing CZ (expected in March 2010).

The process of transferring contracts (case-by-case approach) with ICT suppliers (third parties) is expected to be completed by June 2010.

The value of the newly created enterprise will be assessed and completed in 2010, the sales price will be determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague. The financial effect of the sale of the enterprise will be recognised in 2010 (Note: 39).

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 29 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2009	% 2008
Subsidiaries				
Auxilium, a.s.	Auxilium	Czech Republic	100.00	100.00
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
Centrum Radlická, a.s.	Centrum Radlická	Czech Republic	100.00	100.00
ČSOB Asset Management, a.s., a member of the ČSOB group	ČSOB AM CZ	Czech Republic	20.59	20.59
ČSOB Factoring, a.s.	ČSOB Factoring CZ	Czech Republic	100.00	100.00
ČSOB Investiční společnost, a.s., a member of the ČSOB group	ČSOB IS	Czech Republic	90.81	90.81
ČSOB Investment Banking Services, a.s., a member of the ČSOB group	ČSOB IBS	Czech Republic	100.00	100.00
ČSOB Leasing, a.s.	ČSOB Leasing CZ	Czech Republic	100.00	100.00
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř	Czech Republic	100.00	100.00
ČSOB Penzijní fond Progres, a.s., a member of the ČSOB group	ČSOB PF Progres	Czech Republic	100.00	100.00
ČSOB Penzijní fond Stabilita, a.s., a member of the ČSOB group	ČSOB PF Stabilita	Czech Republic	100.00	100.00
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	Czech Republic	69.67	70.09
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100.00	99.90
Merrion properties, s.r.o.	Merrion properties	Czech Republic	69.67	70.09
Property LM, s.r.o.	Property LM	Slovak Republic	69.67	70.09
Property Skalica, s.r.o.	Property Skalica	Slovak Republic	69.67	70.09
První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost, a.s.	AXA First special OEF	Czech Republic	-	100.00
Joint venture				
Českomoravská stavební spořitelna, a.s.	ČMSS	Czech Republic	55.00	55.00
Associate				
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	25.00	25.00

In 2009, the participation of the Group in ČSOB Property fund, Property LM, Property Skalica and Merrion properties decreased as a result of the Bank's decision to decrease the amount of the share capital of the entity.

In May 2009, the Group bought out minority interests of 0.1% in Hypoteční banka, a.s. and became a sole shareholder of the entity. The purchase consideration paid represented CZK 14 m.

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 53% of the voting rights in the ČSOB AM CZ, therefore the company is considered to be a subsidiary.

In October 2008, 15% of voting rights in ČSOB Pojišťovna previously held by KBC Verzekeringen NV were transferred to the Group. The Group is therefore entitled to excercise 40% of the voting rights in ČSOB Pojišťovna.

In 2008 the shares of ČSOB Property fund and Merrion properties were increased. No goodwill arose from this increase. Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 100% of the voting rights in ČSOB Property fund and Merrion properties.

Based on the establishment of new companies Property LM and Property Skalica in 2008, the Group included these companies in the consolidation scope for the first time. No goodwill arose on consolidation. Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 100% of the voting rights in Property LM and Property Skalica.

Based on the Shareholders Agreement, the Group controls ČMSS jointly with the owner of the remaining 45% share. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

On 1 January 2008, the Group deposited the shares of all the subsidiaries incorporated in the Slovak Republic into a new legal entity (Note: 2.5).

Based on the purchase of all participation certificates issued by AXA First special OEF, on 15 July 2008, Group became the sole proprietor of this entity and included this company in the consolidation scope. The Group sold all participation certificates of AXA First special OEF in March 2009.

In June 2008, the Group sold all participation certificates of ČSOB korporátní.

Details of the assets and liabilities disposed of and the disposal consideration are as follows:

(CZKm)	Carrying value 2009	Carrying value 2008
Financial assets designated at fair value through profit or loss	500	423
Other assets	-	100
	500	**523**
Current tax liabilities	-	1
	-	**1**
Net assets	500	522
Non-controlling interests	-	-
Proceeds from sale	**500**	**522**
Less:cash and cash equivalents in subsidiary sold	**-**	**-**
Net cash inflow on sale	**500**	**522**

The table does not include assets and liabilities contributed by the Group to ČSOB SK (Note: 2.5).

4. SEGMENT INFORMATION

The Group's primary segment reporting is by customer segment.

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting (controlling) structure. For each of the strategies business units, the Group management reviews internal management reports on quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is managed on the Group basis and is not allocated to operating segments.

Definitions of customer operating segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover of less than CZK 300 m. This segment contains customers' deposits, consumer loans, building savings, pension funds, overdrafts, credit cards facilities, mortgages, building savings loans, leasing, funds transfer facilities and other transactions and balances with retail and SME customers, mutual funds, asset management.

Corporate: Companies with a turnover of greater than CZK 300 m and non-banking financial institutions. This segment contains customers' deposits, loans, overdrafts, credit cards facilities, funds transfer facilities and other transactions and balances with corporate customers.

Financial markets and ALM: Asset Liability Management and Dealing. This segment contains investment products and services to institutional investors and intermediaries and fund management activities, together with corporate finance, merger and acquisitions advice, specialised financial advice and trading included in dealing services.

Group Centre: The Group Center segment consists of the Group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Corporate, Retail and SME segments, the results of the reinvestment of free equity of ČSOB, the results of operations of non-banking subsidiaries, income and expenses not directly attributable to other segments, and eliminations.

Segment reporting information by customer segments for 2009

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Group Centre	Total
Statement of income					
Net interest income	15,623	2,307	1,329	3,759	**23,018**
Net fee and commission income	5,142	1,037	(147)	518	**6,550**
Dividend income	78	6	-	363	**447**
Net gains / (losses) from financial instruments at fair value through profit or loss	982	527	2,991	(1,126)	**3,374**
Net realised gains on available-for-sale financial assets	290	256	120	5,674	**6,340**
Other operating income	1,465	117	(139)	(488)	**955**
Operating income	**23,580**	**4,250**	**4,154**	**8,700**	**40,684**
of which:					
External operating income	*19,106*	*4,627*	*9,874*	*7,077*	***40,684***
Internal operating income	*4,474*	*(377)*	*(5,720)*	*1,623*	**-**
Depreciation and amortisation	(275)	(29)	(2)	(1,137)	**(1,443)**
Other operating expenses	(11,308)	(1,239)	(398)	(271)	**(13,216)**
Operating expenses	**(11,583)**	**(1,268)**	**(400)**	**(1,408)**	**(14,659)**
Impairment losses - additions	(5,042)	(1,651)	(17)	(1,147)	**(7,857)**
Impairment losses - reversals	414	276	-	658	**1,348**
Impairment losses	**(4,628)**	**(1,375)**	**(17)**	**(489)**	**(6,509)**
Share of profit of associates	-	-	-	360	**360**
Profit before tax	**7,369**	**1,607**	**3,737**	**7,163**	**19,876**
Income tax benefit / (expense)	(1,507)	(337)	305	(920)	**(2,459)**
Segment profit	**5,862**	**1,270**	**4,042**	**6,243**	**17,417**
Attributable to:					
Equity holders of the Bank	5,862	1,270	4,042	6,194	**17,368**
Non-controlling interest	-	-	-	49	**49**
Assets and liabilities					
Segment assets	357,879	89,585	508,727	(98,415)	**857,776**
Investment in associates	-	-	-	1,196	**1,196**
Total assets	**357,879**	**89,585**	**508,727**	**(97,219)**	**858,972**
Total liabilities	**490,184**	**90,691**	**197,930**	**10,316**	**789,121**
Capital expenditure	**1,178**	**3**	**-**	**540**	**1,721**

Segment reporting information by customer segments for 2008

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Group Centre	Total
Statement of income					
Net interest income	14,910	2,012	1,435	2,908	**21,265**
Net fee and commission income	5,219	1,039	(168)	554	**6,644**
Dividend income	21	-	1	95	**117**
Net gains / (losses) from financial instruments at fair value through profit or loss	1,209	1,110	(11,035)	(2,334)	**(11,050)**
Net realised gains / (losses) on available-for-sale financial assets	(2)	-	44	7	**49**
Other operating income	1,132	131	(11)	778	**2,030**
Operating income	**22,489**	**4,292**	**-9,734**	**2,008**	**19,055**
of which:					
External operating income	*16,246*	*5,120*	*(2,938)*	*627*	***19,055***
Internal operating income	*6,243*	*(828)*	*(6,796)*	*1,381*	**-**
Depreciation and amortisation	(347)	(26)	(2)	(1,082)	**(1,457)**
Other operating expenses	(11,860)	(1,296)	(318)	(83)	**(13,557)**
Operating expenses	**(12,207)**	**(1,322)**	**(320)**	**(1,165)**	**(15,014)**
Impairment losses - additions	(3,614)	(487)	(506)	(505)	**(5,112)**
Impairment losses - reversals	779	305	-	245	**1,329**
Impairment losses	**(2,835)**	**(182)**	**(506)**	**(260)**	**(3,783)**
Share of profit of associates	-	-	-	116	**116**
Profit before tax	**7,447**	**2,788**	**(10,560)**	**699**	**374**
Income tax benefit / (expense)	(1,667)	(574)	3,031	(70)	**720**
Segment profit / (loss)	**5,780**	**2,214**	**(7,529)**	**629**	**1,094**
Attributable to:					
Equity holders of the Bank	5,780	2,214	(7,529)	569	**1,034**
Non-controlling interest	-	-	-	60	**60**
Assets and liabilities					
Segment assets	346,305	111,496	408,632	(42,806)	**823,627**
Investment in associates	-	-	-	858	**858**
Total assets	**346,305**	**111,496**	**408,632**	**(41,948)**	**824,485**
Total liabilities	**464,178**	**92,254**	**175,203**	**36,006**	**767,641**
Capital expenditure	**1,168**	**161**	**4**	**996**	**2,329**

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Group operated in the Czech Republic and the Slovak Republic until 31 December 2007. On 1 January 2008, the Group contributed the assets and liabilities recorded in the books of the ČSOB Slovakia branch as at 31 December 2007 and shares of all the ČSOB subsidiaries incorporated in the Slovak Republic into the new legal entity established in the Slovak Republic (Note: 2.5). Since 2008 the Group has been operating only in the Czech Republic.

5. INTEREST INCOME

(CZKm)	2009	2008
Cash balances with central banks	448	1,542
Loans and receivables		
Credit institutions	555	663
Other than credit institutions	20,399	20,629
Available-for-sale financial assets	3,641	3,234
Held-to-maturity investments	5,418	5,025
Financial assets held for trading	2,389	5,367
Financial assets designated at fair value through profit or loss	1,036	1,282
	33,886	**37,742**

6. INTEREST EXPENSE

(CZKm)	2009	2008
Financial liabilities at amortised cost		
Central banks	9	22
Credit institutions	474	863
Other than credit institutions	6,959	8,789
Debt instruments in issue	1,486	1,925
Subordinated liabilities	356	552
Discount amortisation on other provisions (Note: 30)	5	13
Financial liabilities designated at fair value through profit or loss	1,579	4,313
	10,868	**16,477**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2009	2008
Fee and commission income		
Payment services	4,755	4,952
Administration of credits	1,797	1,558
Collective investments	588	709
Asset management	272	279
Custody	156	154
Securities	78	74
Other	1,092	961
	8,738	**8,687**
Fee and commission expense		
Payment services	812	786
Contribution to Deposit Insurance Fund	459	394
Commissions to agents	381	348
Other	536	515
	2,188	**2,043**
Net fee and commission income	**6,550**	**6,644**

8. NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains / (losses) from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains / (losses) from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

(CZKm)	2009	2008
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange- as reported	**3,374**	**(11,050)**
Net interest income (Notes: 5, 6)	1,846	2,336
	5,220	**(8,714)**
Financial instruments held for trading		
Interest rate contracts	3,191	1,389
Foreign exchange	1,457	406
Equity contracts	21	(61)
Commodity contracts	29	50
	4,698	1,784
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	1,923	(8,523)
Financial liabilities designated at fair value through profit or loss	(1,571)	(4,340)
	352	(12,863)
Exchange differences revaluations	170	2,365
Financial instruments at fair value through profit or loss and foreign exchange	**5,220**	**(8,714)**

9. OTHER NET INCOME

(CZKm)	2009	2008
Net operating leasing and rental income	356	273
Services provided to ČSOB SK	275	377
Net gain on disposal of non-current assets held-for-sale	111	-
Net gain on disposal of property and equipment	24	17
Contributions to pension fund clients	(320)	(18)
Other	509	1,381
	955	**2,030**

10. STAFF EXPENSES

(CZKm)	2009	2008
Wages and salaries	4,595	4,709
Salaries and other short-term benefits of senior management	77	78
Social security charges	1,377	1,442
Pension and similar expense	130	135
Other	176	322
	6,355	**6,686**

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

Only the Chairman of the Supervisory Board is remunerated for his membership of the Supervisory Board.

Retirement benefits

The Group provides its employees (including senior management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries mainly to the ČSOB PF Stabilita, or the ČSOB PF Progres, wholly-owned subsidiaries of ČSOB and other pension funds approved by Czech Ministry of Finance (MF CZ), with a contribution of the Group of 2% or 3% of their salaries, respectively.

Termination benefits

Employees dismissed by their employer according to the Czech employment law are entitled to termination benefits equal to or more than three times the employee's month's average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (one month's average salary), 15-20 years (1.5 times the month's average salary), 20-25 years (twice the month's average salary), 25-30 years (3 times the month's average salary), 30-35 years (4 times the month's average salary) and over 35 years (5 times the month's average salary).

11. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2009	2008
Information technology	1,744	1,014
Retail service fees	1,128	1,090
Marketing	790	1,129
Communication	637	833
Rental expenses - minimum lease payments	624	550
Other building expenses	480	490
Professional fees	367	338
Administration	150	204
Travel and transportation	113	88
Car expenses	70	73
Insurance	52	45
Operating taxes	28	29
Other	790	1,089
	6,973	**6,972**

An increase in Information technology expenses in 2009 arose mainly from the outsourcing of ICT services since June 2009. Total charges for information and communication services invoiced by KBC GS CZ were CZK 1,158 m (2008: Nil). Simultaneously, the outsourcing of ICT yielded a reduction in other expense categories such as staff expenses and communication expenses.

12. IMPAIRMENT LOSSES

(CZKm)	2009	2008
Impairment of loans and receivables (Note: 19)	(5,477)	(2,130)
Provisions for loan commitments and guarantees (Note: 30)	114	-
Impairment of available for sale assets (Note: 18)	(245)	(984)
Impairment of held-to-maturity investments (Note: 18)	(17)	(370)
Impairment of investment property (Note: 22)	(156)	-
Impairment of goodwill (Note: 24)	(622)	-
Impairment of non-current assets held-for-sale (Note: 25)	(8)	(9)
Impairment of other assets	(98)	(290)
	(6,509)	**(3,783)**

13. TAXATION

The components of income tax expense/(benefit) for the years ended 31 December 2009 and 2008 are as follows:

(CZKm)	2009	2008
Current tax expense	1,402	604
Previous year under / (over) accrual	37	(168)
Deferred tax expense / (benefit) relating to the origination and reversal of temporary differences	1,035	(1,157)
Deferred tax expense resulting from reduction in tax rate	(15)	1
	2,459	**(720)**

A reconciliation between the tax expense/(benefit) and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2009 and 2008 is as follows:

(CZKm)	2009	2008
Profit before taxation	19,876	374
Applicable tax rates	20%	21%
Taxation at applicable tax rates	3,975	78
Previous year under / (over) accrual	37	(168)
Tax effect of non-taxable income	(2,525)	(1,664)
Tax effect of non-deductible expenses	968	1,030
Effect on opening deferred taxes due to reduction in tax rate	(15)	1
Other	19	3
	2,459	**(720)**

During 2007, changes in the Income tax law were approved. The applicable tax rate for 2009 was 20% (2008: 21%) and for future periods it will be 19%.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19% enacted for 2010 onwards.

The movement on the deferred income tax account is as follows:

(CZKm)	2009	2008
At 1 January	**695**	**355**
Transformation of business in Slovakia (Note: 2.5)	-	(161)
Sale of ČSOB SK (Note: 2.5)	74	-
Statement of income charge	(1,020)	1,156
Available-for-sale securities (Note: 32)		
Fair value remeasurement	(407)	(341)
Transfer to net profit	20	23
Cash-flow hedges (Note: 32)		
Fair value remeasurement	410	(364)
Transfer to net profit	(123)	27
Net investment hedges		
Fair value remeasurement (Note: 32)	-	(7)
Exchange differences	19	7
At 31 December	**(332)**	**695**

Deferred tax asset and liability are attributable to the following items:

(CZKm)	2009	2008
Deferred tax asset		
Revaluation of financial assets and liabilities at fair value through profit or loss	227	207
Employee benefits	167	-
Interest rate bonus	114	130
Allowances for credit losses	109	61
Provisions	105	173
Cash flow hedges	96	(166)
Legal claim	92	92
Impairment losses on financial investments	39	116
Unused tax losses applicable in the next periods	24	838
Accelerated tax depreciation	11	(23)
Initial fee income	11	57
Amortisation of goodwill	(210)	(139)
Available-for-sale securities	(603)	(170)
Other temporary differences	89	72
	271	**1,248**
Deferred tax liability		
Accelerated tax depreciation	1,035	788
Finance lease valuation	255	331
Initial fee expense	94	58
Revaluation of financial assets and liabilities at fair value through profit or loss	72	50
Available-for-sale securities	7	83
Provisions	(2)	(4)
Allowances for credit losses	(289)	(168)
Unused tax losses applicable in the next periods	(569)	(607)
Other temporary differences	-	22
	603	**553**

The deferred tax (charge) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2009	2008
Allowances for credit losses	169	136
Employee benefits	167	-
Finance lease valuation	76	(41)
Available-for-sale securities	-	3
Revaluation of financial assets and liabilities at fair value through profit or loss	(2)	227
Interest rate bonus	(16)	3
Provisions	(70)	7
Amortisation of goodwill	(71)	(41)
Impairment losses on financial investments	(77)	115
Initial fee income	(82)	(54)
Accelerated tax depreciation	(213)	(501)
Unused tax losses applicable in the next periods	(852)	1,361
Other temporary differences	(34)	(60)
Deferred tax expense resulting from reduction in tax rate	(15)	1
	(1,020)	**1,156**

The Group management believes it is probable that the Group will fully realise its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities. The Group can carry forward tax loss for up to 5 years from its recognition.

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic earnings per share calculation:

(CZKm)	2009	2008
Net profit attributable to ordinary equity holders of the parent	17,368	1,034
Weighted average number of ordinary shares for basic earnings per share	5,855,000	5,855,000
Earnings per share		
Equity shareholders of the parent for the year:	CZK	CZK
Basic earnings per share	2,966.33	176.60
Diluted earnings per share	2,966.33	176.60

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

15. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. The Board of Directors decided to submit to Supervisory Board on the meeting held on 3 March 2010 the proposal to pay a dividend of CZK 2,970 per share for 2009, representing a total dividend of CZK 17,389 m. This proposal is subject of usual approval process of the profit distribution.

Based on a sole shareholder decision from 16 June 2009, a dividend of CZK 116 per share was approved for 2008, representing a total dividend of CZK 679 m.

Based on a sole shareholder decision from 3 June 2008, a dividend of CZK 1,568 per share was approved for 2007, representing a total dividend of CZK 9,181 m.

16. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2009	2008
Cash	7,393	8,348
Mandatory minimum reserves (Note: 40.2)	10,008	5,467
Other balances with central banks (Note: 40.2)	5,648	2,787
	23,049	**16,602**
Accrued interest income (Note:40.2)	1	-
	23,050	**16,602**

Mandatory minimum reserves are not available for use in the Group's day-to-day operations.

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2009	2008
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 37)	88,449	15,389
Money market placements	14,255	46,952
Debt instruments	35,053	22,741
Debt securities pledged as collateral	4,288	12,529
Derivative contracts (Note: 21)	17,507	32,781
	159,552	**130,392**
Accrued interest income	565	950
	160,117	**131,342**
Financial assets designated at fair value through profit or loss		
Debt instruments	16,763	20,313
Debt securities pledged as collateral	-	2,615
	16,763	**22,928**
Accrued interest income	224	586
	16,987	**23,514**
Financial assets at fair value through profit or loss	**177,104**	**154,856**

18. FINANCIAL INVESTMENTS

(CZKm)	2009	2008
Available-for-sale financial assets		
Debt securities	98,703	76,546
Equity securities	1,124	12,658
	99,827	**89,204**
Accrued interest income	1,740	1,250
	101,567	**90,454**
Held-to-maturity investments		
Debt securities	129,383	112,379
Accrued interest income	3,378	2,857
	132,761	**115,236**
Financial investments	**234,328**	**205,690**

Included within Financial investments are debt securities of CZK 7,015 m (2008: CZK 28,857 m) pledged as collateral in repo transactions.

The following table shows a reconciliation of the impairment losses on financial investments for 2008 and 2009:

	Available-for-sale financial assets		Held-to Maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2008	**-**	**39**	**-**	**39**
Transformation of business in Slovakia (Note: 2.5)	-	(13)	-	(13)
Increase (Note: 12)	136	848	370	1,354
Foreign currency translation	-	-	32	32
At 31 December 2008	**136**	**874**	**402**	**1,412**
Increase (Note: 12)	-	245	17	262
Utilisation	-	(502)	(393)	(895)
Foreign currency translation	-	-	(26)	(26)
At 31 December 2009	**136**	**617**	**-**	**753**

19. LOANS AND RECEIVABLES

(CZKm)	2009	2008
Analysed by category of borrower		
Central government	29	6,023
Non credit institutions	5,471	4,712
Credit institutions	8,945	16,807
Corporate	155,712	191,224
Retail	235,682	197,991
Gross loans	405,839	416,757
Allowance for impairment losses	(10,720)	(6,380)
	395,119	**410,377**
Accrued interest income	655	1,267
	395,774	**411,644**

Of which finance lease receivables may be analysed as follows:

(CZKm)	2009	2008
Gross investment in finance leases, receivable	**19,078**	**27,881**
At not more than one year	9,797	12,899
At more than one but not more than five years	9,196	14,770
At more than five years	85	212
Unearned future finance income on finance leases	(1,468)	(1,902)
Net investment in finance leases	**17,610**	**25,979**
At not more than one year	9,043	12,019
At more than one but not more than five years	8,488	13,763
At more than five years	79	197
Accumulated allowance for uncollectible minimum lease payments receivable	1,423	440

Finance lease receivables are collateralised by the leased items. Leasing companies maintain legal ownership of the respective collateral.

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2008 and 2009 by segments and by individual and collective impairment:

(CZKm)	Credit institutions	Non-credit institutions	Corporate	Retail	Total
At 1 January 2008	**95**	**9**	**4,368**	**2,497**	**6,969**
Transformation of business in Slovakia (Note: 2.5)	(46)	-	(778)	(930)	(1,754)
Net increase / (decrease) in allowances for credit losses (Note: 12)	(28)	(7)	1,156	1,009	2,130
Write-offs	-	-	(469)	(504)	(973)
Foreign currency translation	1	-	20	(13)	8
At 31 December 2008	**22**	**2**	**4,297**	**2,059**	**6,380**
Net increase in allowances for credit losses (Note: 12)	194	-	3,375	1,908	5,477
Write-offs	-	-	(222)	(885)	(1,107)
Foreign currency translation	-	-	(30)	-	(30)
At 31 December 2009	**216**	**2**	**7,420**	**3,082**	**10,720**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2008	**6,295**	**674**	**6,969**
Transformation of business in Slovakia (Note: 2.5.)	(1,570)	(184)	(1,754)
Increase in allowances for credit losses (Note: 12)	2,814	465	3,279
Decrease in allowances for credit losses (Note: 12)	(739)	(410)	(1,149)
Write-offs	(973)	-	(973)
Transfers	3	(3)	-
Foreign currency translation	(1)	9	8
At 31 December 2008	**5,829**	**551**	**6,380**
Increase in allowances for credit losses (Note: 12)	6,298	409	6,707
Decrease in allowances for credit losses (Note: 12)	(1,136)	(94)	(1,230)
Write-offs	(1,095)	(12)	(1,107)
Transfers	25	(25)	-
Foreign currency translation	(30)	-	(30)
At 31 December 2009	**9,891**	**829**	**10,720**

During 2009, the Group took possession of assets (mainly cars related to leased assets) with an estimated value of CZK 294 m (2008: CZK 268 m), which the Group is in the process of selling.

20. INVESTMENT IN ASSOCIATE AND JOINT VENTURE

The Group has a 25% ownership interest (2008: 25%) in ČSOB Pojišťovna (Note: 3). The following table illustrates the summarised financial information of the investment in this associate:

(CZKm)	2009	2008
The associate's assets and liabilities		
Assets	35,326	31,592
Liabilities	30,542	28,160
Net assets	**4,784**	**3,432**
Carrying amount of the investment	**1,196**	**858**
The associate's revenue and profit		
Revenue	8,196	7,466
Profit for the year	1,440	463
Profit for the year – share of the Group	360	116

The Group has a 55% ownership interest (2008: 55%) in ČMSS (Note: 3). For 2009 and 2008, the Group's interest in this joint venture is as follows:

(CZKm)	2009	2008
Condensed assets and liabilities		
Cash and balances with central banks	1,439	1,183
Available-for-sale financial assets	8,950	13,837
Loans and receivables	71,462	61,697
Held-to-maturity investments	6,298	8,169
Tax assets	-	16
Property and equipment	413	444
Goodwill and other intangible assets	100	81
Other assets	123	142
Total assets	**88,785**	**85,569**
Financial liabilities at amortised cost	83,298	80,906
Tax liabilities	106	37
Other liabilities	439	413
Provisions	5	6
Total liabilities	**83,848**	**81,362**
Condensed statement of income		
Net interest income	1,861	1,537
Net fee and commission income	344	376
Other operating income	10	16
Operating income	**2,215**	**1,929**
Operating expenses	(732)	(707)
Impairment losses	(151)	(106)
Profit before tax	**1,332**	**1,116**
Income tax expense	(243)	(185)
Profit for the year	**1,089**	**931**

21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Group for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting. The Group uses single currency interest rate swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2009 and 2008 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

	2009			2008		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	665,829	11,584	15,078	908,855	17,352	22,038
Forwards	52,240	14	23	63,729	57	127
Options	23,821	187	165	29,231	160	151
	741,890	**11,785**	**15,266**	**1,001,815**	**17,569**	**22,316**
Foreign exchange contracts						
Swaps/Forwards	72,915	1,561	817	227,861	6,090	4,866
Cross currency interest rate swaps	35,558	2,166	551	60,115	3,234	1,941
Options	59,268	1,633	1,636	141,544	4,455	4,455
	167,741	**5,360**	**3,004**	**429,520**	**13,779**	**11,262**
Equity contracts						
Forwards/Options	100	33	20	100	6	20
Commodity contracts						
Swaps	6,238	329	317	7,643	1,427	1,418
Total derivatives held for trading (Notes: 17, 27)	**915,969**	**17,507**	**18,607**	**1,439,078**	**32,781**	**35,016**

Cash flow hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of cash flow hedges.

The Group uses single currency interest rate swaps to convert floating-rate loans to fixed rates. Currency interest rate swaps are used to exchange a series of foreign currency cash flows originating from a foreign currency asset for a series of cash flows appropriately structured in the required currency and maturity to match the respective liabilities.

In 2009, a loss of CZK 31 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2008: CZK 6 m)

The contract or notional amounts and positive and negative fair values of the Group's outstanding cash flow hedging derivatives as at 31 December 2009 and 2008 are set out as follows:

	2009			2008		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	162,477	3,217	3,930	52,181	1,581	1,011
Cross currency interest rate swaps	44,944	4,823	522	44,833	5,634	658
Total hedging derivatives	**207,421**	**8,040**	**4,452**	**97,014**	**7,215**	**1,669**

Net gains and losses on cash flow hedges reclassified to the Statement of income are as follows:

(CZKm)	2009	2008
Interest (expense) / income (Note: 32)	(651)	136
Taxation	124	(27)
Net (losses) / gains	**(527)**	**109**

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to the hedge floating interest income from reverse repo operations with the Czech National Bank earning 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Group and the fixed interest rate the Group receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest earning securities are included in Available-for-sale financial assets and in Held-to-maturity investments of the Group’s statement of financial position.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from changes in external interest rates on a group of client term deposits with contractual maturity varying from one week to six months. The variability in the interest paid on the client floating rate deposits is effectively hedged by the fixed rate receiver/floating rate payer swaps.

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Group uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same period as the remaining maturity of cash flows hedging derivatives

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December:

(CZKm)	2009	2008
Less than 3 months	1,931	2,184
More than 3 months but not more than 6 months	13,027	2,138
More than 6 months but not more than 1 year	16,224	1,191
More than 1 year but not more than 2 years	28,839	23,958
More than 2 years but not more than 5 years	106,369	32,417
More than 5 years	41,031	35,126
	207,421	**97,014**

Fair value hedging derivatives

Until 14 December 2009, the Group used cross currency interest rate swaps and term deposits denominated in EUR (originally Slovak crown) to hedge the volatility of the fair value currency risk related to Group's share in ČSOB SK, established by KBC Bank in Slovakia on 1 January 2008. The investment was classified as on Available-for-sale asset which was measured at fair value directly in equity. Because the changes in the fair value which correspond to changes in foreign exchange rates were designated as a hedged item, they were reported in net losses from financial instruments at fair value through profit or loss in the statement of income.

From March 2009 interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of bonds classified as Available-for-sale attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedge bond is a highly effective hedge.

The contract or notional amounts and positive and negative fair values of the Group's outstanding fair value hedging derivatives as at 31 December 2009 and 2008 are set out as follows:

	2009			2008		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps	13,200	-	706	-	-	-
Cross currency interest rate swaps	-	-	-	5,303	-	824
Total hedging derivatives	**13,200**	**-**	**706**	**5,303**	**-**	**824**

In 2009, the total realised interest income in the amount of CZK 316 m on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

The total realised foreign exchange loss in the amount of CZK 482 m on the hedged item attributable to the hedged currency risk is included in Net gains from financial instruments at fair value through profit or loss in 2009 (2008: foreign exchange gains in the amount of CZK 1,322 m).

22. INVESTMENT PROPERTY

(CZKm)	2009	2008
Net book value at 1 January	**1,002**	**875**
Additions	3	148
Disposal	(13)	-
Depreciation	(42)	(38)
Impairment	(156)	-
Foreign exchange adjustments	(3)	17
Net book value at 31 December	**791**	**1,002**
of which		
Cost	1,027	1,040
Depreciation and impairment	(236)	(38)
Fair value at 31 December	**839**	**886**
Other disclosures		
Rental income	79	62
Direct operating expenses from investments generating rental income	20	18
Direct operating expenses from investments not generating rental income	2	2

On 31 December 2009 and 2008, management valued investment property based on a valuation by performed an independent expert, based primarily on the capitalisation of the estimated rental value and unit prices of similar real property, with account being taken of all the market parameters available on the date of the assessment.

The impairment resulting from the decreased value of the investment property was due to an increase in the discount factor used in the valuation model.

23. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2008	10,295	2,864	865	6,321	20,345
Depreciation and impairment at 1 January 2008	(2,154)	(2,415)	(620)	(3,220)	(8,409)
Net book value at 1 January 2008	**8,141**	**449**	**245**	**3,101**	**11,936**
Additions	331	441	48	631	1,451
Disposals	(14)	(9)	(2)	(134)	(159)
Depreciation	(319)	(273)	(35)	(330)	(957)
Depreciation related to operating leased assets	-	-	-	(266)	(266)
Transfer to non-current assets held-for-sale	(109)	-	-	-	(109)
Transformation of business in Slovakia (Note: 2.5)	(1,403)	(46)	(44)	(308)	(1,801)
Net book value at 31 December 2008	**6,627**	**562**	**212**	**2,694**	**10,095**
of which					
Cost	8,617	2,749	752	5,976	18,094
Depreciation and impairment	(1,990)	(2,187)	(540)	(3,282)	(7,999)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2009	8,617	2,749	752	5,976	18,094
Depreciation and impairment at 1 January 2009	(1,990)	(2,187)	(540)	(3,282)	(7,999)
Net book value at 1 January 2009	**6,627**	**562**	**212**	**2,694**	**10,095**
Additions	291	244	32	648	1,215
Disposals	(346)	(6)	(1)	(472)	(825)
Depreciation	(299)	(302)	(34)	(277)	(912)
Depreciation related to operating leased assets	-	-	-	(293)	(293)
Transfer to non-current assets held-for-sale	-	(420)	-	(392)	(812)
Net book value at 31 December 2009	**6,273**	**78**	**209**	**1,908**	**8,468**
of which					
Cost	8,535	590	720	4,880	14,725
Depreciation and impairment	(2,262)	(512)	(511)	(2,972)	(6,257)

The net book value of the Construction in progress, included in Property and equipment, amounted to CZK 74 m at 31 December 2009 (31 December 2008: CZK 406 m).

24. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2008	3,639	3,735	989	8,363
Amortisation and impairment at 1 January 2008	(63)	(3,178)	(412)	(3,653)
Net book value at 1 January 2008	**3,576**	**557**	**577**	**4,710**
Additions	-	596	134	730
Disposals	-	(57)	(2)	(59)
Amortisation	-	(373)	(89)	(462)
Transformation of business in Slovakia (Note: 2.5)	-	(47)	(20)	(67)
Net book value at 31 December 2008	**3,576**	**676**	**600**	**4,852**
of which				
Cost	3,639	4,046	1,086	8,771
Amortisation and impairment	(63)	(3,370)	(486)	(3,919)

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2009	3,639	4,046	1,086	8,771
Amortisation and impairment at 1 January 2009	(63)	(3,370)	(486)	(3,919)
Net book value at 1 January 2009	**3,576**	**676**	**600**	**4,852**
Additions	(3)	392	109	498
Disposals	-	(7)	(270)	(277)
Amortisation	-	(397)	(92)	(489)
Impairment	(622)	-	-	(622)
Transfer to non-current assets held-for-sale	-	(22)	(18)	(40)
Net book value at 31 December 2009	**2,951**	**642**	**329**	**3,922**
of which				
Cost	3,636	4,132	863	8,631
Amortisation and impairment	(685)	(3,490)	(534)	(4,709)

The net book value of the Construction in progress, included in Software and Other intangible assets, amounted to CZK 51 m and CZK 38 m at 31 December 2009 (31 December 2008: CZK 92 m and CZK 245 m).

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash generating units (CGUs) for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represents the lowest level to which goodwill can be allocated on a reasonable basis. An allocation to CGUs of the Group’s goodwill attributable to shareholders is shown below:

(CZKm)	2009	2008
Retail / SME - Bank	2,511	2,511
Retail / SME – subsidiaries		
ČSOB PF Stabilita	200	774
ČSOB PF Progres	144	144
ČSOB AM CZ	-	48
Hypoteční banka	66	69
Other	30	30

Retail / SME - Bank

The recoverable amount for the Retail / SME - Bank segment was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years.

Cash flows in the Retail / SME - Bank segment are represented by net profit generated by the cash-generating unit above the required capital, calculated as 8.0% of its risk weighted assets, and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.5% (2008: 9.5%) and a long term growth of 3.0% were used for both the 2009 and 2008.

The value in use is particularly sensitive to a number of key assumptions:

- The assumed growth rate in forecasted cash flows beyond the terminal year of the budget. A growth rate of 3.0% for Retail / SME - Bank has been used for extrapolation purposes beyond the budget period. The long-term growth rate for the Retail / SME - Bank segment is based on management estimates of the business growth rate for the activities being undertaken by the segment and its level converge to the average growth rate experienced over the last few years. The growth rate does not exceed the long-term average growth rate for the market in which the business operates.
- The risk discount rate. For Retail / SME - Bank a risk discount rate of 10.5% (2008: 9.5%) has been applied. This reflects an risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of Retail / SME - Bank would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

Retail / SME - subsidiaries

ČSOB PF Stabilita

The recoverable amount of the ČSOB PF Stabilita CGU was determined based on the value-in-use methodology. That calculation uses cash-flow projections based on the financial budgets approved by the management covering the period 2010 - 2012. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate.

The carrying amount of the unit was determined to be higher than its recoverable amount and an impairment loss of CZK 574 m (2008: nil) was recognised. The impairment loss was allocated fully to goodwill, and is included in Impairment losses.

Increasing the risk discount rate by 100 basis point, while other assumptions remained constant, would decrease the value in use by CZK 122 m. Removing the long-term growth from the expected cash flows would decrease the valuation by CZK 180 m.

ČSOB PF Progres

The recoverable amount of the ČSOB PF Progres CGU was determined based on the value-in-use methodology. That calculation uses cash-flow projections based on the financial budgets approved by the management covering the period 2010 - 2012. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate.

For the ČSOB PF Progres to be impaired with all other assumptions held constant, the risk discount rate would need to increase by 5 basis points before the CGU's value in use calculation showed any impairment. Removing the long-term growth from the expected cash flows would decrease the valuation by CZK 160 m resulting in a full goodwill impairment.

ČSOB AM CZ

The recoverable amount for the ČSOB AM CZ CGU was determined based on the value-in-use. This has been calculated by aggregating the unit's stake in the ČSOB IS (based on present value of future cash flows expected to be derived from the component businesses of the Investment Company), its current surplus capital and the investment in the ČSOB Property fund.

The carrying amount of the unit was determined to be higher than its recoverable amount and an impairment loss of CZK 48 m (2008: Nil) was recognised. The impairment loss was allocated fully to goodwill, and is included in Impairment losses.

Hypoteční banka

The recoverable amount of the Hypoteční banka CGU was determined based on the value-in-use methodology. That calculation uses cash-flow projections based on the financial budgets approved by the management covering a period 2010 - 2012. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of Hypoteční banka would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

The value in use for Retail / SME – subsidiaries segment is particularly sensitive to a number of key assumptions as follows:

- The assumed growth rate on forecast cash flows beyond the terminal year of the budget and a long term growth rate of 3.5% (2008: 3.0%). The long-term growth rates for the CGUs in Retail / SME - subsidiaries segment are based on management estimates of the business growth rates for the activities being undertaken by each CGU and their levels converge to the average growth rates experienced over the last few years. The growth rate does not exceed the long-term average growth rate for the market in which the business operates.
- The risk discount rate. For Retail / SME – subsidiaries segment a risk discount rate of 10.5% (2008: 9.5%) has been applied. This represents the risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk including market risk premium. A similar approach has been applied for the other businesses.

The key assumptions described above may change as economic and market conditions change.

25. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	IT equipment	Software	Other	Total
Net book value at 1 January 2008	**27**	**-**	**-**	**-**	**27**
Transfer from property and equipment	109	-	-	-	109
Impairment charge	(9)	-	-	-	(9)
Net book value at 31 December 2008	**127**				**127**
of which					
Cost	143	-	-	-	143
Impairment	(16)	-	-	-	(16)

(CZKm)	Land and buildings	IT equipment	Software	Other	Total
Net book value at 1 January 2009	**127**	**-**	**-**	**-**	**127**
Transfer from other assets	-	-	-	41	41
Transfer from property and equipment	-	420	-	392	812
Transfer from other intangible assets	-	-	22	18	40
Additions	-	-	-	297	297
Disposals	(143)	-	-	(271)	(414)
Impairment charge	(8)	-	-	-	(8)
Impairment utilisation	24	-	-	-	24
Net book value at 31 December 2009	**-**	**420**	**22**	**477**	**919**
of which					
Cost	-	420	22	477	919
Impairment	-	-	-	-	-

Transfers of operating tangible and intangible assets disclosed in Transfer from property and equipment and Transfer from other intangible assets represents ICT-related assets which were sold to KBC GS CZ in January 2010 (Note: 2.5).

26. OTHER ASSETS

(CZKm)	2009	2008
Other debtors, net of provisions (Note: 35, 40.2)	2,956	5,812
Prepaid charges	979	1,070
Accrued income (Note: 35, 40.2)	893	850
VAT and other tax receivables	78	96
Receivables from securities clearing entities (Note: 35, 40.2)	39	1,068
Other receivables from clients (Note: 35, 40.2)	24	62
Other	113	210
	5,082	**9,168**

As at 31 December 2009 included within Other debtors, net of provisions and Accrued income is a receivable from the CNB related to ex-IPB off-balance sheet commitments repaid by the Group in the amount of CZK 1,723 m (31 December 2008: CZK 1,689 m). The original receivable from the MF CZ was derecognised from the statement of financial position on 13 November 2008 following an instruction received by the Group from the CNB. The Group was obliged to comply with the CNB's instruction, although the Group's management believes that the receivable from the MF CZ exists and is fully recoverable and that the CNB's ruling is not correct. This assessment is supported by the opinions of external lawyers.

Starting from November 2008, in accordance with the CNB instruction, the Group no longer recognised the receivable on the basis of the MF CZ guarantee, which is subject to an arbitration before the ICC International Court of Arbitration, in the statement of financial position. The Group continues to recognise the receivable on the basis of the Agreement and Indemnity executed between the CNB and ČSOB (the CNB Agreement). The difference in the amounts of the receivables (including accrued interest income) from the MF CZ and the CNB has been recognised in the statement of income. The receivable based on the MF CZ guarantee is recorded in the off-balance sheet. The Group believes that the amount related to repayments of ex-IPB off-balance sheet commitments is fully covered by guarantee agreements issued by the institutions of the Czech state.

As at 31 December 2008, Other debtors, net of provisions includes receivables from the CNB in the amount of CZK 2,919 m related to claims based on the CNB Agreement. Simultaneously as at 31 December 2008, the Group recorded advances for these receivables in the amount of CZK 2,919 m (Note: 29). Since the Group considers any potential rights of the CNB to reclaim certain of these advances as lapsed, an offset of the current balance of the receivables in the amount of CZK 2,603 m against the received advances in the amount of CZK 2,603 m was made in the statement of financial position as at 31 December 2009.

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2009	2008
Financial liabilities held for trading		
Short positions	4,429	48
Derivative contracts (Note: 21)	18,607	35,016
	23,036	**35,064**
Financial liabilities designated at fair value through profit or loss		
Term deposits	28,267	32,797
Repo transactions	76,329	28,712
Promissory notes	139	491
Bonds issued	216	480
	104,951	**62,480**
Accrued interest expense	106	316
	105,057	**62,796**
Financial liabilities at fair value through profit or loss	**128,093**	**97,860**

The amount that the Group would contractually be required to pay at the maturity of the Financial liabilities designated at fair value through profit or loss is CZK 16 m less than the carrying amount at 31 December 2009 (31 December 2008: CZK 17 m).

The changes in the fair value of the Financial liabilities designated at fair value through profit or loss attributable to changes in credit risk were not significant.

28. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2009	2008
Deposits received from central banks		
Repo transactions	-	17,000
Deposits received from credit institutions		
Current accounts	8,602	7,884
Term deposits with agreed maturity	10,102	17,864
Term deposits at notice	501	76
Repo transactions	6,822	14,422
	26,027	**40,246**
Deposits received from other than credit institutions		
Current accounts	283,421	270,030
Term deposits with agreed maturity	71,192	104,578
Term deposits at notice	98,896	52,133
Special deposits	108,025	102,932
Repo transactions	7,000	34
Other deposits	4,613	4,979
	573,147	**534,686**
Debt securities in issue		
Bonds issued	19,404	23,931
Promissory notes	13,164	19,972
Certificates of deposit	4	4
	32,572	**43,907**
Subordinated liabilities		
Subordinated debt	**11,970**	**11,965**
Accrued interest expense	1,266	1,567
Financial liabilities at amortised cost	**644,982**	**649,371**

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amount of CZK 5,000 m and CZK 7,000 m to KBC Bank. Both subordinated debts are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

In June 2000, Hypoteční banka issued subordinated debt in the nominal amount of CZK 200 m to ČSOB Pojišťovna, which was repaid in June 2008. Its coupon rate was 9.5%. The repayment of the debt was subordinated to all other classes of liabilities in the event of the liquidation of Hypoteční banka.

29. OTHER LIABILITIES

(CZKm)	2009	2008
Other clearing accounts	2,149	6,271
Accrued charges	1,709	1,756
Payables to employees including social security charges	1,670	1,472
Other creditors	1,116	5,121
Other debts to clients	740	263
Payables to securities clearing entities	453	658
Income received in advance	326	290
VAT and other tax payables	165	145
Other	316	262
	8,644	**16,238**

As at 31 December 2008, advances received for the receivables from the CNB related to the CNB Agreement in the amount of CZK 2,919 m were included within Other creditors. A part of these advances in the amount of CZK 2,603 m was offset against the receivables from the CNB as at 31 December 2009 (Note: 26).

30. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loans commitments and guarantees	Total
At 1 January 2009	232	131	131	499	993
Additions	125	2	-	101	228
Amounts utilised	(52)	(82)	(24)	-	(158)
Unused amounts reversed	(33)	(49)	-	(215)	(297)
Discount amortisation (Note: 6)	-	-	5	-	5
Foreign currency translation	(2)	-	-	(11)	(13)
At 31 December 2009	**270**	**2**	**112**	**374**	**758**

Only additions, reversals and utilisations of the provisions for legal issues and other losses, restructuring and contractual engagements are included in Provisions in the statement of income.

Pending legal issues and other losses

Provisions for legal issues and other losses represents an obligation to cover potential risks resulting from litigation, where the Group is a defendant.

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Group's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Group creates a provision in the full amount to cover the possible cost in the event of loss.

In 2009, the Group had a provision in the total amount of CZK 270 m. It is expected that the costs will not be incurred before 2011.

On a quarterly basis, the Group monitors status of all cases and makes a decision whether to create, utilise or reverse any provision.

The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests.

Restructuring

In December 2008, the Group decided to begin a new restructuring program with the aim to reduce the total number of personnel by 496 by the end of 2009. Based on this decision the Group created a provision in the amount of CZK 131 m to cover the related costs.

During 2009 the number of the Group's employees decreased by 360 under the program. This reduction was covered by provision created in December 2008 in the amount of CZK 81 m. The unused provision in the amount of CZK 50 m was released in December 2009.

Contractual engagements

The Bank assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) for which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise. It is expected that the costs will be incurred over the next 14 years.

31. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2009, the total authorised share capital was CZK 5,855 m (31 December 2008: CZK 5,855 m) and comprised of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

No Treasury shares were held by the Group at 31 December 2009 and 2008.

On 31 December 2009, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2008: 100%). On the same date, KBC Bank was controlled by the KBC Group and therefore KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The movement of Other reserves in 2008 and 2009 are as follows:

(CZKm)	Reorganization reserve	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2008	**-**	**(363)**	**(649)**	**(133)**	**(1,145)**
Other comprehensive income (Note: 32)	1,423	4,508	1,392	(63)	7,260
At 31 December 2008	**1,423**	**4,145**	**743**	**(196)**	**6,115**
Other comprehensive income (Note: 32)	(1,423)	(1,331)	(1,136)	197	(3,693)
At 31 December 2009	**-**	**2,814**	**(393)**	**1**	**2,422**

32. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2009	2008
Exchange differences on translating foreign operation	197	(88)
Cash flow hedges		
Net unrealised (losses) / gains on cash flow hedges	(2,074)	1,865
Net losses / (gains) on cash flow hedges reclassified to the statement of income (Note: 21)	651	(136)
Tax effect relating to cash flow hedges (Note: 13)	287	(337)
	(1,136)	1,392
Available-for-sale financial assets		
Net unrealised gains on available-for-sale financial investments	3,837	2,018
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	(222)	(106)
Net realised losses on available-for-sale financial investments reclassified to the statement of income on impairment	178	123
Transformation of business in Slovakia (Note: 2.5)	-	2,752
Sale of ČSOB SK (Note: 2.5)	(4,790)	-
Tax effect relating to available-for-sale financial investments (Note: 13)	(387)	(318)
	(1,384)	4,469
Hedge of net investment		
Net change on hedge of net investment	-	32
Tax effect relating to hedge of net investment (Note: 13)	-	(7)
	-	25
Share of other comprehensive income of associates	53	39
Reorganisation reserve		
Transformation of business in Slovakia (Note: 2.5)	-	1,423
Sale of ČSOB SK (Note: 2.5)	(1,423)	-
Other comprehensive income for the year, net of tax	**(3,693)**	**7,260**

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Group's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (3)).

Financial assets and liabilities at fair value (available-for-sale, held for trading, designated at fair value through profit or loss) are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices, which means that no model is involved in the process of revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate and foreign exchange contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include collateralised debt obligations (CDOs) and unlisted shares.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates.

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2009:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	102,704	-	102,704
Debt instruments	20,010	19,331	-	39,341
Derivative contracts	-	17,507	-	17,507
Accrued interest income	393	172	-	565
Financial assets designated at fair value through profit or loss				
Debt instruments	9,139	6,439	1,185	16,763
Accrued interest income	173	51	-	224
	-	-	-	
Available-for-sale financial assets				
Debt securities	71,595	27,108	-	98,703
Equity securities	985	-	139	1,124
Accrued interest income	1,430	310	-	1,740
Derivatives used for hedging	-	8,040	-	8,040
Financial liabilities				
Financial liabilities held for trading				
Short positions	4,429	-	-	4,429
Derivative contracts	-	18,607	-	18,607
Financial liabilities designated at fair value through profit or loss	-	-	-	
Term deposits	-	76,329	-	76,329
Repo transactions	-	28,267	-	28,267
Promissory notes	-	139	-	139
Bonds issued	-	216	-	216
Accrued interest expense	-	106	-	106
	-	-	-	
Derivatives used for hedging	-	5,158	-	5,158

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2008:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	62,341	-	62,341
Debt instruments	16,325	18,945	-	35,270
Derivative contracts	-	32,781	-	32,781
Accrued interest income	279	671	-	950
Financial assets designated at fair value through profit or loss				
Debt instruments	16,111	6,817	-	22,928
Accrued interest income	361	55	170	586
Available-for-sale financial assets				
Debt securities	44,287	32,259	-	76,546
Equity securities	1,052	-	11,606	12,658
Accrued interest income	915	335	-	1,250
Derivatives used for hedging	-	7,215	-	7,215
Financial liabilities				
Financial liabilities held for trading				
Short positions	48	-	-	48
Derivative contracts	-	35,016	-	35,016
Financial liabilities designated at fair value through profit or loss				
Term deposits	-	32,797	-	32,797
Repo transactions	-	28,712	-	28,712
Promissory notes	-	491	-	491
Bonds issued	-	480	-	480
Accrued interest expense	-	316	-	316
Derivatives used for hedging	-	2,493	-	2,493

During 2009, the Group discovered that some available-for-sale financial assets in the amount of CZK 3,974 m were incorrectly categorized as Level 1 instead of as Level 2 in the financial statements as at 31 December 2008. The above table of 2008 has been restated.

In the financial year ended 31 December 2009 the Group changed the valuation method applied to mortgage bonds designated as at fair value through profit or loss and to available-for-sale mortgage bonds. The new valuation method was implemented as a response to changed market conditions.

The pricing of mortgage bonds is based on CZK swaps and an adjustment for credit spread. Given the limited trading activity with mortgage bonds in 2009, the previously applied method may lead to the use of historical credit spreads. The management does not consider historical credit spreads to be a sufficiently robust pricing input. Therefore, the credit spread calculation was modified as follows:

- For fixed-rate mortgage bonds the Group decided to apply the spread between the CZK swap yield curve and the yield of a Czech government bond, both with maturity corresponding to the residual maturity of the mortgage bond;
- For floating-rate mortgage bonds, the Group decided to apply the spread between the CZK swap yield curve and the yield of a Czech government bond, both with maturity corresponding to the nearest interest rate fixation period of the mortgage bond.

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

(CZKm)	Debt securities	Equity securities	Total
At 31 December 2007	**10,510**	**669**	**11,179**
Revaluation gains or (losses) recorded in Net gains / (losses) from financial instruments at fair value through profit or loss	(10,340)	1,322	(9,018)
Impairment losses	-	(29)	(29)
Revaluation gains recorded in Net gains on available-for-sale securities in Other comprehensive income	-	455	455
Additions		31	31
Settlements	-	(426)	(426)
Transformation of business in Slovakia (Note: 2.5)	-	9,584	9,584
At 31 December 2008	**170**	**11,606**	**11,776**
Revaluation gains or (losses) recorded in Net gains / (losses) from financial instruments at fair value through profit or loss	1,185	(482)	703
Realised gains recorded in Net realised gains on available-for-sale financial assets	-	6,119	6,119
Impairment losses	-	(37)	(37)
Revaluation gains recorded in Net gains on available-for-sale securities in Other comprehensive income	-	(4,545)	(4,545)
Settlements	(170)	(12,522)	(12,692)
At 31 December 2009	**1,185**	**139**	**1,324**

Included within Net gains / (losses) from financial instruments at fair value through profit or loss are gains of CZK 1,185 m (2008: losses of CZK 10,340 m) related to assets held at the end of the accounting period. Impairment losses related to assets held at the end of the accounting period amounted to CZK 37 m in 2009 (2008: CZK 29 m).

The Group has classified collateralised debt obligations (CDOs) and unlisted shares into the category of financial instruments which are recorded at fair value using valuation techniques based on non-market observable inputs.

2008 valuation of CDOs

In the year ended 31 December 2008, CDOs issued by KBC Financial Products (KBC FP) were priced according to a model administrated by KBC Group, which was based on the quotations of Credit Default Swaps and Moody's ratings of individual CDO tranches. The prices were derived from CDS indices: CDX, iTraxx and ABX, weighted proportionally according to the asset breakdown of the CDO collateral pool. Market Value Adjustments (MVA) were set up for the close-out and liquidity of these instruments. In view of the uncertainty associated with such valuation, the Group has booked an additional MVA adjusting the fair value of all tranches to zero.

2009 valuation of CDOs

In the financial year ended 31 December 2009, the Group changed the valuation method applied to the CDOs designated at fair value through profit or loss as a response to changed market conditions.

The Group decided to use the Gaussian Copula Mixture Model (GM Model) for the valuation of all CDOs.

The market for the CDOs is, as it is for similar structured securities, currently illiquid, as there is no active market for them in which quoted prices or (limit) orders may be observed. As a result, the Indicative Valuation is based on parameters which the Group considers as benchmarks for calculating an indicative value of the CDOs.

The GM Model is used to model the distribution of default times of the underlying corporate and asset-based securities in the reference portfolios of the CDO transactions. The asset default trigger in the model is derived from the credit default swap spreads in the market. The correlations between the default times are modelled through Gaussian Copulas and as such can be simulated. By discounting the cash flows resulting from the default time curves on the underlying assets, a value for a specific CDO tranche is reached.

The model also ensures that the underlying CDO tranches of inner tranches are valued consistently with the market, through the calibration with CDX and iTraxx credit spread indices.

The objective of the model is to simulate default times by underlying asset according to several scenarios. Out of these default times for every underlying asset, both the cumulative losses (default leg) and the notional amounts on which coupons are paid (coupon leg) are determined by scenario and by CDO tranche. Both legs are dependent on recovery rate assumptions and default/survival probability curves, the latter determined in line with present CDS market spreads. Correlation between default times is taken into account. By scenario and by CDO tranche, a value is calculated by discounting back both the default leg and the coupon leg. The result of the valuation of a CDO tranche is the average over of scenario outcomes.

The following table presents the sensitivity of the valuation of CDOs to movements in the credit spreads of the underlying corporate and asset-based securities in the reference portfolios of the CDO securities. This analysis assumes that the valuation rule remains unchanged, being the lower of the GM model value and the fundamental value. Furthermore, the analysis also assumes that the fundamental value and all other variables remains unchanged, and therefore shows the impact of the changes in credit spread on the GM model. As at 31 December 2009 a one percentage point change in variable would have increased (decreased) profit or loss by the amounts shown below.

(CZKm)	Effect of statement of income	
Percentage change of the credit spreads	Favourable	(Unfavourable)
+ 10	-	(71)
+ 20	-	(143)
+ 50	-	(338)
- 10	77	-
- 20	153	-
- 50	389	-

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

The following table shows transfers between a group of financial instruments with market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs:

(CZKm)	Transfers from Level 1 to Level 2		Transfers from Level 2 to Level 1	
	2009	2008	2009	2008
Financial assets				
Financial assets held for trading				
Debt instruments	260	345	580	1,495
Financial assets designated at fair value through profit or loss				
Debt instruments	-	1,916	316	-
Available-for-sale financial assets				
Debt securities	393	202	63	-

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements.

(CZKm)	2009 Carrying value	2009 Fair value	2008 Carrying value	2008 Fair value
Financial assets				
Cash and balances with central banks	23,050	23,050	16,602	16,602
Loans and receivables	395,774	411,755	411,644	425,414
Held-to-maturity investments	132,761	137,582	115,236	115,941
Other assets	3,912	3,912	7,792	7,792
Financial liabilities				
Financial liabilities at amortised cost	644,982	646,369	649,371	650,480
Other liabilities	6,770	6,770	14,337	14,337

The following methods and assumptions were applied in estimating the fair values of the Group's financial assets and liabilities:

Held-to-maturity investments

Fair values for held-to-maturity securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

Loans and receivables to credit institutions and balances with central banks

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the end of the accounting period.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using current interbank market rates.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue

Bonds issued are publicly traded and their fair values are based on quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

34. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	2009	2008
Cash and balances with central banks	13,042	11,135
Loans and advances to credit institutions	25,633	41,975
Financial liabilities at amortised cost from credit institutions	(9,103)	(24,959)
Cash and cash equivalents	**29,572**	**28,151**

Change in operating assets

(CZKm)	2009	2008
Net change in financial assets held for trading	(42,959)	(56,553)
Net change in financial assets designated at fair value through profit or loss	6,027	583
Net change in available-for-sale financial assets	(26,115)	(5,293)
Net change in loans and receivables	3,694	(58,415)
Net change in derivatives used for hedging	(2,248)	489
Net change in other assets	3,412	(1,610)
	(58,189)	**(120,799)**

Change in operating liabilities

(CZKm)	2009	2008
Net change in financial liabilities held for trading	(12,028)	22,462
Net change in financial liabilities designated at fair value through profit or loss	42,261	(13,344)
Net change in financial liabilities at amortised cost	15,989	24,530
Net change in derivatives used for hedging	2,665	1,254
Net change in other liabilities	(7,594)	(2,470)
	41,293	**32,432**

Non-cash items included in profit before tax

(CZKm)	2009	2008
Allowances and provisions for credit losses	5,363	2,130
Depreciation and amortisation	1,443	1,456
Impairment on goodwill	622	-
Amortisation of discounts and premiums	388	422
Depreciation related to operating leases assets	293	266
Impairment on financial investment	262	1,354
Impairment on investment property	156	-
Impairment on other assets	98	290
Impairment on property	8	9
Provisions	(112)	(101)
Share of profit of associate	(360)	(116)
Other	(55)	(195)
	8,106	**5,515**

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2009:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Financial assets held for trading					
Financial derivatives	8,912	7,193	1,402	-	**17,507**
Other than financial derivatives	114,357	21,499	6,754	-	**142,610**
Financial assets designated at fair value through profit or loss	1,946	7,989	7,052	-	**16,987**
Available-for-sale financial assets	10,612	44,186	45,645	1,124	**101,567**
Loans and receivables	106,706	108,936	180,132	-	**395,774**
Held-to-maturity investments	14,796	36,103	81,862	-	**132,761**
Derivatives used for hedging	3,065	4,376	599	-	**8,040**
Other assets (Note: 26)	3,911	1	-	-	**3,912**
Total carrying value	**264,305**	**230,283**	**323,446**	**1,124**	**819,158**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	9,069	7,726	1,812	-	**18,607**
Other than financial derivatives	4,429	-	-	-	**4,429**
Financial liabilities designated at fair value through profit or loss	104,032	968	57	-	**105,057**
Financial liabilities at amortised cost	123,482	263,134	258,366	-	**644,982**
Derivatives used for hedging	2,309	2,249	600	-	**5,158**
Other liabilities	6,021	222	527	-	**6,770**
Total carrying value	**249,342**	**274,299**	**261,362**	**-**	**785,003**

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2008:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without Maturity	**Total**
ASSETS					
Financial assets held for trading					
Financial derivatives	19,936	9,953	2,892	-	**32,781**
Other than financial derivatives	72,387	14,674	11,415	85	**98,561**
Financial assets designated at fair value through profit or loss	1,085	2,731	19,698	-	**23,514**
Available-for-sale financial assets	13,752	25,810	38,234	12,658	**90,454**
Loans and receivables	143,348	112,904	155,392	-	**411,644**
Held-to-maturity investments	11,731	40,949	62,556	-	**115,236**
Derivatives used for hedging	2,787	3,760	668	-	**7,215**
Other assets (Note: 26)	7,756	-	-	36	**7,792**
Total carrying value	**272,782**	**210,781**	**290,855**	**12,779**	**787,197**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	20,441	10,651	3,924	-	**35,016**
Other than financial derivatives	48	-	-	-	**48**
Financial liabilities designated at fair value through profit or loss	62,344	402	50	-	**62,796**
Financial liabilities at amortised cost	208,992	175,713	264,666	-	**649,371**
Derivatives used for hedging	1,532	848	113	-	**2,493**
Other liabilities	14,166	59	112	-	**14,337**
Total carrying value	**307,523**	**187,673**	**268,865**	**-**	**764,061**

36. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Group recovered a written-off loan amounting to CZK 485 m in 2007. Due to uncertainty regarding the outcome of the appeal by the counterparty against the ruling, the Group will not recognise this amount in the statement of income until the final court ruling regarding the Group's claim is known.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December are as follows:

(CZKm)	2009	2008
Loan commitments	101,278	107,927
Financial guarantees	22,880	28,012
Other commitments	799	2,530
	124,957	**138,469**
Provisions for loan commitments and guarantees (Notes: 30)	374	499

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements (Note: 40.2).

Litigation

Other than the litigations, for which provisions have already been made (Note: 30), the Group is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Group does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Group.

The Group is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Group believes that such claims are unfounded. In addition, potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

In June 2007, the Bank initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable from the MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency (Note: 26). The Bank believes that its position in this case is strong and is confident that the International Court of Arbitration will rule in its favour. This assessment of the outcome of this case is supported by the opinions of external lawyers. The arbitration is still ongoing.

Further, the Group has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments (Group is the lessee)

Future minimum lease payments under operating leases related to land and buildings are as follows:

(CZKm)	2009	2008
Not later than 1 year	571	30
Later than 1 year and not later than 5 years	1,535	284
Later than 5 years	372	182
	2,478	**496**

These operating leases can be technically cancelled under Czech law; however, the Group is commercially bound to continue with these leases for the periods set out above.

Operating lease receivables (Group is the lessor)

Future minimum lease payments under operating leases related to movables are as follows:

(CZKm)	2009	2008
Not later than 1 year	634	512
Later than 1 year and not later than 5 years	907	960
Later than 5 years	212	265
	1,753	**1,737**

These operating leases can be technically cancelled under Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

37. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Group has made to counterparties in reverse repurchase agreements and loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, according to the captains of the statement of financial position in which they are included:

(CZKm)	2009	2008
Financial assets		
Cash and balances with central banks	4,001	-
Financial assets held for trading	88,468	15,401
Loans and receivables	3,711	4,128
	96,180	**19,529**

Under reverse repurchase agreements, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

Under loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral (collaterals of factoring loans), the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the same collateral. The Group has no obligations to deliver back collateral to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral as at 31 December 2009 was CZK 133,656 m, of which CZK 86,350 m has been either sold or repledged (31 December 2008: CZK 28,340 m and CZK 1,606 m, respectively).

The following table shows an analysis of the loans the Group has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2009	2008
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	76,398	28,929
Financial liabilities at amortised cost	14,854	31,601
	91,252	**60,530**

Amounts of financial assets pledged as collateral in repo transactions are shown in notes Financial assets at fair value through profit or loss (Note: 17) and Financial investments (Note: 18).

38. RELATED PARTY DISCLOSURES

A number of banking transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2009 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
Directors / Senior management	-	-	-	1	-	-
KBC Bank	17,253	-	-	74	4,580	-
Entities under common control						
ČSOB SK	58	-	816	63	-	19
Fulham Road Finance Limited	-	1,185	-	-	-	-
KBC Asset Management SA	-	-	-	-	-	131
KBC Groep NV	262	-	-	-	-	-
KBC Internationale Financieringsmij NV	341	641	291	-	-	-
Novaservis	1	-	-	220	-	-
Other	135	-	-	2	-	23
Associates	8	-	1	-	-	119
Joint ventures	-	-	-	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2009 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	-	291	-	-
KBC Bank	6,549	3,970	12,348	1,726	-
Entities under common control					
ČSOB SK	111	854	33	-	-
KBC Asset Management SA	-	-	-	-	130
KBC GS CZ	-	-	119	-	281
Other	9	-	112	-	5
Associates	36	554	1,710	-	26
Joint ventures	-	405	5,238	-	5

The outstanding balances of assets from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
KBC Bank	16,555	-	-	73	4,103	-
Entities under common control						
ČSOB SK	159	-	865	2,215	-	-
Dorset Street Finance Ltd	-	90	-	-	-	-
KBC Groep NV	270	-	-	-	-	-
KBC Internationale Financieringsmij NV	296	-	130	-	-	-
Novaservis	5	-	-	274	-	-
Patria Finance, a.s.	383	-	-	-	-	-
Other	142	107	55	28	-	13
Associates	26	-	-	-	-	119
Joint ventures	-	-	-	431	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	-	62	-	-
KBC Bank	10,271	4,636	31,431	1,512	-
Entities under common control	54	1,934	377	-	158
ČSOB SK	39	1,563	47	-	-
KBC Bank Nederland NV	-	-	113	-	-
KB Lux	-	250	52	-	-
Kereskedelmi és Hitelbank Rt.	-	121	-	-	-
Patria Finance, a.s.	1	-	41	-	150
Other	14	-	82	-	8
Associates	18	42	2,517	-	21
Joint ventures	-	578	5,164	-	2

The outstanding balances of assets and liabilities with KBC Bank NV and the entities under common control principally comprise the fair value of derivative financial instruments, debt instruments and repo transactions.

The Group provides banking services to its associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

(CZKm)	2009 Interest income	2009 Interest expense	2008 Interest income	2008 Interest expense
KBC Bank	484	(534)	213	(1,731)
Entities under common control				
Baker Street Finance Limited	42	-	111	-
Clifton Finance Street Limited	30	-	78	-
ČSOB SK	38	(7)	78	(20)
Dorset Street Finance Ltd	42	-	112	-
Fulham Road Finance Limited	50	-	122	-
Oxford Street Finance Limited	27	-	63	-
Pembridge Square Limited	13	-	31	-
Regent Street Limited	18	-	46	-
Sydney Street Finance Limited	28	-	75	-
Other	19	(9)	63	(47)
Associates	-	(95)	-	(88)
Joint ventures	10	(190)	23	(180)

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

(CZKm)	2009 Fee and commission income	2009 Fee and commission expense	2008 Fee and commission income	2008 Fee and commission expense
Entities under common control				
KBC Asset Management NV	54	-	26	-
KBC Asset Management SA	519	(12)	573	-
Other	10	-	-	-
Associates	228	(50)	199	(40)
Joint ventures	-	(16)	4	(14)

In accordance with the Group strategy, the Group commenced purchasing information and communication services from the related party KBC GS CZ, during 2009 (Note: 2.5).

Effective from 1 July 2009, the Group concluded office space rental agreement and a service level agreement on a provision of administration services, such as human resources and accounting services, with KBC GS CZ. In 2009, the Group received income of CZK 41 m from rental payments and related services, received CZK 20 m from the provision of administration services and paid expense of CZK 1,158 m for IT services.

In 2009, the Group sold its share in ČSOB SK to KBC Bank for a total consideration of CZK 12,459 m. The total realised gain from this transaction in the amount of CZK 6,091 m is included in Net realised gains on available-for-sale financial assets (Note: 2.5).

In 2009, the Group received income of CZK 275 m (2008: CZK 377 m) from ČSOB SK arising from providing services and support in the following areas: IT, electronic banking, cards, payment processing, financial management, risk management, etc. The decrease in 2009 is related to the transfer of the Group’s ICT activities to KBC GS CZ.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

(CZKm)	2009 Guarantees received	2009 Guarantees given	2008 Guarantees received	2008 Guarantees given
KBC Bank	759	45	936	74
Entities under common control				
ČSOB SK	-	45	-	22
KBC Finance Ireland	367	-	420	-
Patria Finance, a.s.	-	20	-	-
Other	-	1	5	5
Associates	-	1	-	-

The outstanding balances of guarantees received from KBC Bank and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

39. EVENTS AFTER THE REPORTING PERIOD

KBC Global Services Czech Branch

An asset purchase agreement was concluded between the ČSOB and KBC Global Services NV and became effective in January 2010. The agreement transferred the ICT-related assets which were classified as Non-current assets held-for-sale in the Group’s financial statements as at 31 December 2009 from the Group to KBC Global Services NV. Further information is disclosed in Note: 2.5.

The value of the newly created enterprise will be assessed and completed in 2010, the sales price will be determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague. The financial effect of the sale of the enterprise will be recognised in 2010.

On 1 January 2010, ČSOB Leasing CZ joined the outsourcing initiative and transferred its thirty ICT employees to KBC GS CZ.

40. RISK MANAGEMENT

40.1 Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability. Each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. They are monitored through the KBC Group's Internal Capital Adequacy Assessment Process (ICAAP).

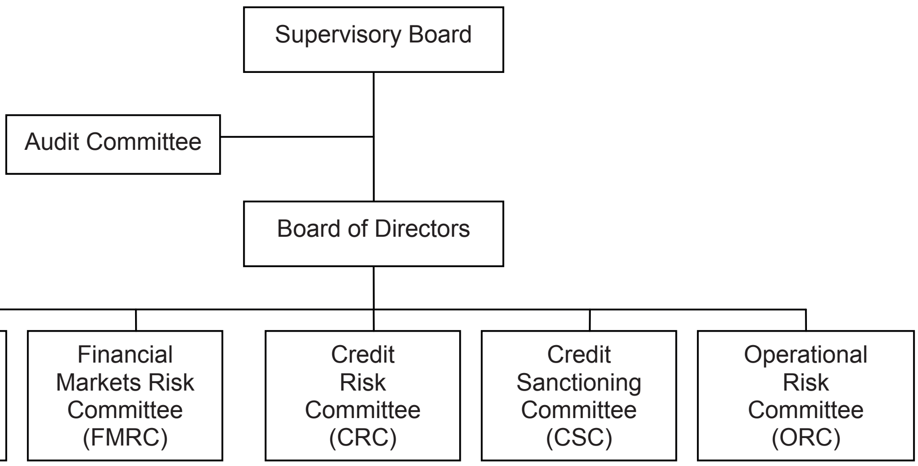
Risk management structure

The Board of Directors (BoD) is ultimately responsible for identifying and controlling risks; however, there are separate, independent bodies responsible for managing and monitoring risks.

The structure of Value and Risk Management in ČSOB is based on a uniform principle of Value and Risk Management applied within the KBC Group. It is based on a risk governance model that defines the responsibilities and tasks of various bodies and persons within the organisation to guarantee the sound management of value creation and all the associated risks.

This model includes:

- Involvement of the Group's governance bodies in the process of value and risk management;
- The activities of specialised committees and independent departments involved in risk management at the level of ČSOB with group-wide control; and
- Primary risk management within departments and organisational units of individual companies.



Board of Directors

The BoD is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has responsibility for monitoring the overall risk process within the Group.

Audit Committee

The Audit Committee supervises the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The Audit Committee is informed of the framework set up to identify and monitor the main risks the Group is exposed to, in particular the framework set up for the monitoring of value and risk management. The Audit Committee reviews the monitoring of the ALM, market, credit, insurance and operational risks. The Audit Committee advises the Supervisory Board on the structure and the level of the limits.

Risk committees

Asset and liability committee (ALCO)

The ALCO has overall responsibility for the development of the market and liquidity risk strategy and implementing principles, frameworks, policies and limits for the Group's investment portfolio. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Financial Markets Risk Committee (FMRC)

The FMRC, which consists of the Senior Executive Officers of ČSOB responsible for financial markets and risk management, has overall responsibility for the development of the Group' s market risk strategy and implementing principles, frameworks, policies and limits for the trading portfolio of the entire Group. The FMRC is responsible for fundamental risk issues, and the management and monitoring of the relevant risk decisions.

Credit risk committee (CRC)

The CRC has overall responsibility for the development of the credit risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit sanctioning committee (CSC)

The CSC is a committee entrusted with the Group-wide responsibility and authority to take decisions on (individual) credit applications falling within the delegated decision powers of the CSC. As such it acts in principle as the highest decision committee for the Group.

Operational risk committee (ORC)

The ORC has overall responsibility for the development of the operation risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Other bodies

Value and Risk Management (VRM)

The Value and Risk Management unit is responsible for implementing and maintaining risk-related procedures to ensure an independent control process (except for credit risk). VRM is also responsible for monitoring compliance with risk principles, policies and limits, across the Group. VRM is responsible for the independent control of risks (except for credit risk), including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Credits unit

The Credits unit is responsible for implementing and maintaining credit risk related procedures to ensure an independent control process. The Credits unit is also responsible for monitoring compliance with credit risk principles, policies and limits, across the Group.

The Credits unit is responsible for the independent control of credit risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Asset and liability management unit (ALM)

The Group’s ALM unit is responsible for managing assets and liabilities of the Group's investment portfolio. It is also primarily responsible for the funding and liquidity risks of the Group.

Financial Markets unit (FM)

The Group’s FM unit is responsible for managing the assets and liabilities of the Group's trading portfolio.

Internal audit

Risk management processes throughout the Group are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with the management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the BoD, the ALCO, and the CRC. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Group.

A daily report is provided to senior management and all other relevant members of the Group on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to senior management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Middle Office (based on economic considerations rather than the IFRS hedge accounting criteria). The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

40.2 Credit risk

Credit risk is the potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Group monitors exposures in relation to these limits. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions.

The Group uses predominantly the IRB Foundation approach for the capital calculations of its retail and non-retail exposure. As a result, credit risk is measured, monitored and managed based on principles of this approach.

For the non-retail exposure (Corporate, large SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) are based on regulatory values for capital calculation purposes and on expert estimates combined with historical data for credit decision purposes.

For the retail exposure, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so called pools).

Non-retail exposure

Rating system: PD (Probability of Default)

The Group manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Foundation compliant statistical rating models that take into account financial or non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

The PD master scale contains the following categories:

Risk category	PD scale
Normal	1-7
Asset Quality review (AQR)	8-9
Uncertain – performing	10
Uncertain – non-performing	11
Irrecoverable	12

PD 1 to PD 9 is the non-defaulted portfolio, PD 10 contains customers that have defaulted but are performing and PD 11 and 12 are the non-performing customers.

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the Group seeking to collect its outstanding receivable through credit protection,

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the Group is more than 90 days past the due date.

Defaulted and performing customers are those that meet the criterion (i) but are not more than 90 days overdue and are not subject to legal bankruptcy proceedings by Group or any other creditor.

PD ratings are used not only for the measurement, monitoring and management of credit risk but are also used to determine amongst other the decision level, the collateral and pricing.

Application Process

The application process is organised in three steps. Firstly, the employee maintaining the overall relationship with the customer writes a Credit Application containing the credit request, the motivation and an analysis of the relevant risks (including the financial analysis). Next, a Credit Risk advisor independent from the business line (i.e. reporting to Credit Risk) provides a written advice. Lastly, a decision is taken by the Credit Committee in which the business and Credits are represented, accumulating years of credit experience. Credit decisions in the committees must be taken on a consensual basis; voting does not take place.

In some cases, Credits assigns a credit delegation to the regional manager or senior relationship manager of a Branch. The delegated decision making does not usually require an intervention from Credits. In some cases (SME) an advice is still required, but in all cases the final decision is taken by the holders of the delegation. The delegations are risk based (bigger delegations for lower risk, smaller ones for higher risks) and are reviewed by Credits on an annual basis in a special session of the highest Credit Committee (CSC). Delegations are person linked, not function linked.

All credit decisions must be taken by at least 2 persons.

Individual Monitoring Process

Independent of the rating, a full credit application must be submitted to the respective decision authority for review at least once a year. Additionally, certain triggers lead to a more frequent evaluation of the credit files. These triggers include breaches of contractual conditions (like the breach of financial or non-financial covenants or the non-payment of fees, interest, or principal) but also events that do not constitute a breach of contract like a sudden, unexpected change in management that could lead to a deterioration of the financial situation.

For higher risk cases, the Credit Committees can and do set review dates substantially shorter than 1 year. Generally, reviews take place more frequently for worse rated customers than for better rated ones.

The Credit Department can require an immediate review of certain exposures if a certain economical sector or exposure shows a risk of deterioration.

Collective monitoring Process

A collective monitoring process is applied on the large SME clients that are tested on a quarterly basis against internal and external covenants. A breach of these covenants triggers the review process described above.

Retail exposure (entrepreneurs, physical persons)

Application Process

The application process in retail is driven by the usage of application scorecards for new customers. For existing customers, behavioural scorecards are used as well. Whilst for Consumer Finance products (personal unsecured loans, retail overdrafts and Credit cards) decisions are fully automated based on scorecards, mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external databases (Credit Bureaus) that deliver both positive as well as negative information.

Risk classification

From a risk perspective, retail exposures are classified into one of the following categories, based on the number of days overdue:

Risk category	Days overdue
Normal	0-30
AQR	31-90
Uncertain	91-360
Irrecoverable	>360

Monitoring process

The monitoring process in retail is based on aggregated data (no individual reviews) and looks at the development of default within the different sub-portfolios. Typically, different product portfolios are followed up monthly based on so-called vintages (defaults in terms of origination date and month on books) and the development of LLR in the different sub-segments. Additionally, the development of the portfolio is monitored based on pool migration (i.e. migration between different risk pools).

All retail segments are subject to a monthly review by Credits on the risk development at the highest level and are requested to make proposals to the Credit committee for mitigating certain aspects if needed.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risk

The Group provides guarantees and letter of credits on behalf of its customers that may require the Group to make payments on such customers' behalf. Such payments are subsequently collected from the customers based on the terms of the respective underlying Credit documentation. These guarantees expose the Group to similar risks as loans and such risks are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Note	2009	2008
Cash and balances with central banks	16	15,657	8,253
Financial assets held for trading	17	160,117	131,342
Financial assets designated at fair value through profit or loss	17	16,987	23,514
Available-for-sale financial assets	18	101,567	90,454
Loans and receivables	19	395,774	411,644
Held-to-maturity investments	18	132,761	115,236
Derivatives used for hedging	21	8,040	7,215
Other assets	26	3,912	7,792
Total		834,815	795,450
Contingent liabilities	36	23,679	30,542
Commitments	36	101,278	107,927
Total		124,957	138,469
Total credit risk exposure		**959,772**	**933,919**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2009 was CZK 21,952 m (2008: CZK 20,805 m) before taking account of collateral or other credit enhancements and CZK 21,952 m (2008: CZK 20,805 m) net of such protection.

The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

(CZKm)	2009	2008
Czech Republic	854,660	786,357
Slovak Republic	7,350	22,667
Other Europe	91,216	115,684
Other	6,546	9,211
Total	**959,772**	**933,919**

An industry sector analysis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

(CZKm)	2009	2008
Central government	335,746	225,726
Non-credit institutions	12,225	10,116
Credit institutions	111,575	175,735
Insurance companies	1,093	254
Financial services	10,269	8,099
Other non-financial companies	234,564	292,364
Retail customers	254,300	221,625
Total	**959,772**	**933,919**

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The amount of collateral reported for an individual receivable does not exceed carrying amount of the receivable.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group also makes use of master netting agreements with counterparties.

Impairment Assessment

The main considerations for credit impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract. The Group addresses impairment in two areas: individual impairments and collective impairments.

Individual impairments are applied to individual assets where there is registered objective evidence of default, whereas collective impairments are applied for asset groups that based on statistical evidence probably contain already impaired assets, but have not been yet individually recognised.

Individual impairment

The Group determines allowances appropriate for loan where there is registered objective evidence of default on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collective impairment

Collective allowances are applied for loans and advances where there is not yet recognised objective evidence of individual impairment and they reflect impairment that is likely to be present in the group of assets although. Collective allowances are assessed based on statistical estimates are evaluated at each reporting period.

Impairment losses are estimated by taking into consideration:

(i) historical losses in the portfolio,

(ii) current economic conditions,

(iii) the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance (emergence period), and

(iv) the expected receipts and recoveries once impaired.

The local management is responsible for deciding the length of emergence period. In both 2009 and 2008, the Group used a uniform emergence period of four months.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

For financial reporting purposes, the Group uses four categories for credit risk management purposes. The table below shows the credit quality by class of asset for loan-related statement of financial position captions (in gross amounts), based on the Group's credit rating system at 31 December 2009 and 2008:

	2009			
	Unimpaired assets	Impaired assets Collectively	Individually	Total
(CZKm)	Normal	AQR	Uncertain, irrecoverable	
Financial assets designated at fair value through profit or loss	16,987	-	-	16,987
Available-for-sale financial assets	100,300	-	143	100,443
Loans and receivables				
Central government	29	-	-	29
Non-credit institutions	5,469	-	2	5,471
Credit institutions	8,247	10	688	8,945
Corporate	134,858	9,587	11,267	155,712
Retail	224,469	3,970	7,243	235,682
Accrued interest income	655	-	-	655
	373,727	13,567	19,200	406,494
Held-to-maturity investments	132,761	-	-	132,761
Total	**623,775**	**13,567**	**19,343**	**656,685**

(CZKm)	2008			
Financial assets designated at fair value through profit or loss	23,514	-	-	23,514
Available-for-sale financial assets	77,789	-	143	77,932
Loans and receivables				
Central government	6,023	-	-	6,023
Non-credit institutions	4,711	-	2	4,713
Credit institutions	16,304	114	502	16,920
Corporate	179,757	5,933	5,420	191,110
Retail	191,237	2,871	3,883	197,991
Accrued interest income	1,264	2	-	1,266
	399,296	8,920	9,807	418,023
Held-to-maturity investments	115,205	-	433	115,638
Total	**615,804**	**8,920**	**10,383**	**635,107**

The table below shows an ageing analysis of gross past due but not individually impaired financial assets of the Group:

(CZKm)	2009 Less than 30 days	2009 More than 30 days but less than 90 days	2008 Less than 30 days	2008 More than 30 days but less than 90 days
Non credit institutions	14	-	36	-
Credit institutions	-	-	3	71
Corporates	5,106	1,550	6,829	1,847
Retail	9,790	2,971	8,329	2,517
Total	**14,910**	**4,521**	**15,197**	**4,435**

Individually impaired financial assets and the related impairment are as follows:

(CZKm)	2009 Gross amount	2009 Impairment	2008 Gross amount	2008 Impairment
Available-for-sale financial assets				
Equity securities	1,310	(617)	1,401	(874)
Debt securities	143	(136)	143	(136)
Held-to-maturity investments				
Debt securities	-	-	433	(402)
Loans and receivables				
Non credit institutions	2	-	2	-
Credit institutions	688	(214)	502	(19)
Corporates	11,267	(7,059)	5,420	(4,057)
Retail	7,243	(2,617)	3,883	(1,753)
	19,200	(9,890)	9,807	(5,829)
Total	**20,653**	**(10,643)**	**11,784**	**(7,241)**

The carrying amount of the financial assets that would otherwise be past due or impaired whose terms have been renegotiated was CZK 2,669 m at 31 December 2009 (31 December 2008: CZK 1,827 m) (Note: 2.4 (6)(ii)).

Economic recession

In 2009, the Group has not changed its approach to credit risk management significantly due to the economic recession. The only exception is ČSOB Leasing CZ, where granting loans for purchases of used cars through bazaars was discontinued at the beginning of 2009 due to an unacceptably high default rate in 2008.

The Group uses the same measures for risk management as before the crisis. Nevertheless, the Group's monitoring of credit risks has intensified and capacities for dealing with defaulted credit exposures have been increased. Furthermore, the economic conditions have been reflected in more prudent and conservative decisions of respective Credit committees, where exposures risk classification resulting from statistic models can be overruled by the expert estimate of Credit committee members.

As a consequence of economic recession the credit losses significantly increased in 2009 compared to previous years. The highest losses have been recorded in the sector of leasing, corporate and SME clients. The Group management expects that the negative effect of economic recession on Group credit losses will continue in 2010.

40.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Group pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Group's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding management

The actual development of liquidity might vary from ALM liquidity prediction. The Group can address an adverse liquidity development in several ways. Most typically, the Group would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Group can borrow via repo operations on the market or use regulatory repo facilities (in ČNB or ECB).

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Group's business activities in the medium- and long-term horizon. For strategic liquidity management, the Group uses the loan-to-deposit ratio (LTD), which is defined as a ratio of loans and advances given to clients other than credit institutions (numerator) to deposits received from clients other than credit institutions (denominator). The strategy of the Group is to maintain the value of LTD well below one. The Group also aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The LTD is monitored on monthly basis and it is regularly reported to the senior management of Group.

The LTD during the year was as follows:

(%)	2009	2008
31 March	74.1	66.1
30 June	72.0	71.0
30 September	73.8	72.0
31 December	71.1	75.2

In addition to internally defined limits, the Group must also comply with a regulatory limit on the basis of minimum statutory reserves deposited with CNB. The limit presently equals to 2% of customer deposits.

The Stock Liquidity Ratio indicator, which was disclosed in the financial statements as at 31 December 2008, was abandoned as at 1 January 2009

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Group's financial liabilities based on the contractual undiscounted repayment obligations.

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2009:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
FINANCIAL LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	-	9,069	8,241	2,295	**19,605**
Other than financial derivatives	-	4,429	-	-	**4, 429**
Financial liabilities designated at fair value through profit or loss	-	104,032	1,031	68	**105,131**
Financial liabilities at amortised cost	292,173	279,067	39,158	53,179	**663,577**
Derivatives used for hedging	-	2,309	2,390	765	**5,464**
Other liabilities	-	6,021	239	768	**7,028**
Total carrying value	**292,173**	**404,927**	**51,059**	**57,075**	**805,234**

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2008:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
FINANCIAL LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	-	20,441	11,411	4,923	**36,775**
Other than financial derivatives	-	48	-	-	**48**
Financial liabilities designated at fair value through profit or loss	-	62,344	426	58	**62,828**
Financial liabilities at amortised cost	278,717	299,097	37,838	50,953	**666,605**
Derivatives used for hedging	-	1,532	904	138	**2,574**
Other liabilities	-	14,166	63	150	**14,379**
Total carrying value	**278,717**	**397,628**	**50,642**	**56,222**	**783,209**

The maturity for contingent liabilities and commitments of CZK 124,957 m (2008: CZK 138,469 m) is less than one year. This represents the undiscounted cash flows of the Group's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Group is not managed based on the undiscounted cash flows, as such the Group's expected cash flows on these instruments vary significantly from this analysis. For example, undrawn loan commitments are not expected to be drawn down immediately.

40.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basic Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The BoD has set limits on the level of risk that may be accepted. The Group applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Group has no net position in FX options, nor any position in equity. A nominal technical limit of EUR 6 m is set for interest rate options; commodity derivatives and structured bonds; the position in these products, however, is not material.

Standard VAR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Group. The Group analyses scenarios, dependent and independent of the Group's position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Group also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Group uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Group applies VaR assumptions to estimate potential loss at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Group uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The VaR model is back tested on a daily basis. Daily VaR (1 day holding period) is compared with theoretic profit or loss from holding previous day position. Daily VaR is also compared with real profit or loss made by trading book. Daily losses were never greater than the 1 day VaR in 2008 and 2009.

The Group received regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks in June 2007.

The tables below show capital requirements analysed using VaR model in 2009 and 2008:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2009	111	4	(1)	113
Average during the period	137	12	(9)	140
Highest	534	42	(76)	500
Lowest	75	1	(1)	75

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2008	338	6	(43)	301
Average during the period	232	9	(11)	230
Highest	553	67	(95)	525
Lowest	145	1	(1)	145

Market risk – Non -trading (ALM risk)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The BoD has established limits on the BPV sensitivity. The BoD has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing fixed rate fair-value-through-profit and loss financial assets for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The Group’s investment portfolio consists of only linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2009:

		Sensitivity of equity				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(12.7)	(0.2)	(36.5)	(334.8)	(384.2)
EUR	+ 10	1.3	(0.1)	44.5	44.5	90.2
USD	+ 10	0.0	0.0	1.6	0.0	1.6
CZK	- 10	12.7	0.2	36.5	334.8	384.2
EUR	- 10	(1.3)	0.1	(44.5)	(44.5)	(90.2)
USD	- 10	0.0	0.0	(1.6)	0.0	(1.6)

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(6.5)	(0.6)	2.2	(8.8)	(13.7)
EUR	+ 10	(0.2)	0.3	(4.3)	0.0	(4.2)
USD	+ 10	0.1	(0.4)	(2.7)	(0.8)	(3.8)
CZK	- 10	6.5	0.6	(2.2)	8.8	13.7
EUR	- 10	0.2	(0.3)	4.3	0.0	4.2
USD	- 10	(0.1)	0.4	2.7	0.8	3.8

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2008:

		Sensitivity of equity				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(0.1)	(4.1)	(81.1)	(280.0)	(365.3)
EUR	+ 10	(0.9)	0.0	(8.6)	(24.3)	(33.8)
USD	+ 10	(0.2)	0.0	(1.5)	(12.8)	(14.5)
CZK	- 10	0.1	4.1	81.1	280.0	365.3
EUR	- 10	0.9	0.0	8.6	24.3	33.8
USD	- 10	0.2	0.0	1.5	12.8	14.5

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(13.7)	(0.2)	128.1	(43.8)	70.4
EUR	+ 10	(0.2)	0.3	(10.1)	(16.2)	(26.2)
USD	+ 10	0.1	0.0	(1.0)	(1.0)	(1.9)
CZK	- 10	13.7	0.2	(128.1)	43.8	(70.4)
EUR	- 10	0.2	(0.3)	10.1	16.2	26.2
USD	- 10	(0.1)	0.0	1.0	1.0	1.9

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Group adopted a strategy under which the banking book has no open positions in foreign currencies. Therefore the Group has not set any limits for open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Group set technical limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

There was an open currency position in the banking book at the end of 2008 due to a significant decrease in the value of CDO's in EUR. The revaluation of the CDO financial instruments led to the overhedging of the whole position. This currency position was partially closed in the subsequent days as the hedging was adjusted to the value of the CDO position.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December:

	2009			2008		
(CZKm)	Position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	397	15	(15)	11,910	442	(442)

Sensitivity of the statement of income on foreign currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment (non-trading) equity price risk exposure arises from the Group's investment portfolio.

- If, at the end of the accounting period, a share is quoted at less than 70% of its acquisition value or;
- If, during a period of one year before the end of the accounting period, the share price of a share was permanently lower than its acquisition value;

The share is irrevocably impaired to the closing quotation at end of the accounting period.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2009) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

(CZKm)	Change in equity price (%)	Effect on equity
PX index	- 10	(96)
	+ 10	96

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2008) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

(CZKm)	Change in equity price (%)	Effect on equity
PX index	- 10	(114)
	+ 10	114
EU Reality	- 10	(26)
	+ 10	26

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Group's products is negligible, however it is regularly monitored.

40.5 Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. This definition is similar to the one contained in the Basel II Capital Accord and the Capital Requirements Directive. Operational risks include legal, compliance and tax risks. The impact of incidents on the Group's reputation is taken into consideration when assessing the Group's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the Group, as well as an assessment of the Group's vulnerability in respect of such risks. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses, both expected and unexpected. The assessment does not necessarily involve actually measuring the risks, but involves ranking the risks and risk events in terms of their severity, and taking into account their anticipated frequency and potential impact. The assessment is followed by steps aimed at preventing the key risks from materializing with the anticipated frequency and/or limiting the potential impact by introducing or fine-tuning appropriate control measures. Risk events that cannot be prevented are mitigated by business continuity arrangements and/or transfers of risk to third parties (e.g. by insurance) to the extent possible.

Operational Risk Management Governance

The risk management organisational infrastructure was established in 2004. The governance is supported by the Chief Risk Officer, who chairs the Operational Risk Committee (ORC). Another member of the Board of Directors serves as one of the permanent members of the ORC.

ORC and Sub-ORCs.

The ORC covers the entire Group. Members and observers of the ORC consist of representatives of the business, Internal Audit, and Legal and Compliance Units. Additionally, eight Sub-ORCs act actively on the local level (i.e. within subsidiaries, distribution and product factories).

Value and Risk Management Unit (VRM)

VRM is responsible for internal and external reporting, as well as for coordination, the implementation of methodology, the provision of independent control, and active assistance to the business (including training, methodological help, consultancy and planning) in the area of operational risk. The VRM also coordinates business continuity management area. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Information Risk Management Unit, Communication Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the "LORMs")

LORMs are specialists in dealing with operational risk directly in the businesses and assisting line managers in respect of operational risks. The function of LORMs is cumulative, as they also act as business continuity coordinators, compliance coordinators and information risk coordinators.

Crisis Management

Apart from the regular operational risk management infrastructure, the Group has also established a crisis management infrastructure. Major incidents within the Group are resolved by the Crisis Management Committee with the involvement of the Board of Director members. Additionally, the Group has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

In 2004, the Group has set up a loss event registration process. Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

"Bottom-Up" Risk Self Assessments

Risk self-assessments aim to identify, assess and quantify operational risks in all material products, activities, processes and systems. Risk self assessments are forward-looking and allow future developments, e.g. an improvement in the control framework, to be taken into account. A risk self assessment consists of a series of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss the key residual operational risks faced in order to reach a consensus on the best way to mitigate such risks. All action plans must be approved by the respective Sub-ORC.

"Top-Down" Risk Self Assessment

The top-down risk self assessment is a structured risk self assessment organised as an interview based on uniform questionnaires. The goal of the top-down risk self assessment is to identify the key risks that are relevant for the senior management. Such risks are likely to differ from the risks identified during the bottom-up risk self assessments involving business experts closer to the working floor.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. The tools used for risk identification and assessment include risk self assessments, group standard assessments and case study assessments. Key risk indicators are used for informing the management of the current level of risk exposure and/or the effectiveness of the controls in place. Key risk indicators may be relevant for the Group as a whole, or only certain parts.

41. CAPITAL

The Group actively manages its capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision (Basel II) and adopted by the CNB in the Regulation No. 123/2007 Coll., on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 July 2007).

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

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

(CZKm)	2009	2008
Tier 1 capital	44,582	42,131
Tier 2 capital	11,970	11,967
Deductible items of Tier 1 and Tier 2	(1,390)	(12,364)
Total capital	**55,162**	**41,734**
Capital requirements	29,452	32,379
Risk weighted assets	**368,150**	**404,733**
Capital adequacy ratio	14.98 %	10.31 %

The decrease of deductible items of Tier 1 and Tier 2 was caused by the sale of share in ČSOB SK in December 2009 (Note: 2.5).

ERNST & YOUNG

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

We have audited the accompanying financial statements of Československá obchodní banka, a. s. ("the Bank"), which comprise the statement of financial position as at 31 December 2009 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of the Bank, see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Management of Československá obchodní banka, a. s. 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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, International Standards on Auditing and 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 about 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 the 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 of the Bank, 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.

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

ERNST & YOUNG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Československá obchodní banka, a. s. as at 31 December 2009, and of 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

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptlfeisch
Auditor, License No. 2009

3 March 2010
Prague, Czech Republic

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2009	Reclassified 2008
Interest income	4	24,375	28,936
Interest expense	5	(8,759)	(13,685)
Net interest income		**15,616**	**15,251**
Fee and commission income	6	7,104	7,154
Fee and commission expense	6	(1,720)	(1,668)
Net fee and commission income		**5,384**	**5,486**
Dividend income		7,801	1,092
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	7	3,053	(9,292)
Net realised gains on available-for-sale financial assets	2.5	6,678	114
Other net income	8	687	1,291
Operating income		**39,219**	**13,942**
Staff expenses	9	(5,062)	(5,334)
General administrative expenses	10	(6,315)	(6,126)
Depreciation and amortisation	20, 21	(1,073)	(1,023)
Provisions	27	134	57
Operating expenses		**(12,316)**	**(12,426)**
Impairment losses	11	(3,747)	(1,946)
Profit / (Loss) before tax		**23,156**	**(430)**
Income tax (expense) / benefit	12	(1,554)	1,113
Profit for the year		**21,602**	**683**

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2009	2008
Profit for the year		**21,602**	**683**
Exchange differences on translating foreign operation	29	196	2
Net (loss) / gain on cash flow hedges	29	(1,403)	1,773
Net (loss) / gain on available-for-sale financial assets	29	(3,205)	7,249
Reorganisation reserve	29	(2,055)	2,055
Income tax benefit / (expense) relating to components of other comprehensive income	29	289	(1,147)
Other comprehensive income for the year, net of tax		**(6,178)**	**9,932**
Total comprehensive income for the year, net of tax		**15,424**	**10,615**

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	31.12.2009	31.12.2008
ASSETS			
Cash and balances with central banks	14	21,589	15,400
Financial assets held for trading	15	166,975	139,500
Financial assets designated at fair value through profit or loss	15	19,649	29,530
Available-for-sale financial assets	16	167,355	128,620
Held-to-maturity investments	16	119,049	100,420
Loans and receivables	17	203,026	230,383
Investments in subsidiaries, associates and joint ventures	18	35,463	37,383
Derivatives used for hedging	19	8,044	7,181
Current tax assets		-	1,100
Deferred tax assets	12	-	479
Property and equipment	20	3,780	4,739
Goodwill and other intangible assets	21	3,368	3,650
Non-current assets held-for-sale	22	625	127
Other assets	23	3,858	7,864
Total assets		**752,781**	**706,376**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	23,202	35,105
Financial liabilities designated at fair value through profit or loss	24	106,032	63,512
Financial liabilities at amortised cost	25	549,551	543,964
Derivatives used for hedging	19	5,158	2,469
Current tax liabilities		652	-
Deferred tax liabilities	12	99	-
Other liabilities	26	6,389	14,116
Provisions	27	706	963
Total liabilities		**691,789**	**660,129**
Share capital	28	5,855	5,855
Share premium		6,673	6,673
Statutory reserve		18,687	18,687
Retained earnings		27,748	6,825
Reorganisation reserve	28	-	2,055
Available-for-sale reserve	28	2,437	5,620
Cash flow hedge reserve	28	(408)	728
Foreign currency translation reserve	28	-	(196)
Total equity		**60,992**	**46,247**
Total liabilities and equity		**752,781**	**706,376**

The accompanying notes are an integral part of these separate financial statements.

These separate financial statements were approved for issue by the Board of Directors on 3 March 2010 and signed on its behalf by:

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Share capital (Note: 28)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 28)	Total Equity
At 1 January 2008	**5,855**	**6,673**	**18,687**	**15,323**	**(1,725)**	**44,813**
Total comprehensive income for the year	-	-	-	683	9,932	10,615
Dividends paid (Note: 13)	-	-	-	(9,181)	-	(9,181)
At 31 December 2008	**5,855**	**6,673**	**18,687**	**6,825**	**8,207**	**46,247**
At 1 January 2009	**5,855**	**6,673**	**18,687**	**6,825**	**8,207**	**46,247**
Total comprehensive income for the year	-	-	-	21,602	(6,178)	15,424
Dividends paid (Note: 13)	-	-	-	(679)	-	(679)
At 31 December 2009	**5,855**	**6,673**	**18,687**	**27,748**	**2,029**	**60,992**

[(1)] The statutory reserve represents accumulated transfers from retained earnings in compliance with the Czech Commercial Code. This reserve is not distributable.

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2009	Reclassified 2008
OPERATING ACTIVITIES			
Profit before tax		23,156	(430)
Adjustments for:			
Change in operating assets	31	(68,809)	(106,015)
Change in operating liabilities	31	47,467	37,177
Non-cash items included in profit before tax	31	5,149	1,333
Transformation business in Slovakia	2.5	-	(895)
Sale of ČSOB SK	2.5	11,744	-
Net gain from investing activities		61	16
Income tax paid		1,064	(547)
Net cash flows from / (used in) operating activities		**19,832**	**(69,361)**
INVESTING ACTIVITIES			
Purchase of investment securities		(26,065)	(16,928)
Acquisition of subsidiary, associate and joint venture companies		(1,113)	(6,459)
Maturity / disposal of investment securities		7,253	5,318
Purchase of property, equipment and intangible assets		(1,010)	(1,490)
Disposal of property, equipment, intangible assets and assets held-for-sale		2,468	15
Net cash flows (used in) investing activities		**(18,467)**	**(19,544)**
FINANCING ACTIVITIES			
Issue of bonds		-	11
Dividends paid		(679)	(9,181)
Net cash flows (used in) financing activities		**(679)**	**(9,170)**
Net increase / (decrease) in cash and cash equivalents		**686**	**(98,075)**
Cash and cash equivalents at the beginning of the year	31	28,180	126,255
Net increase / (decrease) in cash and cash equivalents		686	(98,075)
Cash and cash equivalents at the end of the year	31	**28,866**	**28,180**
Additional information			
Interest paid		(9,726)	(14,662)
Interest received		23,543	27,754
Dividends received		7,801	1,092

The accompanying notes are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a.s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic. The Corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The separate financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss, and all derivative contracts that have been measured at fair value. The separate financial statements are presented in millions of Czech Crowns (CZKm) which is the Bank's presentation currency. The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of the ČSOB Group in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Statement of compliance

The separate financial statements of ČSOB have been prepared in accordance with EU IFRS.

2.2 Significant accounting judgements and estimates

While applying the Bank accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit and liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments

The Bank reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, management judgement is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine 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.

2.3 Changes in accounting policies

Effective in 2009

The accounting policies adopted are consistent with those used in the previous financial year except that the Bank has adopted the following standards, amendments and interpretations. The adoption of them did not have any effect on the financial performance or position of the Bank. However, they did give rise to additional disclosures.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard requires the Bank to present all owner changes in equity and all non-owner changes in either one statement of comprehensive income or in two separate statements of income and comprehensive income. The income tax effect of each component of comprehensive income has to be disclosed. The Bank has elected to present comprehensive income in two separate statements of income and comprehensive income.

IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments (Amendments)

The amendment requires disclosure of a three-level fair value hierarchy for all financial instruments recognised at fair value and specific disclosures related to the transfers between the levels. The amendments require additional liquidity disclosures.

IFRS 8 Operating Segments

The standard replaced the requirements to determine primary (business) and secondary (geographical) reporting segments of the Bank. The operating segments determined according to IFRS 8 are equal to the business segments previously identified under IAS 14.

Furthermore in 2009, the Bank has adopted the following standards, which did not have a material effect on the financial position or performance of the Bank:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments).

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (Amendment). The amended standard clarifies the definition of vesting conditions and the accounting treatment of cancellations.

IAS 23 Borrowing Costs (Revised).

IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments). The amendments remove the definition of the “cost method” and require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments). The IAS 32 amendment clarifies under which circumstances puttable financial instruments and obligations arising on liquidation have to be treated as equity instruments. The amendment is limited in scope.

IFRIC 13 Customer Loyalty Programmes.

IFRIC 15 Agreements for the Construction of Real Estate.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

Effective in 2010 or later

The following standards, amendments and interpretations have been issued and are effective from 2010 onwards. The Bank has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the financial statements of the Bank.

IFRS 1 First-time Adoption of IFRS (Amendments) is effective for periods beginning on or after 1 January 2010.

IFRS 2 Share-based Payments (Amendments) is effective for periods beginning on or after 1 January 2010. This amendment clarifies the scope and accounting for group cash-settled, share-based payments. The amendment incorporates the interpretations IFRIC 8 (Scope of IFRS 2) and IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions).

IFRS 3 Business Combinations (Amendments) is effective for periods beginning on or after 1 July 2009. This amendment broadens the scope of the original standard and amends the definition of business combinations. Business combinations will be measured at the fair value of the acquiree and the costs in connection with the business combination will not be included in the cost of the acquiree. The assets acquired and liabilities assumed will be measured at their fair value at the date of acquisition.

IFRS 9 Financial Instruments (the first phase) is effective for periods beginning in or after 1 January 2013. The standard has not been endorsed by the European Union to date. The project to replace the current IAS 39 Financial Instruments: Recognition and Measurement has been divided into three phases. The first phase focuses on the classification and measurement of financial assets. The new standard has reduced the number of measurement categories from four to two. Financial assets are classified at amortised cost or fair value on the basis of both:

- The entity's business model for managing financial assets; and
- The contractual cash flow characteristics of the financial asset.

Debt instruments may be measured at amortised cost if:

- The asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Reclassifications between the two categories are required when the entity changes its business model. All equity instruments are measured at fair value either through Other Comprehensive Income or profit or loss. IFRS 9 retains a fair value option. At initial recognition entities can elect to measure financial instruments at fair value, although they would otherwise qualify for amortised cost measurement. IFRS 9 removes the separation of derivatives and the instrument is assessed in its entirety as to whether it fulfils the above two conditions.

The standard will have a significant impact on the financial statements of the Bank. Due to the uncertainties about the provisions of the subsequent two phases the impact of the IFRS 9 is not reasonably estimable. The IASB's work on the second phase on impairment of financial instruments, the third phase on hedge accounting, the accounting treatment of the financial liabilities and the derecognition of financial instruments are still ongoing.

IAS 24 Related Party Disclosures (Revised) is effective for periods beginning on or after 1 January 2011. The standard amends a definition of related parties and introduces a definition of government agencies. In addition, the standard requires disclosure of transactions and relationships with government agencies.

IAS 27 Consolidated and Separate Financial Statements (Amendments) is effective for periods beginning on or after 1 July 2009. This amendment relates to accounting of non-controlling interests and the loss of control of a subsidiary.

IAS 32 Financial Instruments: Presentation (Amendments) is effective for periods beginning on or after 1 February 2010. This amendment proposes a limited change specific to rights issues.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment) is effective for periods beginning on or after 1 July 2009. The amendment provides additional guidance on the designation of a hedged item.

IFRIC 14 Prepayment of a Minimum Funding Requirement (Amendments) is effective for periods beginning on or after 1 January 2011.

IFRIC 17 Distributions of Non-cash Assets to Owners is effective for periods beginning on or after 1 July 2009. The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments is effective for periods beginning on or after 1 July 2010. The interpretation addresses the accounting whereby the entity extinguishes the financial liability by issuing equity shares.

2.4 Summary of significant accounting policies

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

(1) Foreign currency translation

Items included in the financial statements of the Bank are initially measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Exchange differences from non-monetary available-for-sale financial assets are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

(2) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which is controlled by another entity (parent entity). Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries, associates and jointly controlled entities are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and jointly controlled entities are recorded in Dividend income.

(3) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset’s cash flows; or (b) retains the right to the asset’s cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Bank has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Bank recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains / losses from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the statement of financial position at the fair value of the consideration given or received.

(4) Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Derivatives held for trading

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading (including interest income and expense) are included in Net gains/losses from financial instruments at fair value through profit or loss.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Bank cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value in the statement of financial position with changes in fair value reflected in the statement of income.

(ii) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the statement of financial position at fair value. Changes in fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract, or when the right to the payment has been established. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in Net gains / losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income according to the terms of the contract.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(v) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reversed and included in Net realised gains on available-for-sale financial assets. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(vi) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(vii) 'Day 1' profit

Where the transaction price in a non-active market differs from the fair value from other observable current market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(5) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities designated at fair value through profit or loss, or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Loans and receivables. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(6) Determination of fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Bank including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(7) Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that come to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Bank would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Bank assesses objective evidence of impairment individually or collectively for financial assets at amortised cost. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses.

(ii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Assets carried at fair value

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of a debt instrument classified as available-for-sale, the assessment of impairment is based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A significant decline is considered to be a 30% decline in the fair value. A prolonged decline is considered to be a decline of one year or longer. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

(8) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(9) Hedge accounting

The Bank uses instruments, designated as hedging, as cash flow hedges or fair value hedges to manage the Bank's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the profit or loss. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. A derivative is considered to be highly effective if the Bank achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

The Bank has complied with the amended standard, taking into account the ‘carved out' parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income in Net gains / losses from financial instruments at fair value through profit or loss. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss.

(10) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(11) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(12) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Origination fees for loans that are probable of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on the completion of the underlying transaction. Recognition of portfolio and other management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Bank's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(13) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding mandatory minimum reserves), loans and advances to credit institutions and deposits from credit institutions.

(14) Property and equipment

Property and equipment includes Bank occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Assets that are subject to depreciation are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(15) Goodwill

Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets of the acquired business or subsidiary company, the difference is recognised directly in the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

(16) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets.

Intangible assets are carried at cost less accumulated amortisation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Amortisation of the software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated using the diminishing balance method over its economic useful life. The economic useful life is the period over which the Bank receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

(17) Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. Fees are recognised in the statement of income in Fee and commission income. Any increase and decrease in the liability relating to financial guarantees is included in Impairment losses.

(18) Employee retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

The Bank contributes to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

(19) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(20) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period. Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(21) Fiduciary activities

The Bank commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

(22) Operating segments

The operating segments are determined according to the newly effective standard IFRS 8, which replaced IAS 14 on 1 January 2009. Operating segments are components of the Bank that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Bank level to assess their performance. Discrete information is available for each operating segment. The original primary business segments as reported in prior years are deemed equal to the operating segments.

2.5 Comparative balances

Transformation of business in Slovakia

In 2007, KBC Bank NV, as the sole shareholder of the Bank, decided to establish a new legal entity in the Slovak Republic for KBC Group strategic reasons and with the aim of management in both countries (Czech and Slovak Republics) to report directly to the KBC Group. The foundation agreement of Československá obchodná banka, a.s. (ČSOB SK) was signed on 14 August 2007, with an effective date of 1 January 2008.

The structure of shareholders as at 1 January 2008 of ČSOB SK was as follows:

	Share on capital (%)	Fair value of share of capital (SKKm)
ČSOB	56.74	11,408
KBC Bank NV	39.80	8,000
ČSOB Leasing, a.s.	2.02	407
ČSOB Factoring, a.s.	1.44	289
Total	100.00	20,104

The share of ČSOB was represented by the non-cash contribution of assets and liabilities recorded in the books of ČSOB Slovakia branch as at 31 December 2007 and the additional deposit of shares of all the ČSOB subsidiaries incorporated in the Slovak Republic.

The KBC Bank NV share was represented by a cash deposit.

The ČSOB Leasing, a.s. and ČSOB Factoring, a.s. shares were represented by their shares in ČSOB Leasing SK and ČSOB Factoring SK.

Based on the Agreement on the exercise of voting rights, signed on 14 August 2007, the execution of the voting rights of all other shareholders was transferred to KBC Bank NV. Therefore, since 1 January 2008, ČSOB SK has been controlled by KBC Bank NV. The share of the Bank in this entity was classified as an available-for-sale financial asset.

The transaction was held between entities under common control and was treated as a reorganisation of the currently existing group. Starting on 1 January 2008, the Bank's subsidiaries in the Slovak Republic were excluded from the Bank's financial statements as well as the deposited assets and liabilities were replaced by the share in ČSOB SK.

The net book value of assets contributed by the Bank to ČSOB SK was CZK 4,230 m. The fair value of contributed assets was CZK 9,032 m. The difference between the net book value and the fair value of contributed assets was recognised in Reorganisation reserve (CZK 2,055 m) and Available-for-sale reserve (CZK 2,747 m) (Note: 29). The reorganisation reserve represented the dilution of the Bank's interest in the assets of the ČSOB Slovakia branch and subsidiaries in exchange for an interest in ČSOB SK into which KBC Bank NV was contributing cash.

The main effects on the Bank's financial statements are shown in the Separate statement of cash flow and in movement tables through item transformation business in Slovakia.

At the beginning of 2009 the Bank's original share in ČSOB SK was 56.74%. In 2008, KBC Bank NV bought a 100% share in Istrobanka, a universal bank operating on the Slovak market. In 2009, it decided to merge ČSOB SK and Istrobanka via a contribution of its 100% share to ČSOB SK. The merger took place on 1 July 2009. As a result, the Bank's share in ČSOB SK decreased to 46.68% as of the transaction date.

The structure of shareholders of ČSOB SK as at 1 July 2009 was as follows:

	Share on capital (%)
ČSOB	46.68
KBC Bank NV	50.46
ČSOB Leasing, a.s.	1.66
ČSOB Factoring, a.s.	1.20
Total	100.00

Following the merger, the Bank agreed to sell the ČSOB SK shares to KBC Bank NV.

The transfer simplified the KBC Group structure. ČSOB Leasing, a.s. and ČSOB Factoring, a.s. sold their shares to KBC Bank NV. The sales agreement was signed on 11 December 2009, with an effective date of 14 December 2009. The total consideration was CZK 11,744 m.

In connection with the sale, the Bank released the relating Reorganisation reserve in the amount of CZK 2,055 m, the Foreign currency translation reserve in the amount of CZK (196) m and the Available-for-sale reserve in the amount of CZK 4,671 m. The Bank reported a realised gain in Net realised gains on available-for-sale financial assets in the statement of income amounting to CZK 6,530 m.

Interest accrual on non-performing loans

Until 2008, the Bank accrued interest on non-performing loans in Interest income, which was reversed through an impairment charge in Impairment of loans and receivables. From 2009, the Bank decided to reverse the interest accrued on non-performing loans directly within Interest income. The following table sets reclassifications made in the statement of income and in the statement of financial position for the year ended 31 December 2008, to reflect the above change:

(CZKm)	2008 As reported	Reclassifications	2008 Reclassified
Interest income	29,056	(120)	28,936
Impairment losses	(2,066)	120	(1,946)
Loans and receivables			
Gross loans	234,689	(450)	234,239
Allowance for impairment losses	(5,555)	450	(5,105)

The following table sets reclassifications made in the statement of financial position as at 31 December 2007, to reflect the above change:

(CZKm)	2007 As reported	Reclassifications	2007 Reclassified
Loans and receivables			
Gross loans	253,529	(330)	253,199
Allowance for impairment losses	(5,951)	330	(5,621)

Reallocation of Expenses among Segments

Segmental reporting of the Bank for the year ended 31 December 2008 was based on a different cost allocation methodology than the one used by the Bank to report segmental results for the year ended 31 December 2009. To enhance the quality of the segmental reporting and comparability among the segments, in 2009, the Bank started reporting its segmental results after allocating of overhead expenses from the Group Center to other segments. The segmental results for the year ended 31 December 2008 have been reclassified to be in line with this change in the cost allocation methodology.

Outsourcing of ICT services

In accordance with the long-term objective of simplifying and increasing efficiency in the delivery of information and communication (ICT) services within the KBC Group, a decision was made in 2008 that the Bank should outsource ICT services. The decision anticipated the transfer of a number of employees and ICT-related assets to a separate entity.

A Czech branch of the Belgium-based KBC Global Services NV was registered on 14 January 2009 as KBC Global Services Czech Branch, organizační složka (hereafter referred to as KBC GS CZ).

Following Board of Directors' decisions, the ICT services functions of ČSOB were transferred to KBC GS CZ as at 1 June 2009. Existing employment contracts of related ČSOB employees were transferred to KBC GS CZ in compliance with legal regulations.

A framework outsourcing contract "ICT Services Frame Agreement" between ČSOB, KBC Global Services NV and KBC GS CZ was drawn up on 1 June 2009 and provides the general terms and conditions governing ICT services, including several service level agreements (SLAs) specifying the basic principles for interactions. Only a basic agreement on the charging principles between the Bank and KBC GS CZ was established. The process of transferring contracts with the main suppliers began in 2009.

As a result of the above changes, Staff expenses and a part of General administrative expenses are not fully comparable to the previous period. The main effects on the Bank's financial statements and related disclosures are shown in General administrative expenses (Note: 10).

An asset purchase agreement was concluded between ČSOB and KBC Global Services NV and became effective in January 2010. The agreement transferred the ICT-related assets which were classified as Non-current assets held-for-sale in the Bank's financial statements as at 31 December 2009 from the Bank to KBC Global Services NV (Note: 22).

A full set of SLAs will be completed; initially the Memorandum of Understanding will be signed, which will specify the material agreements relevant for further SLA development, including the agreements on risks borne by the KBC GS CZ and by CSOB (expected in March 2010).

The process of transferring contracts (case-by-case approach) with ICT suppliers (third parties) is expected to be completed by June 2010.

The value of the newly created enterprise will be assessed and completed in 2010, the sales price will be determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague. The financial effect of the sale of the enterprise will be recognised in 2010 (Note: 36).

3. SEGMENT INFORMATION

The Bank's primary segment reporting is by customer segment.

The Bank has four reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting (controlling) structure. For each of the strategies business units, the Bank management reviews internal management reports on quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is managed on a Bank basis and is not allocated to operating segments.

Definitions of customer operating segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover of less than CZK 300 m. This segment contains customers' deposits, consumer loans, overdrafts, credit card facilities, mortgages, funds transfer facilities and other transactions and balances with retail and SME customers.

Corporate: Companies with a turnover of greater than CZK 300 m and non-banking financial institutions. This segment contains customers' deposits, loans, overdrafts, credit card facilities, funds transfer facilities and other transactions and balances with corporate customers.

Financial markets and ALM: Asset Liability Management and Dealing. This segment contains investment products and services to institutional investors and intermediaries and funds management activities, together with corporate finance, merger and acquisitions advice, specialised financial advice and trading included in dealing services.

Group Centre: The Group Centre segment consists of the results of the reinvestment of free equity of the Bank, dividends from subsidiaries, associates and joint ventures and income and expenses not directly attributable to other segments.

Segment reporting information by customer segments for 2009

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Group Centre	Total
Statement of income					
Net interest income	10,793	2,262	888	1,673	15,616
Net fee and commission income	4,063	938	49	334	5,384
Dividend income	-	-	-	7,801	7,801
Net gains / (losses) from financial instruments at fair value through profit or loss	979	553	1,526	(5)	3,053
Net realised gains on available-for-sale financial assets	-	-	120	6,558	6,678
Other operating income	99	27	(92)	653	687
Operating income	**15,934**	**3,780**	**2,491**	**17,014**	**39,219**
of which:					
External operating income	*7,050*	*4,047*	*12,757*	*15,365*	*39,219*
Internal operating income	*8,884*	*(267)*	*(10,266)*	*1,649*	*-*
Depreciation and amortisation	(104)	-	(2)	(967)	(1,073)
Other operating expenses	(9,156)	(1,161)	(398)	(528)	(11,243)
Operating expenses	**(9,260)**	**(1,161)**	**(400)**	**(1,495)**	**(12,316)**
Impairment losses - additions	(2,295)	(1,576)	(17)	(1,147)	(5,035)
Impairment losses - reversals	347	275	-	666	1,288
Profit before tax	**4,726**	**1,318**	**2,074**	**15,038**	**23,156**
Income tax (expense) / benefit	(945)	(264)	(415)	70	(1,554)
Segment profit	**3,781**	**1,054**	**1,659**	**15,108**	**21,602**
Assets and liabilities					
Total assets	**84,340**	**85,081**	**508,727**	**74,633**	**752,781**
Total liabilities	**387,774**	**92,450**	**197,930**	**13,635**	**691,789**
Capital expenditures	**546**	**2**	**-**	**464**	**1,012**

Segment reporting information by customer segments for 2008

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Group Centre	Total
Statement of income					
Net interest income	10,980	1,946	582	1,743	15,251
Net fee and commission income	4,157	918	83	328	5,486
Dividend income	-	-	1	1,091	1,092
Net gains / (losses) from financial instruments at fair value through profit or loss	1,283	1,069	(11,774)	130	(9,292)
Net realised gains on available-for-sale financial assets	-	-	45	69	114
Other operating income	107	49	57	1,078	1,291
Operating income	**16,527**	**3,982**	**(11,006)**	**4,439**	**13,942**
of which:					
External operating income	*6,520*	*4,627*	*(213)*	*3,008*	*13,942*
Internal operating income	*10,007*	*(645)*	*(10,793)*	*1,431*	*-*
Depreciation and amortisation	(130)	-	(2)	(891)	(1,023)
Other operating expenses	(9,597)	(1,180)	(318)	(308)	(11,403)
Operating expenses	**(9,727)**	**(1,180)**	**(320)**	**(1,199)**	**(12,426)**
Impairment losses - additions	(1,612)	(394)	(506)	(505)	(3,017)
Impairment losses - reversals	564	262	-	245	1,071
Profit / (loss) before tax	**5,752**	**2,670**	**(11,832)**	**2,980**	**(430)**
Income tax (expense) / benefit	(1,208)	(561)	2,469	413	1,113
Segment profit / (loss)	**4,544**	**2,109**	**(9,363)**	**3 393**	**683**
Assets and liabilities					
Total assets	**85,685**	**105,981**	**408,632**	**106,078**	**706,376**
Total liabilities	**355,142**	**93,907**	**175,203**	**35,877**	**660,129**
Capital expenditures	**568**	**9**	**4**	**908**	**1,489**

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Bank operated in the Czech Republic and the Slovak Republic until 31 December 2007. On 1 January 2008, the Bank contributed the assets and liabilities recorded in the books of the ČSOB Slovakia branch as at 31 December 2007 and shares of all the ČSOB subsidiaries incorporated in the Slovak Republic into the new legal entity established in the Slovak Republic (Note: 2.5). Since 2008, the Bank has been operating only in the Czech Republic.

4. INTEREST INCOME

(CZKm)	2009	2008
Cash balances with central banks	429	1,511
Loans and receivables		
Credit institutions	1,209	816
Other than credit institutions	8,749	11,222
Available-for-sale financial assets	5,294	3,838
Held-to-maturity investments	4,898	4,385
Financial assets held for trading	2,613	5,705
Financial assets designated at fair value through profit or loss	1,183	1,459
	24,375	**28,936**

5. INTEREST EXPENSE

(CZKm)	2009	2008
Financial liabilities at amortised cost		
Central banks	9	23
Credit institutions	1,286	1,130
Other than credit institutions	5,249	6,887
Debt instruments in issue	270	723
Subordinated liabilities	356	544
Discount amortisation on other provisions (Note: 27)	4	13
Financial liabilities designated at fair value through profit or loss	1,585	4,365
	8,759	**13,685**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2009	2008
Fee and commission income		
Payment services	4,755	4,951
Administration of credits	1,044	883
Collective investments	405	513
Custody	160	154
Securities	103	109
Asset management	8	21
Other	629	523
	7,104	**7,154**
Fee and commission expense		
Payment services	812	786
Contribution to Deposit Insurance Fund	424	394
Commissions to agents	60	61
Other	424	427
	1,720	**1,668**
Net fee and commission income	**5,384**	**5,486**

7. NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains / (losses) from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains / (losses) from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Bank:

(CZKm)	2009	2008
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange - as reported	**3,053**	**(9,292)**
Net interest income (Notes: 4, 5)	2,211	2,799
	5,264	**(6,493)**
Financial instruments held for trading		
Interest rate contracts	3,421	2,671
Foreign exchange	1,411	463
Commodity contracts	29	50
	4,861	3,184
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	1,183	(7,697)
Financial liabilities designated at fair value through profit or loss	(1,025)	(4,393)
	158	(12,090)
Exchange differences revaluations	245	2,413
Financial instruments at fair value through profit or loss and foreign exchange	**5,264**	**(6,493)**

8. OTHER NET INCOME

(CZKm)	2009	2008
Services provided to ČSOB SK	275	377
Operating leasing and rental income	125	83
Net gain on disposal of non-current assets held-for-sale	111	-
Gains / (Losses) on disposal of associates, joint ventures and subsidiaries	34	(5)
Other	142	836
	687	**1,291**

9. STAFF EXPENSES

(CZKm)	2009	2008
Wages and salaries	3,629	3,726
Salaries and other short-term benefits of senior management	77	78
Social security charges	1,091	1,144
Pension and similar expense	114	122
Other	151	264
	5,062	**5,334**

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

Only the Chairman of the Supervisory Board is remunerated for his membership in the Supervisory Board.

Retirement benefits

The Bank provides its employees (including senior management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries mainly to the ČSOB Penzijní fond Stabilita, a.s. or ČSOB Penzijní fond Progres, a.s., wholly-owned subsidiaries of ČSOB and other pension funds approved by Czech Ministry of Finance (MF CZ), with a contribution of the Bank of 2% or 3% of their salaries, respectively.

Termination benefits

Employees dismissed by their employer according to the Czech employment law are entitled to termination benefits equal to or more than three times the emplyees's month's average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (one month's average salary), 15-20 years (1.5 times the month's average salary), 20-25 years (twice the month's average salary), 25-30 years (3 times the month's average salary), 30-35 years (4 times the month's average salary) and over 35 years (5 times the month's average salary).

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2009	2008
Information technology	1,596	846
Retail service fees	1,128	1,090
Rental expenses – minimum lease payments	757	693
Marketing	580	869
Communication	538	737
Other building expenses	434	458
Professional fees	322	287
Administration	123	167
Travel and transportation	106	135
Car expenses	51	49
Insurance	36	32
Other	644	763
	6,315	**6,126**

An increase in Information technology expenses in 2009 arose mainly from the outsourcing of ICT services since June 2009. Total charges for information and communication services invoiced by KBC GS CZ were CZK 1,150 m (2008: Nil). Simultaneously, the outsourcing of ICT yielded a reduction in other expense categories such as staff expenses and communication expenses.

11. IMPAIRMENT LOSSES

(CZKm)	2009	2008
Impairment of loans and receivables (Note: 17)	(2,931)	(1,112)
Provisions for loan commitments and guarantees (Note: 27)	114	-
Impairment of available-for-sale financial assets (Note: 16)	(37)	(165)
Impairment of held-to-maturity investments (Note: 16)	(17)	(370)
Impairment of investments in subsidiaries, associates and joint ventures	(770)	-
Impairment of non-current assets held-for-sale (Note: 22)	(8)	(9)
Impairment of other assets	(98)	(290)
	(3,747)	**(1,946)**

12. TAXATION

The components of income tax expense / (benefit) for the years ended 31 December 2009 and 2008 are as follows:

(CZKm)	2009	2008
Current tax expense	652	-
Previous year under / (over) accrual	35	(152)
Deferred tax expense / (benefit) relating to the origination and reversal of temporary differences	867	(975)
Deferred tax expense resulting from reduction in tax rate	-	14
	1,554	**(1,113)**

A reconciliation between the tax expense / (benefit) and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2009 and 2008 is as follows:

(CZKm)	2009	2008
Profit / (Loss) before taxation	23,156	(430)
Applicable tax rates	20%	21%
Taxation at applicable tax rates	4,631	(91)
Previous year under / (over) accrual	35	(152)
Tax effect of non-taxable income	(3,817)	(1,395)
Tax effect of non-deductible expenses	699	495
Effect on opening deferred taxes due to reduction in tax rate	-	14
Other	6	16
	1,554	**(1,113)**

During 2007, changes in the Income tax law were approved. The applicable tax rate for 2009 was 20% (2008: 21%) and for future periods it will be 19%.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19% enacted for 2010 onwards.

The movement on the deferred income tax account is as follows:

(CZKm)	2009	2008
At 1 January	**479**	**704**
Transformation of business in Slovakia (Note: 2.5)	-	(39)
Statement of income charge	(867)	961
Available-for-sale securities (Note: 29)		
Fair value remeasurement	-	(823)
Transfer to net profit	23	22
Cash-flow hedges (Note: 29)		
Fair value remeasurement	390	(373)
Transfer to net profit	(124)	27
At 31 December	**(99)**	**479**

Deferred tax asset and liability are attributable to the following items:

(CZKm)	2009	2008
Deferred tax (liability) / asset		
Employee benefits	167	-
Provisions	103	171
Cash-flow hedges	96	(170)
Legal claim	92	92
Allowances for credit losses	71	60
Impairment losses on financial investments	39	116
Accelerated tax depreciation	27	(7)
Unused tax losses applicable in the next periods	-	819
Impairment of occupied properties	-	3
Amortisation of goodwill	(210)	(139)
Available-for-sale securities	(537)	(543)
Other temporary differences	53	77
	(99)	**479**

The deferred tax (charge) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2009	2008
Employee benefits	167	-
Accelerated tax depreciation	34	-
Allowances for credit losses	11	60
Deferred tax expense resulting from reduction in tax rate	-	(14)
Impairment of occupied properties	(3)	2
Available-for-sale securities	(16)	3
Provisions	(68)	16
Amortisation of goodwill	(72)	(41)
Impairment losses on financial investments	(76)	116
Unused tax losses applicable in the next periods	(819)	819
Other temporary differences	(25)	-
	(867)	**961**

13. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. The Board of Directors decided to submit to the Supervisory Board on the meeting held on 3 March 2010 the proposal to pay a dividend of CZK 2,970 per share for 2009, representing a total dividend of CZK 17,389 m. This proposal is subject of usual approval process of the profit distribution.

Based on a sole shareholder decision from 16 June 2009, a dividend of CZK 116 per share was approved for 2008, representing a total dividend of CZK 679 m.

Based on a sole shareholder decision from 3 June 2008, a dividend of CZK 1,568 per share was approved for 2007, representing a total dividend of CZK 9,181 m.

14. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2009	2008
Cash	7,391	8,345
Mandatory minimum reserves (Note: 37.2)	8,559	4,272
Other balances with central banks (Note: 37.2)	5,638	2,783
	21,588	**15,400**
Accrued interest income (Note: 37.2)	1	-
	21,589	**15,400**

Mandatory minimum reserves are not available for use in the Bank's day-to-day operations.

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2009	2008
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 34)	88,449	15,389
Money market placements	18,666	52,380
Debt instruments	36,648	24,658
Debt securities pledged as collateral	4,288	12,529
Derivative contracts (Note: 19)	18,207	33,435
	166,258	**138,391**
Accrued interest income	717	1,109
	166,975	**139,500**
Financial assets designated at fair value through profit or loss		
Debt instruments	19,319	26,170
Debt securities pledged as collateral	-	2,615
	19,319	**28,785**
Accrued interest income	330	745
	19,649	**29,530**
Financial assets at fair value through profit or loss	**186,624**	**169,030**

16. FINANCIAL INVESTMENTS

(CZKm)	2009	2008
Available-for-sale financial assets		
Debt securities	164,234	115,779
Equity securities	47	10,743
	164,281	**126,522**
Accrued interest income	3,074	2,098
	167,355	**128,620**
Held-to-maturity investments		
Debt securities	115,856	97,799
Accrued interest income	3,193	2,621
	119,049	**100,420**
Financial investments	**286,404**	**229,040**

Included within Financial investments are debt securities of CZK 8,046 m (2008: CZK 28,857 m) pledged as collateral in repo transactions.

The following table shows a reconciliation of the impairment losses on financial investments for 2008 and 2009:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2008	**-**	**39**	**-**	**39**
Transformation of business in Slovakia (Note: 2.5)	-	(13)	-	(13)
Increase (Note: 11)	136	29	370	535
Foreign currency translation	-	-	32	32
At 31 December 2008	**136**	**55**	**402**	**593**
Increase (Note: 11)	-	37	17	54
Utilisation	-	-	(393)	(393)
Foreign currency translation	-	-	(26)	(26)
At 31 December 2009	**136**	**92**	**-**	**228**

17. LOANS AND RECEIVABLES

(CZKm)	2009	2008
Analysed by category of borrower		
Central government	29	6,023
Non credit institutions	4,143	3,271
Credit institutions	35,134	28,319
Corporate	139,083	175,857
Retail	31,130	20,769
Gross loans	209,519	234,239
Allowance for impairment losses	(7,335)	(5,105)
	202,184	**229,134**
Accrued interest income	842	1,249
	203,026	**230,383**

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2008 and 2009 by segments and by individual and collective impairment:

(CZKm)	Credit institutions	Corporate	Retail	Total
At 1 January 2008	**95**	**3,868**	**1,658**	**5,621**
Transformation of business in Slovakia (Note: 2.5)	(46)	(598)	(700)	(1,344)
Net (decrease) / increase in allowances for credit losses (Note: 11)	(28)	650	490	1,112
Write-offs	-	(140)	(152)	(292)
Foreign currency translation	1	20	(13)	8
At 31 December 2008	**22**	**3,800**	**1,283**	**5,105**
Net increase in allowances for credit losses (Note: 11)	194	2,037	700	2,931
Write-offs	-	(2)	(669)	(671)
Foreign currency translation	-	(30)	-	(30)
At 31 December 2009	**216**	**5,805**	**1,314**	**7,335**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2008	**5,277**	**344**	**5,621**
Transformation of business in Slovakia (Note: 2.5)	(1,242)	(102)	(1,344)
Increase in allowances for credit losses (Note: 11)	1,628	390	2,018
Decrease in allowances for credit losses (Note: 11)	(584)	(322)	(906)
Write-offs	(292)	-	(292)
Foreign currency translation	(1)	9	8
At 31 December 2008	**4,786**	**319**	**5,105**
Increase in allowances for credit losses (Note: 11)	3,890	105	3,995
Decrease in allowances for credit losses (Note: 11)	(1,007)	(57)	(1,064)
Write-offs	(671)	-	(671)
Foreign currency translation	(30)	-	(30)
At 31 December 2009	**6,968**	**367**	**7,335**

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

		2009		2008	
Name	Country of incorporation	(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s.	Czech Republic	-	-	100.00	1,000
Auxilium, a. s.	Czech Republic	100.00	1,195	100.00	5,375
Bankovní informační technologie, s.r.o.	Czech Republic	100.00	30	100.00	30
Centrum Radlická a.s.	Czech Republic	100.00	969	100.00	969
ČSOB Asset Management, a.s.	Czech Republic	20.59	85	20.59	85
ČSOB Factoring, a.s.	Czech Republic	100.00	1,175	100.00	1,175
ČSOB Investiční společnost, a.s.	Czech Republic	73.15	60	73.15	344
ČSOB Investment Banking Services, a.s.	Czech Republic	100.00	2,263	100.00	5,263
ČSOB Leasing, a.s.	Czech Republic	100.00	5,600	100.00	4,700
ČSOB Penzijní fond Progres, a.s.	Czech Republic	100.00	720	100.00	718
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100.00	955	100.00	1,207
ČSOB Property fund, uzavřený investiční fond, a.s.	Czech Republic	59.81	740	60.32	859
Hypoteční banka, a.s.	Czech Republic	100.00	19,530	99.90	13,517
Joint venture					
Českomoravská stavební spořitelna, a.s.	Czech Republic	55.00	1,540	55.00	1,540
Associate					
ČSOB Pojišťovna, a. s.	Czech Republic	25.00	601	25.00	601
			35,463		**37,383**

In July 2008, the Bank purchased the participation certificates of the První speciální fond kvalifikovaných investorů pro finanční instituce, an open-ended equity fund AXA investiční společnost a.s. and thus became the sole participant of this entity. The Bank sold all the participation certificates in March 2009.

In December 2009, a redemption of the share premium from Auxilium, a.s. in the amount of CZK 4,180 m and ČSOB Investiční společnost, a.s. of CZK 284 m was processed.

In November 2009, based on the Sole shareholder decision, ČSOB Investment Banking Services, a.s. paid out the share premium of CZK 3,000 m.

In May 2009, the Bank bought out minority interests of 0.1% in Hypoteční banka, a.s. and became the sole shareholder of the entity.

In December 2009, based on the Sole shareholder decision, the Bank increased the registered capital of ČSOB Leasing, a.s. by CZK 900 m and Hypoteční banka, a.s. by CZK 6,000 m.

In 2009, the Bank increased its investment in ČSOB Penzijní fond Progres, a.s. by CZK 150 m and in ČSOB Penzijní fond Stabilita, a.s. by CZK 300 m through additional charge apart from the registered capital of the companies.

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 53% of the voting rights in the ČSOB Asset Management, a.s., therefore the company is considered to be a subsidiary.

Based on a monetary contribution made as part of an increase in the share capital of ČSOB Property fund, uzavřený investiční fond, a.s. in 2008, the Bank acquired a 60% share in the company. In December 2008, all voting rights in ČSOB Property fund, uzavřený investiční fond, a.s. previously held by ČSOB Pojišťovna, a. s. were transferred to the Bank, whereby ČSOB is entitled to exercise 96.49% of voting rights in ČSOB Property fund, uzavřený investiční fond, a.s. In 2009, the participation of the Bank in ČSOB Property fund, uzavřený investiční fond, a.s. decreased as a result of the Bank's decision to decrease the amount of the share capital of the entity.

Based on the Shareholders Agreement, the Bank controls Českomoravská stavební spořitelna, a.s. jointly with the owner of the remaining 45%. Therefore, the entity is classified as a joint venture.

In October 2008, 15% of the voting rights in ČSOB Pojišťovna, a. s. previously held by KBC Verzekeringen NV, were transferred to the Bank. ČSOB is therefore entitled to exercise 40% of the voting rights in ČSOB Pojišťovna, a. s.

The Bank executes its control over ČSOB Investiční společnost, a.s. indirectly through Auxilium, a. s. and ČSOB Asset Management, a.s., in which the Bank holds a majority of the voting rights.

Ownership in other companies corresponds with the share of voting rights.

At 31 December 2009, the Bank considered the value of interests in certain subsidiaries to be impaired. The value of interest in ČSOB Property fund, uzavřený investiční fond, a.s. subsidiary was impaired by CZK 119 m mainly due to a decrease in its net asset value. The net asset valuation has been primarily determined by an independent professional valuer.

The value of interests in ČSOB Penzijní fond Progres, a.s. and ČSOB Penzijní fond Stabilita, a.s. subsidiaries was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 148 m and CZK 503 m, respectively, has been recognised.

The Bank's management believes that there is no other indication of impairment in the value of its investments in subsidiaries, associates and joint ventures.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Bank for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Bank is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Bank bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Bank minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Bank obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Bank's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Bank's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Bank's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting. The Bank uses single currency interest rate swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2009 and 2008 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

	2009			2008		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	686,716	12,165	15,200	936,683	17,929	22,093
Forwards	52,240	14	23	63,729	56	127
Options	23,821	186	165	29,232	160	151
	762,777	**12,365**	**15,388**	**1,029,644**	**18,145**	**22,371**
Foreign exchange contracts						
Swaps/Forwards	72,776	1,562	808	227,595	6,092	4,825
Cross currency interest rate swaps	38,575	2,318	605	61,438	3,315	1,968
Options	59,268	1,633	1,635	141,544	4,455	4,455
	170,619	**5,513**	**3,048**	**430,577**	**13,862**	**11,248**
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps	6,238	329	317	7,643	1,428	1,418
Total derivatives held for trading (Notes: 15, 24)	**939,734**	**18,207**	**18,773**	**1,467,964**	**33,435**	**35,057**

Cash flow hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of the net interest margin. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Bank policies to achieve these strategies currently require the use of cash flow hedges.

The Bank uses single currency interest rate swaps to convert floating-rate loans to fixed rates. Currency interest rate swaps are used to exchange a series of foreign currency cash flows originating from a foreign currency asset for a series of cash flows appropriately structured in the required currency and maturity to match the respective liabilities.

In 2009, a loss of CZK 31 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2008: CZK 6 m)

The contract or notional amounts and positive and negative fair values of the Bank's outstanding cash flow hedging derivatives as at 31 December 2009 and 2008 are set out as follows:

	2009			2008		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	162,477	3,015	3,862	53,594	1,582	1,018
Cross currency interest rate swaps	44,944	5,029	590	44,176	5,599	627
Total hedging derivatives	**207,421**	**8,044**	**4,452**	**97,770**	**7,181**	**1,645**

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2009	2008
Interest (expense) / income (Note: 29)	(651)	139
Taxation	123	(27)
Net (losses) / gains	**(528)**	**112**

Most of the hedging derivatives are CZK single currency interest rate swaps. The Bank uses these instruments to the hedge floating interest income from reverse repo operations with the CNB earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Bank and the fixed interest rate the Bank receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest earning securities are included in Available-for-sale financial assets and in Held-to-maturity investments of the Bank's statement of financial position.

Interest rate swaps are used by the Bank to hedge the interest rate risk arising from changes in external interest rates on a group of client term deposits with contractual maturity varying from one week to six months. The variability in the interest paid on the client floating rate deposits is effectively hedged by the fixed rate receiver/floating rate payer swaps.

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Bank uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flow hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December:

(CZKm)	2009	2008
Less than 3 months	1,931	2,184
More than 3 months but not more than 6 months	13,027	2,138
More than 6 months but not more than 1 year	16,224	1,191
More than 1 year but not more than 2 years	28,839	23,958
More than 2 years but not more than 5 years	106,369	33,173
More than 5 years	41,031	35,126
	207,421	**97,770**

Fair value hedging derivatives

Until 14 December 2009, the Bank used cross currency interest rate swaps and term deposits denominated in EUR (originally Slovak crown) to hedge the volatility of the fair value of a currency risk related to ČSOB's share in ČSOB SK, established by KBC Bank NV in Slovakia on 1 January 2008. The investment was classified as on Available-for-sale asset which was measured at fair value directly in equity. Because the changes in the fair value which correspond to changes in foreign exchange rates were designated as a hedged item, they were reported in Net losses from financial instruments at fair value through profit or loss in the statement of income.

From March 2009 interest rate swaps are used by the Bank to hedge the interest rate risk arising from the movement in the fair value of bonds classified as Available-for-sale attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bonds are highly effective hedge.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding fair value hedging derivatives as at 31 December 2009 and 2008 are set out as follows:

	2009			2008		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps	13,200	-	706	-	-	-
Cross currency interest rate swaps	-	-	-	5,303	-	824
Total hedging derivatives	**13,200**	**-**	**706**	**5,303**	**-**	**824**

In 2009, the total realised interest income in the amount of CZK 316 m on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

The total realised foreign exchange loss in the amount of CZK 463 m on the hedged item attributable to the hedged currency risk is included in Net gains from financial instruments at fair value through profit or loss in 2009 (2008: foreign exchange gains in the amount of CZK 1,251 m).

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2008	6,896	2,361	687	2,395	12,339
Depreciation and impairment at 1 January 2008	(1,985)	(1,967)	(461)	(1,831)	(6,244)
Net book value at 1 January 2008	**4,911**	**394**	**226**	**564**	**6,095**
Additions	299	393	47	226	965
Disposals	(13)	(1)	(1)	(5)	(20)
Transfer to non-current assets held-for-sale	(109)	-	-	-	(109)
Transformation of business in Slovakia	(1,400)	(33)	(41)	(46)	(1,520)
Depreciation	(203)	(234)	(32)	(203)	(672)
Net book value at 31 December 2008	**3,485**	**519**	**199**	**536**	**4,739**
of which					
Cost	5,197	2,287	544	2,132	10,160
Depreciation and impairment	(1,712)	(1,768)	(345)	(1,596)	(5,421)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2009	5,197	2,287	544	2,132	10,160
Depreciation and impairment at 1 January 2009	(1,712)	(1,768)	(345)	(1,596)	(5,421)
Net book value at 1 January 2009	**3,485**	**519**	**199**	**536**	**4,739**
Additions	280	212	31	140	663
Disposals	(339)	(1)	(2)	(6)	(348)
Transfer to non-current assets held-for-sale	-	(420)	-	(165)	(585)
Depreciation	(224)	(265)	(32)	(168)	(689)
Net book value at 31 December 2009	**3,202**	**45**	**196**	**337**	**3,780**
of which					
Cost	5,115	153	545	1,204	7,017
Depreciation and impairment	(1,913)	(108)	(349)	(867)	(3,237)

The net book value of the Construction in progress, included in Property and equipment, amounted to CZK 72 m at 31 December 2009 (31 December 2008: CZK 404 m).

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2008	2,752	2,744	828	6,324
Amortisation and impairment at 1 January 2008	(63)	(2,384)	(383)	(2,830)
Net book value at 1 January 2008	**2,689**	**360**	**445**	**3,494**
Additions	-	440	83	523
Transformation of business in Slovakia	-	(6)	(10)	(16)
Amortisation	-	(278)	(73)	(351)
Net book value at 31 December 2008	**2,689**	**516**	**445**	**3,650**
of which				
Cost	2,752	3,141	901	6,794
Amortisation and impairment	(63)	(2,625)	(456)	(3,144)

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2009	2,752	3,141	901	6,794
Amortisation and impairment at 1 January 2009	(63)	(2,625)	(456)	(3,144)
Net book value at 1 January 2009	**2,689**	**516**	**445**	**3,650**
Additions	-	249	100	349
Disposals	-	-	(207)	(207)
Transfer to non-current assets held-for-sale	-	(22)	(18)	(40)
Amortisation	-	(302)	(82)	(384)
Net book value at 31 December 2009	**2,689**	**441**	**238**	**3,368**
of which				
Cost	2,752	3,141	740	6,633
Amortisation and impairment	(63)	(2,700)	(502)	(3,265)

The net book value of the Construction in progress, included in Other intangible assets, amounted to CZK 38 m at 31 December 2009 (31 December 2008: CZK 245 m).

Goodwill has been allocated to the Retail / SME segment, representing a cash-generating unit. The recoverable amount for the Retail / SME segment is determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for further five years.

Cash flows in the Retail / SME segment are represented by net profit generated by the cash-generating unit above the required capital, calculated as 8.0% of its risk weighted assets, and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.5% (2008: 9.5%) and a long term growth of 3.0% were used in both 2009 and 2008.

The value in use is particularly sensitive to a number of key assumptions:

- The assumed growth rate in forecasted cash flows beyond the terminal year of the budget. A growth rate of 3.0% for Retail / SME has been used for extrapolation purposes beyond the budget period. The long-term growth rate for the Retail / SME segment is based on management estimates of the business growth rate for the activities being undertaken by the segment and its level converge to the average growth rate experienced over the last few years. The growth rate does not exceed the long-term average growth rate for the market in which the business operates.
- The risk discount rate. For Retail / SME a risk discount rate of 10.5% (2008: 9.5%) has been applied. This reflects an risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of Retail / SME segment would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

22. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	IT equipment	Software	Other	Total
Net book value at 1 January 2008	**27**	**-**	**-**	**-**	**27**
Transfer from property and equipment	109	-	-	-	109
Impairment charge	(9)	-	-	-	(9)
Net book value at 31 December 2008	**127**	**-**	**-**	**-**	**127**
of which					
Cost	143	-	-	-	143
Impairment	(16)	-	-	-	(16)

(CZKm)	Land and buildings	IT equipment	Software	Other	Total
Net book value at 1 January 2009	**127**	**-**	**-**	**-**	**127**
Transfer from property and equipment and from other intangible assets	-	420	22	183	625
Disposals	(143)	-	-	-	(143)
Impairment charge	(8)	-	-	-	(8)
Impairment utilisation	24	-	-	-	24
Net book value at 31 December 2009	**-**	**420**	**22**	**183**	**625**
of which					
Cost	-	420	22	183	625
Impairment	-	-	-	-	-

Transfers of operating tangible and intangible assets disclosed in Transfer from property and equipment and from other intangible assets represents ICT-related assets which were sold to KBC GS CZ in January 2010 (Note: 2.5).

23. OTHER ASSETS

(CZKm)	2009	2008
Other debtors, net of provisions (Note: 32, 37.2)	2,705	5,549
Accrued income (Note: 32, 37.2)	622	668
Prepaid charges	458	539
Receivables from securities clearing entities (Note: 32, 37.2)	39	1,069
VAT and other tax receivables	26	27
Other	8	12
	3,858	**7,864**

As at 31 December 2009, included within Other debtors, net of provisions and Accrued income is a receivable from the CNB related to ex-IPB off-balance sheet commitments repaid by the Bank in the amount of CZK 1,723 m (31 December 2008: CZK 1,689 m). The original receivable from the MF CZ was derecognised from the Bank's statement of financial position on 13 November 2008 following an instruction received by the Bank from the CNB. The Bank was obliged to comply with the CNB's instruction, although the Bank's management believes that the receivable from the MF CZ exists and is fully recoverable and that the CNB's ruling is not correct. This assessment is supported by the opinions of external lawyers.

Starting from November 2008, in accordance with the CNB instruction, the Bank no longer recognised the receivable on the basis of the MF CZ guarantee, which is subject to an arbitration before the ICC International Court of Arbitration, in the statement of financial position. The Bank continues to recognise the receivable on the basis of the Agreement and Indemnity executed between the CNB and ČSOB (the CNB Agreement). The difference in the amounts of the receivables (including accrued interest income) from the MF CZ and the CNB has been recognised in the statement of income. The receivable based on the MF CZ guarantee is recorded in the off-balance sheet. The Bank believes that the amount related to repayments of ex-IPB off-balance sheet commitments is fully covered by guarantee agreements issued by the institutions of the Czech state.

As at 31 December 2008, Other debtors, net of provisions includes receivables from the CNB in the amount of CZK 2,919 m related to claims based on the CNB Agreement. Simultaneously as at 31 December 2008, ČSOB recorded advances for these receivables in the amount of CZK 2,919 m (Note: 26). Since ČSOB considers any potential rights of the CNB to reclaim certain of these advances as lapsed, an offset of the current balance of the receivables in the amount of CZK 2,603 m against the received advances in the amount of CZK 2,603 m was made in the statement of financial position as at 31 December 2009.

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2009	2008
Financial liabilities held for trading		
Short positions	4,429	48
Derivative contracts (Note: 19)	18,773	35,057
	23,202	**35,105**
Financial liabilities designated at fair value through profit or loss		
Term deposits	29,243	33,489
Repo transactions	76,329	28,712
Promissory notes	139	491
Bonds issued	215	480
	105,926	**63,172**
Accrued interest expense	106	340
	106,032	**63,512**
Financial liabilities at fair value through profit or loss	**129,234**	**98,617**

The amount that the Bank would contractually be required to pay at the maturity of the Financial liabilities designated at fair value through profit or loss is CZK 16 m less than the carrying amount at 31 December 2009 (31 December 2008: CZK 17 m).

The changes in the fair value of the Financial liabilities designated at fair value through profit or loss attributable to changes in credit risk were not significant.

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2009	2008
Deposits received from central banks		
Repo transactions	-	17,000
Deposits received from credit institutions		
Current accounts	8,673	8,405
Term deposits with agreed maturity	40,318	37,767
Repo transactions	7,829	14,422
	56,820	**60,594**
Deposits received from other than credit institutions		
Current accounts	283,448	270,230
Term deposits with agreed maturity	71,729	105,145
Term deposits at notice	98,895	52,122
Repo transactions	7,000	34
Other deposits	4,300	4,589
	465,372	**432,120**
Debt securities in issue		
Bonds issued	1,371	1,381
Promissory notes	13,323	20,188
Certificates of deposit	4	4
	14,698	**21,573**
Subordinated liabilities		
Subordinated debt	**11,970**	**11,965**
Accrued interest expense	691	712
Financial liabilities at amortised cost	**549,551**	**543,964**

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amounts of CZK 5,000 m and CZK 7,000 m to KBC Bank NV. Both subordinated debts are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

26. OTHER LIABILITIES

(CZKm)	2009	2008
Other clearing accounts	2,139	6,269
Payables to employees including social security charges	1,446	1,269
Accrued charges	1,285	1,198
Other creditors	639	4,288
Payables to securities clearing entities	453	658
VAT and other tax payables	148	122
Income received in advance	52	77
Other debts to clients	32	40
Other	195	195
	6,389	**14,116**

As at 31 December 2008, advances received for the receivables from the CNB related to the CNB Agreement in the amount of CZK 2,919 m were included within Other creditors. A part of these advances in the amount of CZK 2,603 m was offset against the receivables from the CNB as at 31 December 2009 (Note: 23).

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loan commitments and guarantees (Note: 33)	Total
At 1 January 2009	**202**	**131**	**131**	**499**	**963**
Additions	90	-	-	101	191
Amounts utilised	(46)	(81)	(23)	-	(150)
Unused amounts reversed	(24)	(50)	-	(215)	(289)
Discount amortisation (Note: 5)	-	-	4	-	4
Foreign currency translation	(2)	-	-	(11)	(13)
At 31 December 2009	**220**	**-**	**112**	**374**	**706**

Only additions, reversals and utilisations of the provisions for legal issues and other losses, restructuring and contractual engagements are included in Provisions in the statement of income.

Pending legal issues and other losses

Provisions for legal issues and other losses represents an obligation to cover potential risks resulting from litigation, where the Bank is a defendant.

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Bank's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Bank creates a provision in the full amount to cover the possible cost in the event of loss.

In 2009, the Bank had a provision in the total amount of CZK 220 m. It is expected that the costs will not be incurred before 2011.

On a quarterly basis, the Bank monitors status of all cases and makes a decision as to whether to create, utilise or reverse any provision.

The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

Restructuring

In December 2008, the Bank decided to begin a new restructuring program with the aim to reduce the total number of personnel by 496 by the end of 2009. Based on this decision, the Bank created a provision in the amount of CZK 131 m to cover the related costs.

During 2009, the number of the Bank's employees decreased by 360 under the program. This reduction was covered by provision created in December 2008 in the amount of CZK 81 m. The unused provision in the amount of CZK 50 m was released in December 2009.

Contractual engagements

ČSOB assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) for which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise. It is expected that the costs will be incurred over the next 14 years.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2009, the total authorised share capital was CZK 5,855 m (31 December 2008: CZK 5,855 m) and comprised of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

No Treasury shares were held by the Bank at 31 December 2009 and 2008.

On 31 December 2009, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2008: 100%). On the same date, KBC Bank was controlled by the KBC Group and, therefore, KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The following table shows movements of Other reserves in 2009 and 2008:

(CZKm)	Reorganisation reserve	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2008	**-**	**(827)**	**(700)**	**(198)**	**(1,725)**
Other comprehensive income (Note: 29)	2,055	6,447	1,428	2	9,932
At 31 December 2008	**2,055**	**5,620**	**728**	**(196)**	**8,207**
Other comprehensive income (Note: 29)	(2,055)	(3,183)	(1,136)	196	(6,178)
At 31 December 2009	**-**	**2,437**	**(408)**	**-**	**2,029**

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2009	2008
Exchange differences on translating foreign operation	196	2
Cash flow hedges		
Net unrealised (losses) / gains on cash flow hedges	(2,054)	1,913
Net losses / (gains) on cash flow hedges reclassified to the statement of income (Note: 19)	651	(139)
Tax effect relating to cash flow hedges (Note: 12)	267	(346)
	(1,136)	1,428
Available-for-sale financial assets		
Net unrealised gains on available-for-sale financial investments	1,614	4,609
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	(148)	(114)
Transformation of business in Slovakia	-	2,753
Sale of ČSOB SK (Note:2.5)	(4,671)	-
Tax effect relating to available-for-sale financial investments (Note: 12)	22	(801)
	(3,183)	6,447
Reorganisation reserve		
Transformation of business in Slovakia (Note: 2.5)	-	2,055
Sale of ČSOB SK (Note: 2.5)	(2,055)	-
Other comprehensive income for the year, net of tax	**(6,178)**	**9,932**

The amounts included in Transformation of business in Slovakia are as follows:

(CZKm)	Reorganisation reserve	Available-for-sale reserve
At 1 January 2008	**-**	**-**
Exclusion of Available-for-sale reserve recognised by Slovak branch as at 31 December 2007	-	6
Recognition of Reorganisation reserve as at the date of the transaction (Note: 2.5)	2,055	-
Available-for-sale reserve arisen from subsequent fair value measurement of the Bank's share in ČSOB SK (Note: 2.5)	-	2,747
At 31 December 2008	**2,055**	**2,753**
Available-for-sale reserve arisen from fair value measurement of the Bank's share in ČSOB SK (Note: 2.5)	-	1,918
At 14 December 2009	**2,055**	**4,671**

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Bank's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (4)).

Financial assets and liabilities at fair value (available-for-sale, held for trading, designated at fair value through profit or loss) are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices, which means that no model is involved in the process of revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate and foreign exchange contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include collateralised debt obligations (CDOs) and unlisted shares.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates.

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2009:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	107,115	-	107,115
Debt instruments	20,009	20,927	-	40,936
Derivative contracts	-	18,207	-	18,207
Accrued interest income	393	324	-	717
Financial assets designated at fair value through profit or loss				
Debt instruments	6,238	11,896	1,185	19,319
Accrued interest income	148	182	-	330
Available-for-sale financial assets				
Debt securities	52,181	112,053	-	164,234
Equity securities	-	-	47	47
Accrued interest income	1,185	1,889	-	3,074
Derivatives used for hedging	-	8,044	-	8,044
Financial liabilities				
Financial liabilities held for trading				
Short positions	4,429	-	-	4,429
Derivative contracts	-	18,773	-	18,773
Financial liabilities designated at fair value through profit or loss				
Term deposits	-	29,243	-	29,243
Repo transactions	-	76,329	-	76,329
Promissory notes	-	139	-	139
Bonds issued	-	215	-	215
Accrued interest expense	-	106	-	106
Derivatives used for hedging	-	5,158	-	5,158

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2008:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	67,769	-	67,769
Debt instruments	16,325	20,862	-	37,187
Derivative contracts	-	33,435	-	33,435
Accrued interest income	279	830	-	1,109
Financial assets designated at fair value through profit or loss				
Debt instruments	15,258	13,527	-	28,785
Accrued interest income	351	224	170	745
Available-for-sale financial assets				
Debt securities	22,731	93,048	-	115,779
Equity securities	-	-	10,743	10,743
Accrued interest income	583	1,515	-	2,098
Derivatives used for hedging	-	7,181	-	7,181
Financial liabilities				
Financial liabilities held for trading				
Short positions	48	-	-	48
Derivative contracts	-	35,057	-	35,057
Financial liabilities designated at fair value through profit or loss				
Term deposits	-	33,489	-	33,489
Repo transactions	-	28,712	-	28,712
Promissory notes	-	491	-	491
Bonds issued	-	480	-	480
Accrued interest expense	-	340	-	340
Derivatives used for hedging	-	2,469	-	2,469

In the financial year ended 31 December 2009 the Bank changed the valuation method applied to the mortgage bonds designated as at fair value through profit or loss and to available-for-sale mortgage bonds. The new valuation method was implemented as a response to changed market conditions.

The pricing of mortgage bonds is based on CZK swaps and an adjustment for credit spread. Given the limited trading activity with mortgage bonds in 2009, the previously applied method may lead to the use of historical credit spreads. The management does not consider historical credit spreads to be a sufficiently robust pricing input. Therefore, the credit spread calculation was modified as follows:

- For fixed-rate mortgage bonds the Bank decided to apply the spread between the CZK swap yield curve and the yield of a Czech government bond, both with maturity corresponding to the residual maturity of the mortgage bond;
- For floating-rate mortgage bonds, the Bank decided to apply the spread between the CZK swap yield curve and the yield of a Czech government bond, both with maturity corresponding to the nearest interest rate fixation period of the mortgage bond.

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

(CZKm)	Debt securities	Equity securities	Total
At 31 December 2007	**10,292**	**549**	**10,841**
Revaluation gains or (losses) recorded in Net gains / (losses) from financial instruments at fair value through profit or loss	(10,122)	1,251	(8,871)
Impairment losses	-	(29)	(29)
Revaluation gains recorded in Net gains on available-for-sale securities in Other comprehensive income	-	339	339
Additions	-	31	31
Settlements	-	(426)	(426)
Transformation of business in Slovakia (Note: 2.5)	-	9,028	9,028
At 31 December 2008	**170**	**10,743**	**10,913**
Revaluation gains or (losses) recorded in Net gains / (losses) from financial instruments at fair value through profit or loss	1,185	(463)	722
Realised gains recorded in Net realised gains on available-for-sale financial assets	-	6,558	6,558
Impairment losses	-	(37)	(37)
Revaluation gains recorded in Net gains on available-for-sale securities in Other comprehensive income	-	(4,944)	(4,944)
Settlements	(170)	(11,810)	(11,980)
At 31 December 2009	**1,185**	**47**	**1,232**

Included within Net gains / (losses) from financial instruments at fair value through profit or loss are gains of CZK 1,185 m (2008: losses of CZK 10,122 m) related to assets held at the end of the accounting period. Impairment losses related to assets held at the end of the accounting period amounted to CZK 37 m in 2009 (2008: CZK 29 m).

The Bank has classified collateralised debt obligations (CDOs) and unlisted shares into the category of the financial instruments which are recorded at fair value using valuation techniques based on non market observable inputs.

2008 valuation of CDOs

In the year ended 31 December 2008, CDOs issued by KBC Financial Products (KBC FP) were priced according to a model administrated by KBC Group, which was based on the quotations of Credit Default Swaps and Moody's ratings of individual CDO tranches. The prices were derived from CDS indices: CDX, iTraxx and ABX, weighted proportionally according to the asset breakdown of the CDO collateral pool. Market Value Adjustments (MVA) were set up for the close-out and liquidity of these instruments. In view of the uncertainty associated with such valuation, the Bank has booked an additional MVA adjusting the fair value of all tranches to zero.

2009 valuation of CDOs

In the financial year ended 31 December 2009 the Bank changed the valuation method applied to the CDOs designated at fair value through profit or loss as a response to changed market conditions.

The Bank decided to use the Gaussian Copula Mixture Model (GM Model) for the valuation of all CDOs.

The market for the CDOs is, as it is for similar structured securities, currently illiquid, as there is no active market for them in which quoted prices or (limit) orders may be observed. As a result, the Indicative Valuation is based on parameters which the Bank considers as benchmarks for calculating an indicative value of the CDOs.

The GM Model is used to model the distribution of default times of the underlying corporate and asset-based securities in the reference portfolios of the CDO transactions. The asset default trigger in the model is derived from the credit default swap spreads in the market. The correlations between the default times are modelled through Gaussian Copulas and as such can be simulated. By discounting the cash flows resulting from the default time curves on the underlying assets, a value for a specific CDO tranche is reached.

The model also ensures that the underlying CDO tranches of inner tranches are valued consistently with the market, through the calibration with CDX and iTraxx credit spread indices.

The objective of the model is to simulate default times by underlying asset according to several scenarios. Out of these default times for every underlying asset, both the cumulative losses (default leg) and the notional amounts on which coupons are paid (coupon leg) are determined by scenario and by CDO tranche. Both legs are dependent on recovery rate assumptions and default/survival probability curves, the latter determined in line with present CDS market spreads. Correlation between default times is taken into account. By scenario and by CDO tranche, a value is calculated by discounting back both the default leg and the coupon leg. The result of the valuation of a CDO tranche is the average over of scenario outcomes.

The following table presents the sensitivity of the valuation of CDOs to movements in the credit spreads of the underlying corporate and asset-based securities in the reference portfolios of the CDO securities. This analysis assumes that the valuation rule remains unchanged, being the lower of the GM model value and the fundamental value. Furthermore, the analysis also assumes that the fundamental value and all other variables remain unchanged, and therefore shows the impact of changes in the credit spread on the GM model. As at 31 December 2009, a one percentage point change in the variable would have increased (decreased) profit or loss by the amounts shown below.

(CZKm)	Effect of statement of income	
Percentage change of the credit spreads in basis points	Favourable	(Unfavourable)
+ 10	-	(71)
+ 20	-	(143)
+ 50	-	(338)
- 10	77	-
- 20	153	-
- 50	389	-

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

The following table shows transfers between a group of financial instruments with market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs:

(CZKm)	Transfers from Level 1 to Level 2		Transfers from Level 2 to Level 1	
	2009	2008	2009	2008
Financial assets				
Financial assets held for trading				
Debt instruments	260	345	580	1,495
Financial assets designated at fair value through profit or loss				
Debt instruments	-	1,916	316	-
Available-for-sale financial assets				
Debt securities	393	202	63	-

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements.

(CZKm)	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	21,589	21,589	15,400	15,400
Loans and receivables	203,026	204,647	230,383	231,955
Held-to-maturity investments	119,049	123,588	100,420	98,446
Other assets	3,366	3,366	7,286	7,286
Financial liabilities				
Financial liabilities at amortised cost	549,551	552,083	543,964	547,371
Other liabilities	6,189	6,189	13,917	13,917

The following methods and assumptions were applied in estimating the fair values of the Bank's financial assets and liabilities:

Held-to-maturity investments

Fair values for held-to-maturity securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

Loans and receivables to credit institutions and balances with central banks

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans reprice within relatively short time periods therefore, it is assumed that their carrying values approximate their fair values.

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the end of the accounting period.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using current interbank market rates.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue

Bonds issued are publicly traded and their fair values are based on quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

31. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	2009	2008
Cash and balances with central banks	13,029	11,129
Loans and advances to credit institutions	25,011	42,531
Financial liabilities at amortised cost to credit institutions	(9,174)	(25,480)
Cash and cash equivalents	**28,866**	**28,180**

Change in operating assets

(CZKm)	2009	2008
Net change in financial assets held for trading	(42,649)	(56,920)
Net change in financial assets designated at fair value through profit or loss	9,881	70
Net change in available-for-sale financial assets	(55,017)	(22,004)
Net change in loans and receivables	17,907	(26,634)
Net change in derivatives used for hedging	(2,266)	527
Net change in other assets	3,335	(1,054)
	(68,809)	**(106,015)**

Change in operating liabilities

(CZKm)	2009	2008
Net change in financial liabilities held for trading	(12,734)	22,961
Net change in financial liabilities designated at fair value through profit or loss	42,519	(13,127)
Net change in financial liabilities at amortised cost	21,896	30,605
Net change in derivatives used for hedging	3,513	474
Net change in other liabilities	(7,727)	(3,736)
	47,467	**37,177**

Non-cash items included in profit before tax

(CZKm)	2009	2008
Allowances and provisions for credit losses	2,702	(801)
Depreciation and amortisation	1,073	1,023
Amortisation of discounts and premiums	293	376
Impairment on other assets	98	290
Impairment on investment securities (AFS + HTM)	405	538
Provisions	(130)	(22)
Other	708	(71)
	5,149	**1,333**

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2009:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading					
Financial derivatives	9,612	7,193	1,402	-	18,207
Other than financial derivatives	115,438	24,581	8,749	-	148,768
Financial assets designated at fair value through profit or loss	3,029	6,382	10,238	-	19,649
Available-for-sale financial assets	10,748	34,291	122,269	47	167,355
Loans and receivables	88,771	80,112	34,143	-	203,026
Held-to-maturity investments	11,193	31,980	75,876	-	119,049
Derivatives used for hedging	3,069	4,376	599	-	8,044
Other assets (Note: 23)	3,366	-	-	-	3,366
Total carrying value	**245,226**	**188,915**	**253,276**	**47**	**687,464**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	9,235	7,726	1,812	-	18,773
Other than financial derivatives	4,429	-	-	-	4,429
Financial liabilities designated at fair value through profit or loss	105,007	968	57	-	106,032
Financial liabilities at amortised cost	109,968	200,422	239,161	-	549,551
Derivatives used for hedging	2,309	2,249	600	-	5,158
Other liabilities	6,189	-	-	-	6,189
Total carrying value	**237,137**	**211,365**	**241,630**	**-**	**690,132**

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2008:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading					
Financial derivatives	20,590	9,953	2,892	-	33,435
Other than financial derivatives	73,771	19,364	12,891	39	106,065
Financial assets designated at fair value through profit or loss	1,745	4,720	23,065	-	29,530
Available-for-sale financial assets	10,191	22,358	85,328	10,743	128,620
Loans and receivables	131,040	67,284	32,059	-	230,383
Held-to-maturity investments	9,044	33,340	58,036	-	100,420
Derivatives used for hedging	2,753	3,760	668	-	7,181
Other assets (Note: 23)	7,286	-	-	-	7,286
Total carrying value	**256,420**	**160,779**	**214,939**	**10,782**	**642,920**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	20 482	10,651	3,924	-	35,057
Other than financial derivatives	48	-	-	-	48
Financial liabilities designated at fair value through profit or loss	63 060	402	50	-	63,512
Financial liabilities at amortised cost	181 349	120,715	241,900	-	543,964
Derivatives used for hedging	1 508	848	113	-	2,469
Other liabilities	13 917	-	-	-	13,917
Total carrying value	**280 364**	**132,616**	**245,987**	**-**	**658,967**

33. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Bank recovered a written-off loan amounting to CZK 485 m in 2007. Due to uncertainty regarding the outcome of the appeal by the counterparty against the ruling, the Bank will not recognise this amount in the statement of income until the final court ruling regarding the Bank's claim is known.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December are as follows:

(CZKm)	2009	2008
Loan commitments	92,945	112,344
Financial guarantees	23,409	28,551
Other commitments	799	2,530
	117,153	**143,425**
Provisions for loan commitments and guarantees (Note: 27)	374	499

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements (Note: 37.2).

Litigation

Other than the litigations, for which provisions have already been made (Note: 27), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Bank believes that such claims are unfounded. In addition, potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

In June 2007, the Bank initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable from the MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency (Note: 23). The Bank believes that its position in this case is strong and is confident that the International Court of Arbitration will rule in its favour. This assessment of the outcome of this case is supported by opinions of external lawyers. The arbitration is still ongoing.

Further, the Bank has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments

Future minimum lease payments under operating leases related to land and buildings are as follows:

(CZKm)	2009	2008
Not later than 1 year	781	671
Later than 1 year and not later than 5 years	1,745	1,916
Later than 5 years	372	466
	2,898	**3,053**

These operating leases can be technically cancelled under the Czech law; however, the Bank is commercially bound to continue with these leases for the periods set out above.

34. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Bank has made to counterparties in reverse repurchase agreements according to the captions of the statement of financial position in which they are included:

(CZKm)	2009	2008
Financial assets		
Cash and balances with central banks	4,001	-
Financial assets held for trading	88,468	15,401
	92,469	**15,401**

Under reverse repurchase agreements, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2009 was CZK 129,946 m, of which CZK 86,350 m has been either sold or repledged (31 December 2008: CZK 16,275 m and CZK 1,606 m, respectively).

The following table shows an analysis of the loans the Bank has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2009	2008
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	76,398	28,929
Financial liabilities at amortised cost	14,854	31,601
	91,252	**60,530**

Amounts of financial assets pledged as collateral in repo transactions are shown in notes Financial assets at fair value through profit or loss (Note: 15) and Financial investments (Note: 16).

35. RELATED PARTY DISCLOSURES

A number of banking transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2009 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
Directors / Senior management personnel	-	-	-	1	-	-
KBC Bank NV	17,253	-	-	74	4,580	-
Entities under common control						
ČSOB SK	58	-	816	63	-	19
Fulham Road Finance Limited (spv)	-	1,185	-	-	-	-
KBC Groep NV	262	-	-	-	-	-
KBC Internationale Financieringsmij NV	307	-	-	-	-	-
Novaservis	1	-	-	220	-	-
Other	135	-	-	2	-	2
Subsidiaries						
ČSOB Factoring, a.s.	-	-	-	2,241	-	-
ČSOB Investiční společnost, a.s.	-	-	-	-	-	83
ČSOB Investment Banking Services, a.s.	-	-	-	-	-	-
ČSOB Leasing, a.s.	532	-	4,085	9,221	4	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	116	-	-	-	-	-
Centrum Radlická, a.s.	-	-	-	205	-	-
Hypoteční banka, a.s.	6,158	5,602	84,798	28,221	-	-
Other	86	-	-	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	8	-	1	-	-	11
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	-	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2009 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management personnel	-	-	291	-	-
KBC Bank NV	6,541	3,970	12,348	1,726	8
Entities under common control					
ČSOB SK	111	854	32	-	-
KBC Bank Ireland plc	-	-	11	-	-
KBC GS CZ	-	-	119	-	281
Nova Ljubljanska Banka d.d. (NLB)	-	-	10	-	-
Novaservis	-	-	15	-	-
Patria Direct	-	-	26	-	-
Patria Finance, a.s.	-	-	21	-	-
Other	9	-	30	-	-
Subsidiaries					
ČSOB Asset Management, a.s.	-	-	402	-	-
ČSOB Investiční společnost, a.s.	-	-	485	-	-
ČSOB Investment Banking Services, a.s.	-	-	5	-	-
ČSOB Leasing, a.s.	1	-	71	-	-
ČSOB Penzijní fond Progres, a.s.	18	-	150	-	-
ČSOB Penzijní fond Stabilita, a.s.	28	-	250	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	50	-	150	-	173
Centrum Radlická, a.s.	-	-	5	-	-
Bankovní Informační Technologie, s.r.o.	-	-	163	-	-
Hypoteční banka, a.s.	-	480	26,470	-	52
Other	-	-	132	-	-
Associates					
ČSOB Pojišťovna, a.s.	36	554	849	-	-
Joint ventures					
Českomoravská stavební spořitelna, a.s.	-	900	8,354	-	6

The outstanding balances of assets from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
KBC Bank NV	16,555	-	-	73	4,103	-
Entities under common control						
KBC Groep NV	270	-	-	-	-	-
KBC Internationale Financieringsmij NV	290	-	-	-	-	-
Patria Finance, a.s.	383	-	-	-	-	-
ČSOB SK	159	-	865	2,215	-	-
Novaservis	5	-	-	274	-	-
Dorset Street Finance Ltd	-	90	-	-	-	-
Other	142	95	-	28	-	5
Subsidiaries						
ČSOB Asset Management, a.s.	-	-	54	-	-	-
ČSOB Factoring, a.s.	-	-	-	2,914	-	-
ČSOB Investiční společnost, a.s.	1	-	-	-	-	183
ČSOB Investment Banking Services, a.s.	-	-	-	36	-	-
ČSOB Leasing, a.s.	500	-	4,131	17,897	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	114	-	-	-	-	-
Centrum Radlická, a.s.	-	-	-	270	-	-
Hypoteční banka, a.s.	7,506	6,910	62,137	14,053	-	-
Other	43	-	8	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	26	-	-	-	-	10
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	-	957	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2008 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management personnel	-	-	62	-	-
KBC Bank NV	10,271	4,636	31,431	1,512	-
Entities under common control					
KBC Bank Nederland NV	-	-	113	-	-
KB Lux	-	250	52	-	-
Kereskedelmi és Hitelbank Rt.	-	121	-	-	-
Patria Finance, a.s.	1	-	41	-	150
ČSOB SK	39	1,563	47	-	-
Novaservis	-	-	47	-	-
Merrion Properties	-	-	37	-	-
Other	14	-	40	-	7
Subsidiaries					
ČSOB Asset Management, a.s.	-	-	207	-	-
ČSOB Investiční společnost, a.s.	-	-	501	-	-
ČSOB Investment Banking Services, a.s.	-	-	-	-	-
ČSOB Leasing, a.s.	-	-	266	-	-
ČSOB Penzijní fond Stabilita, a.s.	16	-	286	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	-	-	194	-	173
Centrum Radlická, a.s.	-	-	2	-	-
Bankovní Informační Technologie, s.r.o.	-	-	187	-	-
Hypoteční banka, a.s.	-	-	16,805	-	-
Other	4	10	579	-	-
Associates					
ČSOB Pojišťovna, a.s.	18	42	1,577	-	-
Joint ventures					
Českomoravská stavební spořitelna, a.s.	-	1,285	6,878	-	-

The outstanding balances of assets and liabilities with KBC Bank NV and the entities under common control principally comprise the fair value of derivative financial instruments, debt instruments and repo transactions.

The Bank provides banking services to its subsidiaries, associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services. In addition, the Bank acquired interest bearing debt instruments issued by its subsidiaries.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2009		2008	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
KBC Bank NV	484	534	213	1,731
Entities under common control				
IIB Bank Public Limited Company	-	-	15	1
KB Lux	1	5	4	12
Kredyt Bank SA	-	-	-	17
Patria Finance, a.s.	-	-	17	9
Sydney Street Finance Limited	28	-	75	-
Baker Street Finance Limited	42	-	111	-
ČSOB SK	38	7	78	20
Novaservis	12	-	19	1
Dorset Street Finance Ltd	42	-	112	-
Regent Street Limited	16	-	42	-
Pembridge Square Limited	10	-	26	-
Fulham Road Finance Limited (spv)	50	-	122	-
Clifton Finance Street Limited (spv)	30	-	78	-
Oxford Street Finance Limited (spv)	24	-	63	-
Other	6	4	8	9
Subsidiaries				
ČSOB Asset Management, a.s.	-	4	-	8
ČSOB Factoring, a.s.	49	-	133	-
ČSOB Investiční společnost, a.s.	-	11	-	14
ČSOB Investment Banking Services, a.s.	-	1	4	-
ČSOB Leasing, a.s.	487	2	943	5
ČSOB Penzijní fond Stabilita, a.s.	-	12	-	3
Centrum Radlická, a.s.	6	-	13	-
Bankovní Informační Technologie, s.r.o.	-	2	-	6
Hypoteční banka, a.s.	3,525	755	2,217	217
Other	-	8	9	7
Associates				
ČSOB Pojišťovna, a.s.	-	46	-	40
Joint ventures				
Českomoravská stavební spořitelna, a.s.	23	280	50	228

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

(CZKm)	2009 Fee and commission income	2009 Fee and commission expense	2008 Fee and commission income	2008 Fee and commission expense
Entities under common control				
KBC Securities NV	2	-	-	-
Patria Direct	8	-	-	-
Subsidiaries				
Auxilium	1	-	-	-
Bankovní Informační Technologie, s.r.o.	-	86	-	99
CSOB Asset Management a.s.	8	-	21	-
CSOB Factoring, a.s.	2	-	-	-
ČSOB Investiční společnost, a.s.	329	-	395	-
ČSOB Investment Banking Services, a.s.	1	-	-	-
CSOB Leasing, a.s.	24	-	35	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	1	-	-	-
Hypoteční banka, a.s.	52	-	66	-
Associates				
ČSOB Pojišťovna, a.s.	81	-	64	-
Joint ventures				
Českomoravská stavební spořitelna, a.s.	1	19	9	15

Dividend income received from subsidiaries, associates and joint ventures in 2009 amounted to CZK 7,556 m (2008: CZK 1,014 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2009 amounted to CZK 177 m (2008: CZK 166 m).

In accordance with the Group strategy, the Bank commenced purchasing information and communication services from the related party KBC GS CZ during 2009 (Note: 2.5).

Effective from 1 July 2009, the Bank concluded office space rental agreement and a service level agreement on a provision of administration services, such as human resources and accounting services, with KBC GS CZ. In 2009, the Bank received income of CZK 41 m from the rental payments and related services, received CZK 20 m from the provision of administration services and paid expense of CZK 1,150 m for IT services.

In 2009, the Bank sold its share in ČSOB SK to KBC Bank NV for a total consideration of CZK 11,744 m (Note: 2.5). The total realised gain from this transaction in the amount of CZK 6,530 m is included in Net realised gains on available-for-sale financial assets (Note: 2.5).

In 2009, the Bank received income of CZK 275 m (2008: CZK 377 m) from ČSOB SK arising from providing services and support in the following areas: IT, electronic banking, cards, payment processing, financial management, risk management, etc. The decrease in 2009 is related to the transfer of the Bank’s ICT activities to KBC GS CZ.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

(CZKm)	2009 Guarantees received	2009 Guarantees given	2008 Guarantees received	2008 Guarantees given
KBC Bank NV	759	45	936	74
Entities under common control				
KBC Finance Ireland	367	-	420	-
Kredyt Bank SA	-	1	-	-
Motokov, a.s.	-	-	5	5
Patria Finance, a.s.	-	20	-	-
ČSOB SK	-	45	-	22
Subsidiaries				
ČSOB Leasing, a.s.	-	529	-	539
Associates				
ČSOB Pojišťovna, a.s.	-	1	-	-

The outstanding balances of guarantees received from KBC Bank NV and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

The nature of guarantees, the Bank provides to its subsidiaries, is a participation on credit risk.

36. EVENTS AFTER THE END OF THE REPORTING PERIOD

KBC Global Services Czech Branch

An asset purchase agreement was concluded between the Bank and KBC Global Services NV and became effective in January 2010. The agreement transferred the ICT-related assets which were classified as Non-current assets held-for-sale in the Bank's financial statements as at 31 December 2009 from the Bank to KBC Global Services NV. Further information is disclosed in Note: 2.5.

The value of the newly created enterprise will be assessed and completed in 2010, the sales price will be determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague. The financial effect of the sale of the enterprise will be realised in 2010.

37. RISK MANAGEMENT

37.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability. Each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. They are monitored through the KBC Group's Internal Capital Adequacy Assessment Process (ICAAP).

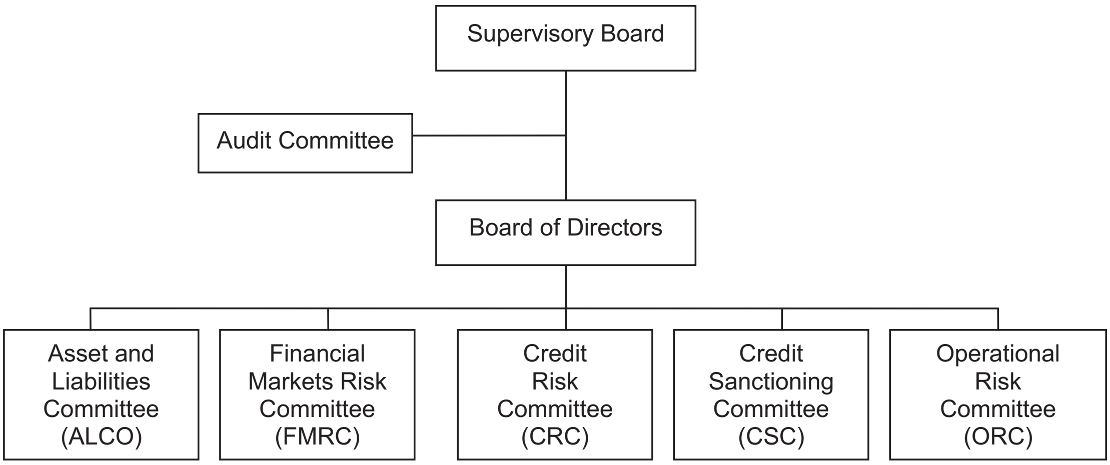
Risk management structure

The Board of Directors (BoD) is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The structure of Value and Risk Management in ČSOB is based on a uniform principle of Value and Risk Management applied within the KBC Group. It is based on a risk governance model that defines the responsibilities and tasks of various bodies and persons within the organisation to guarantee the sound management of value creation and all the associated risks.

This model includes:

- Involvement of the Bank's governance bodies in the process of value and risk management;
- The activities of specialised committees and independent departments involved in risk management at the level of ČSOB with group-wide control; and
- Primary risk management within departments and organisational units of individual companies.



Board of Directors

The BoD is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has responsibility for monitoring the overall risk process within the Bank.

Audit Committee

The Audit Committee supervises the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The Audit Committee is informed of the framework set up to identify and monitor the main risks the Bank is exposed to, in particular the framework set up for the monitoring of value and risk management. The Audit Committee reviews the monitoring of the ALM, market, credit, insurance and operational risks. The Audit Committee advises the Supervisory Board on the structure and the level of the limits.

Risk committees

Asset and liability committee (ALCO)

The ALCO has overall responsibility for the development of the market and liquidity risk strategy and implementing principles, frameworks, policies and limits for the Bank's investment portfolio. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Financial Markets Risk Committee (FMRC)

The FMRC, which consists of the Senior Executive Officers of CSOB responsible for financial markets and risk management, has overall responsibility for the development of the Bank' s market risk strategy and implementing principles, frameworks, policies and limits for the trading portfolio of the entire Bank. The FMRC is responsible for fundamental risk issues, and the management and monitoring of the relevant risk decisions.

Credit risk committee (CRC)

The CRC has overall responsibility for the development of the credit risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Credit sanctioning committee (CSC)

The CSC is a committee entrusted with the Group-wide responsibility and authority to take decisions on (individual) credit applications falling within the delegated decision powers of the CSC. As such it acts in principle as the highest decision committee for the Bank.

Operational risk committee (ORC)

The ORC has overall responsibility for the development of the operation risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions.

Other bodies

Value and Risk Management (VRM)

The Value and Risk Management unit is responsible for implementing and maintaining risk-related procedures to ensure an independent control process (except for credit risk). VRM is also responsible for monitoring compliance with risk principles, policies and limits, across the Bank. VRM is responsible for the independent control of risks (except for credit risk), including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Credits unit

The Credits unit is responsible for implementing and maintaining credit risk related procedures to ensure an independent control process. The Credits unit is also responsible for monitoring compliance with credit risk principles, policies and limits, across the Bank.

The Credits unit is responsible for the independent control of credit risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Asset and liability management unit (ALM)

The Bank's ALM unit is responsible for managing assets and liabilities of the Bank's investment portfolio. It is also primarily responsible for the funding and liquidity risks of the Bank.

Financial Markets unit (FM)

The Bank's FM unit is responsible for managing the assets and liabilities of the Bank's trading portfolio.

Internal audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with the management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the ALCO, and the CRC. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Bank.

A daily report is provided to the senior management and all other relevant members of the Bank on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to senior management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office (based on economic considerations rather than the IFRS hedge accounting criteria). The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

37.2 Credit risk

Credit risk is the potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Bank monitors exposures in relation to these limits. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions.

The Bank uses predominantly the IRB Foundation approach for the capital calculations of its retail and non-retail exposure. As a result, credit risk is measured, monitored and managed based on principles of this approach.

For the non-retail exposure (Corporate, large SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) are based on regulatory values for capital calculation purposes and on expert estimates combined with historical data for credit decision purposes.

For the retail exposure, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so called pools).

Non-retail exposure

Rating system: PD (Probability of Default)

The Bank manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Foundation compliant statistical rating models that take into account financial or non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

The PD master scale contains the following categories:

Risk category	PD scale
Normal	1-7
Asset Quality review (AQR)	8-9
Uncertain – performing	10
Uncertain – non-performing	11
Irrecoverable	12

PD 1 to PD 9 is the non-defaulted portfolio, PD 10 contains customers that have defaulted but are performing and PD 11 and 12 are the non-performing customers.

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the Bank seeking to collect its outstanding receivable through credit protection,

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the Bank is more than 90 days past the due date.

Defaulted and performing customers are those that meet the criterion (i) but are not more than 90 days overdue and are not subject to legal bankruptcy proceedings by the Bank or any other creditor.

PD ratings are used not only for the measurement, monitoring and management of credit risk but are also used to determine amongst other the decision level, the collateral and pricing.

Application Process

The application process is organised in three steps. Firstly, the employee maintaining the overall relationship with the customer writes a Credit Application containing the credit request, the motivation and an analysis of the relevant risks (including the financial analysis). Next, a Credit Risk advisor independent from the business line (i.e. reporting to Credit Risk) provides a written advice. Lastly, a decision is taken by the Credit Committee in which the business and Credits are represented, accumulating years of credit experience. Credit decisions in the committees must be taken on a consensual basis; voting does not take place.

In some cases, Credits assigns a credit delegation to the regional manager or senior relationship manager of a Branch. The delegated decision making does not usually require an intervention from Credits. In some cases (SME) an advice is still required, but in all cases the final decision is taken by the holders of the delegation. The delegations are risk based (bigger delegations for lower risk, smaller ones for higher risks) and are reviewed by Credits on an annual basis in a special session of the highest Credit Committee (CSC). Delegations are person linked, not function linked.

All credit decisions must be taken by at least 2 persons.

Individual Monitoring Process

Independent of the rating, a full credit application must be submitted to the respective decision authority for review at least once a year. Additionally, certain triggers lead to a more frequent evaluation of the credit files. These triggers include breaches of contractual conditions (like the breach of financial or non-financial covenants or the non-payment of fees, interest, or principal) but also events that do not constitute a breach of contract like a sudden unexpected change in management that could lead to a deterioration of the financial situation.

For higher risk cases, the Credit Committees can and do set review dates substantially shorter than 1 year. Generally, reviews take place more frequently place for worse rated customers than for better rated ones.

The Credit Department can require an immediate review of certain exposures if a certain economical sector or exposure shows a risk of deterioration.

Collective monitoring Process

A collective monitoring process is applied on the large SME clients that are tested on a quarterly basis against internal and external covenants. A breach of these covenants triggers the review process described above.

Retail exposure (entrepreneurs, physical persons)

Application Process

The application process in retail is driven by the usage of application scorecards for new customers. For existing customers, behavioural scorecards are used as well. Whilst for Consumer Finance products (personal unsecured loans, retail overdrafts and Credit cards) decisions are fully automated based on scorecards, mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external databases (Credit Bureaus) that deliver both positive as well as negative information.

Risk classification

From a risk perspective, retail exposures are classified into one of the following categories, based on the number of days overdue:

Risk category	Days overdue
Normal	0-30
AQR	31-90
Uncertain	91-360
Irrecoverable	>360

Monitoring process

The monitoring process in retail is based on aggregated data (no individual reviews) and looks at the development of default within the different sub-portfolios. Typically, different product portfolios are followed up monthly based on so-called vintages (defaults in terms of origination date and month on books) and the development of LLR in the different sub-segments. Additionally, the development of the portfolio is monitored based on pool migration (i.e. migration between different risk pools).

All retail segments are subject to a monthly review by Credits on the risk development at the highest level and are requested to make proposals to the Credit committee for mitigating certain aspects if needed.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risk

The Bank provides guarantees and letter of credits on behalf of its customers that may require the Bank to make payments on such customers' behalf. Such payments are subsequently collected from the customers based on the terms of the respective underlying Credit documentation. These guarantees expose the Bank to similar risks as loans and such risks are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Note	2009	2008
Cash and balances with central banks	14	14,198	7,055
Financial assets held for trading	15	166,975	139,500
Financial assets designated at fair value through profit or loss	15	19,649	29,530
Available-for-sale financial assets	16	167,355	128,620
Loans and receivables	17	203,026	230,383
Held-to-maturity investments	16	119,049	100,420
Derivatives used for hedging	19	8,044	7,181
Other assets	23	3,366	7,286
Total		701,662	649,975
Contingent liabilities	33	24,208	31,081
Commitments	33	92,945	112,344
Total		117,153	143,425
Total credit risk exposure		**818,815**	**793,400**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to Hypoteční banka, a.s. as at 31 December 2009 was CZK 124,779 m (2008: CZK 90,606 m) before taking account of collateral or other credit enhancements and CZK 124,779 m (2008: CZK 90,606 m) net of such protection.

The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

(CZKm)	2009	2008
Czech Republic	720,510	653,341
Slovak Republic	7,140	21,809
Other Europe	84,891	110,505
Other	6,274	7,745
Total	**818,815**	**793,400**

An industry sector analysis of the Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

(CZKm)	2009	2008
Central government	299,510	188,603
Non-credit institutions	10,887	8,677
Credit institutions	230,330	257,167
Insurance companies	1,093	254
Financial services	31,794	55,276
Other non-financial companies	206,319	255,503
Retail customers	38,882	27,920
Total	**818,815**	**793,400**

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also makes use of master netting agreements with counterparties.

Impairment Assessment

The main considerations for credit impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract. The Bank addresses impairment in two areas: individual impairments and collective impairments.

Individual impairments are applied to individual assets where there is registered objective evidence of default, whereas collective impairments are applied for asset groups that based on statistical evidence probably contain already impaired assets, but have not been yet individually recognised.

Individual impairment

The Bank determines allowances appropriate for loan where there is registered objective evidence of default on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collective impairment

Collective allowances are applied for loans and advances where there is not yet recognised objective evidence of individual impairment and they reflect impairment that is likely to be present in the group of assets although. Collective allowances are assessed based on statistical estimates are evaluated at each reporting period.

Impairment losses are estimated by taking into consideration:

(i) historical losses in the portfolio,

(ii) current economic conditions,

(iii) the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance (emergence period), and

(iv) the expected receipts and recoveries once impaired.

The local management is responsible for deciding the length of emergence period. In both 2009 and 2008, the Bank used a uniform emergence period of four months.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

For financial reporting purposes, CSOB uses four categories for credit risk management purposes. The table below shows the credit quality by class of asset for loan-related statement of financial position captions (in gross amounts), based on the Bank's credit rating system at 31 December 2009 and 2008:

(CZKm)	2009 Unimpaired assets Normal	Impaired assets Collectively AQR	Impaired assets Individually Uncertain Irrecoverable	Total
Financial assets designated at fair value through profit or loss	19,649	-	-	19,649
Available-for-sale financial assets	167,372	-	143	167,515
Loans and receivables				
Central government	29	-	-	29
Non-credit institutions	4,143	-	-	4,143
Credit institutions	34,436	10	688	35,134
Corporate	122,271	7,583	9,229	139,083
Retail	29,252	380	1,498	31,130
Accrued interest income	842	-	-	842
	190,973	7,973	11,415	210,361
Held-to-maturity investments	119,049	-	-	119,049
Total	**497,043**	**7,973**	**11,558**	**516,574**

(CZKm)	2008			
Financial assets designated at fair value through profit or loss	29,530	-	-	29,530
Available-for-sale financial assets	117,869	-	143	118,012
Loans and receivables				
Central government	6,023	-	-	6,023
Non-credit institutions	3,271	-	-	3,271
Credit institutions	27,703	114	502	28,319
Corporate	167,871	3,688	4,298	175,857
Retail	19,183	217	1,369	20,769
Accrued interest income	1,247	2	-	1,249
	225,298	4,021	6,169	235,488
Held-to-maturity investments	100,389	-	433	100,822
Total	**473,086**	**4,021**	**6,745**	**483,852**

The table below shows an ageing analysis of gross past due but not individually impaired financial assets of the Bank:

(CZKm)	2009 Less than 30 days	2009 More than 30 days but less than 90 days	2008 Less than 30 days	2008 More than 30 days but less than 90 days
Credit institutions	-	-	3	71
Corporates	1,930	274	2,096	218
Retail	1,146	217	1,093	161
Total	**3,076**	**491**	**3,192**	**450**

Individually impaired financial assets and the related impairment are as follows:

(CZKm)	2009 Gross amount	2009 Impairment	2008 Gross amount	2008 Impairment
Available-for-sale financial assets				
Equity securities	97	(92)	56	(56)
Debt securities	143	(136)	143	(136)
Held-to-maturity investments				
Debt securities	-	-	433	(402)
Loans and receivables				
Credit institutions	688	(215)	502	(19)
Corporates	9,229	(5,623)	4,298	(3,640)
Retail	1,498	(1,130)	1,369	(1,127)
	11,415	(6,968)	6,169	(4,786)
Total	**11,655**	**(7,196)**	**6,801**	**(5,380)**

The carrying amount of the financial assets that would otherwise be past due or impaired whose terms have been renegotiated was CZK 790 m at 31 December 2009 (31 December 2008: CZK 163 m) (Note: 2.4 (7) (iii)).

Economic recession

In 2009 the Bank has not changed its approach to credit risk management significantly due to the economic recession.

The Bank uses the same measures for risk management as before the crisis. Nevertheless, the Bank's monitoring of credit risks has intensified and capacities for dealing with defaulted credit exposures have been increased. Furthermore, the economic conditions have been reflected in more prudent and conservative decisions of respective Credit committees, where exposures risk classification resulting from statistic models can be overruled by the expert estimate of Credit committee members.

As a consequence of economic recession the credit losses significantly increased in 2009 compared to previous years. The highest losses have been recorded in the sector of corporate and SME clients. The CSOB management expects that the negative effect of economic recession on Bank credit losses will continue in 2010.

37.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Bank pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Bank's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding management

The actual development of liquidity might vary from ALM liquidity prediction. The Bank can address an adverse liquidity development in several ways. Most typically, the Bank would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in a cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Bank can borrow via repo operations on the market or use regulatory repo facilities (in ČNB or ECB).

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Bank's business activities in the medium- and long-term horizon. For the strategic liquidity management, the Bank uses the loan-to-deposit ratio (LTD), which is defined as a ratio of loans and advances given to clients other than credit institutions (numerator) to deposits received from clients other than credit institutions (denominator). The strategy of the Bank is to maintain the value of LTD well below one. The Bank also aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The LTD is monitored on monthly basis and it is regularly reported to the senior management of ČSOB.

The LTD during the year 2009 and 2008 was as follows:

(%)	2009	2008
31 March	42.5	40.6
30 June	39.4	42.8
30 September	39.1	43.9
31 December	35.1	43.9

In addition to internally defined limits, the Bank must also comply with a regulatory limit on the basis of minimum statutory reserves deposited with CNB. The limit presently equals to 2% of customer deposits.

The Stock Liquidity Ratio indicator, which was disclosed in the financial statements as at 31 December 2008, was abandoned as at 1 January 2009.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Bank's financial liabilities based on the contractual undiscounted repayment obligations.

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2009:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	9,235	8,241	2,295	19,771
Other than financial derivatives	-	4,429	-	-	4,429
Financial liabilities designated at fair value through profit or loss	-	105,007	1,031	68	106,106
Financial liabilities at amortised cost	292,127	216,160	14,339	36,538	559,164
Derivatives used for hedging	-	2,309	2,390	765	5,464
Other liabilities	-	6,189	-	-	6,189
Total carrying value	**292,127**	**343,329**	**26,001**	**39,666**	**701,123**

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2008:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	20,482	11,411	4,923	36,816
Other than financial derivatives	-	48	-	-	48
Financial liabilities designated at fair value through profit or loss	-	63,060	426	58	63,544
Financial liabilities at amortised cost	278,648	223,249	18,794	31,691	552,382
Derivatives used for hedging	-	1,508	904	138	2,550
Other liabilities	-	13,917	-	-	13,917
Total carrying value	**278,648**	**322,264**	**31,535**	**36,810**	**669,257**

The maturity for contingent liabilities and commitments of CZK 117,153 m (2008: CZK 143,425 m) is less than one year. This represents the undiscounted cash flows of the Bank's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Bank is not managed based on the undiscounted cash flows, as such the Bank's expected cash flows on these instruments vary significantly from this analysis. For example, undrawn loan commitments are not expected to be drawn down immediately.

37.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Bank has no net position in FX options, nor any position in equity. A nominal technical limit of EUR 6 m is set for interest rate options, commodity derivatives and structured bonds; the position in these products, however is not material.

Standard VaR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Bank. The Bank analyses scenarios, dependent and independent of the Bank’s position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Bank also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Bank uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Bank applies VaR assumptions to estimate potential loss at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Bank uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The VaR model is back tested on a daily basis. Daily VaR (1 day holding period) is compared with theoretic profit or loss from holding previous day position. Daily VaR is also compared with real profit or loss made by trading book. Daily losses were never greater than the 1 day VaR in 2008 and 2009.

The Bank received a regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks in June 2007.

The tables below show capital requirements analysed using VaR model in 2009 and 2008:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2009	110.8	4.0	(1.4)	113.4
Average during the period	137.1	12.1	(9.3)	139.9
Highest	533.6	42.4	(75.9)	500.1
Lowest	74.5	1.5	(0.7)	75.3

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2008	338.3	6.1	(43.1)	301.3
Average during the period	231.7	9.2	(11.2)	229.7
Highest	553.1	67.3	(95.0)	525.4
Lowest	144.7	0.9	(1.0)	144.6

Market risk – Non-trading (ALM risk)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The BoD has established limits on the BPV sensitivity. The BoD has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing fixed rate fair-value-through-profit and loss financial assets for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

The Bank’s investment portfolio consists of only linear interest rate sensitive products.

The tables below show the sensitivity of the statement of income and equity (before tax) as at 31 December 2009:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(4.5)	(2.7)	(20.4)	(13.1)	(40.7)
EUR	+ 10	0.5	(0.1)	(2.7)	(6.6)	(8.9)
USD	+ 10	0.1	(0.3)	(0.2)	(0.8)	(1.2)
CZK	- 10	4.5	2.7	20.4	13.1	40.7
EUR	- 10	(0.5)	0.1	2.7	6.6	8.9
USD	- 10	(0.1)	0.3	0.2	0.8	1.2

(CZKm)	Change in basis points	Sensitivity of equity Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(16.5)	(14.8)	(78.8)	(433.0)	(543.1)
EUR	+ 10	1.3	(0.1)	44.5	44.5	90.2
USD	+ 10	-	-	1.6	-	1.6
CZK	- 10	16.5	14.8	78.8	433.0	543.1
EUR	- 10	(1.3)	0.1	(44.5)	(44.5)	(90.2)
USD	- 10	-	-	(1.6)	-	(1.6)

The tables below show the sensitivity of the statement of income and equity (before tax) as at 31 December 2008:

(CZKm)	Change in basis points	Sensitivity of the statement of income Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(9.4)	(3.2)	88.8	(53.9)	22.3
EUR	+ 10	0.9	(0.2)	(16.8)	(20.7)	(36.8)
USD	+ 10	0.1	-	(1.0)	(1.1)	(2.0)
CZK	- 10	9.4	3.2	(88.8)	53.9	(22.3)
EUR	- 10	(0.9)	0.2	16.8	20.7	36.8
USD	- 10	(0.1)	-	1.0	1.1	2.0

(CZKm)	Change in basis points	Sensitivity of equity Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(0.3)	(3.1)	(144.5)	(345.6)	(493.5)
EUR	+ 10	(0.9)	(0.7)	(8.6)	(24.3)	(34.5)
USD	+ 10	(0.2)	-	(1.5)	(12.8)	(14.5)
CZK	- 10	0.3	3.1	144.5	345.6	493.5
EUR	- 10	0.9	0.7	8.6	24.3	34.5
USD	- 10	0.2	-	1.5	12.8	14.5

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Bank adopted a strategy under which the banking book has no open positions in foreign currencies. Therefore, the Bank has not set any limits for open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Bank set technical limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

There was an open currency position in the banking book at the end of 2008 due to a significant decrease in the value of the CDO's in EUR. The revaluation of the CDO financial instruments led to the overhedging of the whole position. This currency position was partially closed in the subsequent days as the hedging was adjusted to the value of the CDO position.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December:

	2009			2008		
(CZKm)	Position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	397	15	(15)	11,910	442	(442)

Sensitivity of the statement of income on foreign currencies other than EUR is not significant.

Equity price risk

The Bank has no significant equity risk in investment (non-trading) portfolio.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Bank's products is negligible, however, it is regularly monitored.

37.5 Operational risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. This definition is similar to the one contained in the Basel II Capital Accord and the Capital Requirements Directive. Operational risks include legal, compliance and tax risks. The impact of incidents on the Bank's reputation is taken into consideration when assessing the Bank's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the ČSOB, as well as an assessment of the Bank's vulnerability in respect of such risks. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses, both expected and unexpected. The assessment does not necessarily involve actually measuring the risks, but involves ranking the risks and risk events in terms of their severity, and taking into account their anticipated frequency and potential impact. The assessment is followed by steps aimed at preventing the key risks from materializing with the anticipated frequency and/or limiting the potential impact by introducing or fine-tuning appropriate control measures. Risk events that cannot be prevented are mitigated by business continuity arrangements and/or transfers of risk to third parties (e.g. by insurance) to the extent possible.

Operational Risk Management Governance

The risk management organisational infrastructure was established in 2004. The governance is supported by the Chief Risk Officer, who chairs the Operational Risk Committee (ORC). Another member of the Board of Directors serves as one of the permanent members of the ORC.

ORC and Sub-ORCs

The ORC covers the entire ČSOB Group. Members and observers of the ORC consist of representatives of the business, Internal Audit, and Legal and Compliance Units. Additionally, eight Sub-ORCs act actively on the local level (i.e. within subsidiaries, distribution and product factories).

Value and Risk Management Unit (VRM)

VRM is responsible for internal and external reporting, as well as for coordination, the implementation of methodology, the provision of independent control, and active assistance to the business (including training, methodological help, consultancy and planning) in the area of operational risk. The VRM also coordinates business continuity management area. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Information Risk Management Unit, Communication Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the "LORMs")

LORMs are specialists in dealing with operational risk directly in the businesses and assisting line managers in respect of operational risks. The function of LORMs is cumulative, as they also act as business continuity coordinators, compliance coordinators and information risk coordinators.

Crisis Management

Apart from the regular operational risk management infrastructure, the Bank has also established a crisis management infrastructure. Major incidents within the Bank are resolved by the Crisis Management Committee with the involvement of the Board of Director members. Additionally, the Bank has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

In 2004, the Bank has set up a loss event registration process. Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

"Bottom-Up" Risk Self Assessments

Risk self-assessments aim to identify, assess and quantify operational risks in all material products, activities, processes and systems. Risk self assessments are forward-looking and allow future developments, e.g. an improvement in the control framework, to be taken into account. A risk self assessment consists of a series of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss the key residual operational risks faced in order to reach a consensus on the best way to mitigate such risks. All action plans must be approved by the respective Sub-ORC.

"Top-Down" Risk Self Assessment

The top-down risk self assessment is a structured risk self assessment organised as an interview based on uniform questionnaires. The goal of the top-down risk self assessment is to identify the key risks that are relevant for the senior management. Such risks are likely to differ from the risks identified during the bottom-up risk self assessments involving business experts closer to the working floor.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. The tools used for risk identification and assessment include risk self assessments, group standard assessments and case study assessments. Key risk indicators are used for informing the management of the current level of risk exposure and/or the effectiveness of the controls in place. Key risk indicators may be relevant for the CSOB Group as a whole, or only certain parts.

38. CAPITAL

The Bank actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision (Basel II) and adopted by the CNB in the Regulation No. 123/2007 Coll. on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 July 2007).

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

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

(CZKm)	2009	2008
Tier 1 capital	33,953	33,707
Tier 2 capital	11,970	11,967
Deductible items of Tier 1 and Tier 2	(957)	(11,283)
Total capital	**44,966**	**34,391**
Capital requirements	29,423	31,814
Risk weighted assets	**367,784**	**397,672**
Capital adequacy ratio	12.23 %	8.65 %

The decrease of deductible items of Tier 1 and Tier 2 was caused by the sale of share in ČSOB SK in December 2009 (Note: 2.5).

NOTES

Report of the Board of Directors of Československá obchodní banka, a. s., on Relations between Related Parties

according to the provision of Section 66a of Act No. 513/1991 Coll., the Commercial Code, as amended (hereinafter referred to as the "ComC").

1. Controlled Entity

Československá obchodní banka, a. s.

Praha 5, Radlická 333/150, Postcode 150 57
Company ID No.: 00001350
Incorporated in the Commercial Register, Section B XXXVI, File 46,
maintained at the Municipal Court in Prague
(hereinafter referred to as "ČSOB" or the "Bank")

2. Ultimate Controlling Entity

KBC Group NV

Belgium, 1080 Brussels, (Sint-Jans Molenbeek), Havenlaan 2

3. Accounting Period

This report describes relations between related parties in accordance with Section 66a of Act No.513/1991 Coll., the Commercial Code, for the accounting period from 1 January 2009 to 31 December 2009 (hereinafter referred to as the "accounting period").

4. Relations between Related Parties

In the accounting period, ČSOB maintained relations with related parties in the following areas:

4.1 Basic Banking Transactions

Note: The balances of these transactions are disclosed in the Separate Financial Statements for 2009 (Note: 35).

a. Accounts, Deposit Products, Cash Payments, Domestic and International Cash Management

In the accounting period, ČSOB concluded contracts with certain of the related entities for the provision of services relating to the maintenance of various types of accounts, current and term accounts, interbank deposits, accounts for payments of deposits intended to acquire or increase participation in a company, and for the provision of the following products: Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cashpooling, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services were based on a standard price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. Payment Cards

In the accounting period, ČSOB concluded contracts with certain of the related entities for the issue of payment cards, or they were issued in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services were based on a standard price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. Electronic Banking

In the accounting period, ČSOB concluded contracts with certain of the related entities on the basis of which it provided the following electronic banking products: ČSOB Linka 24, ČSOB Internetbanking, ČSOB

Businessbanking, ČSOB MultiCash 24 and ČSOB Edifact 24, or these products were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services were based on a standard price list. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. Cheques and Bills of Exchange
In the accounting period, ČSOB concluded contracts with certain of the related entities for the procurement of bills of exchange and their custody and contracts for securing the bill-of-exchange program, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual fees and commissions for placing the bills of exchange. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

e. Credit Products and Guarantees
In the accounting period, ČSOB concluded contracts with certain of the related entities on the basis of which it provided the following credit products: overdrafts, commercial loans, revolving loans, special purpose loans, subordinated loans and current account overdrafts, and accepted and issued guarantees, confirmed or opened the letter of credits, and/or bought back claims from the letter of credits, provided suretyship, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual fees, remuneration and interest for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. Investment Services
In the accounting period, ČSOB concluded contracts with certain of the related entities for the purchase and sale of investment instruments, ISDA contracts, custody contracts, contracts for the settlement of transactions with investment instruments, contracts for the administration of securities, contracts of the achievement of depository, agreement on the contact bank, agreements on the authorization of fax instructions regarding settlement and administration of securities, or these services were provided in the accounting period on the basis of contracts and agreements concluded in previous accounting periods. The consideration provided by the related entities consisted of commissions and contractual fees. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

g. Mortgage Bonds and Bonds
In the accounting period, ČSOB concluded mandate contracts with certain of the related entities for the procurement of an issue of mortgage bonds issued in the domestic market within the framework of a bond programme, and mandate contracts for the procurement of an issue of debentures, contracts for subscription and purchase of mortgage bonds/bonds, contracts for the administration of the issue and arrangement of payments, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual commissions for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

4.2 Other Relations

Note: The balances of these transactions are disclosed in the Separate Financial Statements for 2009 (Note: 35)

4.2.1 Contracts

a. Leasing Contracts
In the accounting period, ČSOB concluded leasing contracts with certain of the related entities and, in some cases, the related entities provided services in the accounting period on the basis of leasing contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of financial leasing. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. Insurance Contracts
In the accounting period, ČSOB concluded insurance contracts with certain of the related entities and, in some cases, the related entities performed activities in the accounting period on the basis of insurance contracts

concluded in previous accounting periods. The consideration exchanged with the related entities consisted of insurance and insurance compensation. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. Lease and Rent Contracts
In the accounting period, ČSOB concluded contracts with certain of the related entities for the rent of non-residential areas, parking places and movable assets and, in some cases, the related entities performed activities in the accounting period on the basis of rent a contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the lease of certain items. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. Co-operation Agreements – Employee Benefits
In the accounting period, ČSOB concluded co-operation agreements - employee benefits with certain of the related entities and, in some cases, the related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of employee benefits. Agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these agreements.

e. Co-operation Agreements – Selling Products and Services
In the accounting period, ČSOB concluded cooperation agreements with certain of the related entities whose subject was, in particular, cooperation in the areas of product sales, products sales agency, sales support, consultancy, opportunity-seeking and, in some cases, the related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of co-operation, contractual commissions, contractual fees or selling products. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

Additionally, in the accounting period ČSOB concluded with certain of the related entities agreements on personal data processing, confidentiality agreements, agreements on the transmission of information, agreements on mutual rights and duties in connection with the co-operation agreements, and, in some cases, the related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of information and confidentiality. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. Agreements on Providing Services – IT
In the accounting period, ČSOB concluded agreements with certain of the related entities for providing services in the area of information systems and technologies, involving, in particular, leasing or borrowing hardware or software, assignment of rights to software, provision of software licences and software maintenance, and, in some cases, the related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the provision of hardware, software or licences, or the assignment of rights to software or software maintenance. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

g. Agreements on Providing Services – Call centre
In the accounting period, ČSOB concluded agreements with certain of the related entities for providing Call centre services, and, in some cases, the related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual commissions. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

h. Agreements on Providing Services – back office
In the accounting period, ČSOB concluded agreements with certain of the related entities for providing services in the area of back-office, and, in some cases, the related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual commissions. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

i. Agreements on takeover the claims and rights with counterparty – KBC Global Services N.V. (hereinafter referred to as the "KBC GS") and KBC Global Services Czech Branch, organizační složka (hereinafter referred to as the "KBC GS CZ")

In the accounting period, ČSOB concluded agreements with one of the related entities – KBC GS CZ and at the same time suppliers of ICT products and services, set of trilateral agreements on the transfer of claims and rights from the contracts, which were originally entered into ČSOB. Based on these agreements the claims and rights from the contracts were transfered from ČSOB to KBC GS CZ, which became the new contracting partner of the suppliers of ICT products and services. These agreements were necessary in the connection with the decision to outsource all ICT services from ČSOB to KBC GS CZ. The legal effect of the changed agreements between ČSOB and KBC GS CZ replaced only the contracting parties and did not change the original contractual terms and conditions. The Bank incurred no damage from fulfilment of these contracts and agreements.

Existing employment contract of ČSOB ICT services functions employees were transferred to KBC GS CZ in compliance with legal regulations as at 1 June 2009.

The Bank incurred no damage from fulfilment of these contracts and agreements.

An asset purchase agreement was concluded between the ČSOB and KBC GS and became effective in January 2010. The agreement transferred the ICT-related assets to KBC GS CZ.

j. Other Contracts and Agreements

Contracts and agreements concluded in the accounting period:

Name of contract	Consideration	Party of the contract	Damage incurred
General agreement on intragroup services (internal and external audit)	Contractual price	ČSOB and all subsidiaries	None
ICT services frame agreement (outsourcing ICT services)	Contractual price	ČSOB and all subsidiaries	None
Agreement on transform process of the rights and functions from labour relation law relations (transform of staffing stock)	None	ČSOB and all subsidiaries	None
Agreement on the provision of services between ČSOB and KBC GS CZ No.9200900187/010951000948 from 1 June 2009 + 9200900188/010951000949 Sub – Agreement; Amendment No. 1 of Agreement on the provision of services from 1 December 2009	Contractual price	ČSOB and all subsidiaries	None
Share purchase agreement in relation to shares in ČSOB SK	Cash	ČSOB Factoring CZ	None
Agreement on the termination of the agreement on the exercise of voting rights in relation to ČSOB SK	Termination of the exercise of voting rights	ČSOB Factoring CZ	None
Agreement on the termination of the agreement on the exercise of voting rights in relation to ČSOB SK	Termination of the exercise of voting rights	ČSOB Leasing CZ	None
Share purchase agreement in relation to shares in ČSOB SK	Cash	ČSOB Leasing CZ	None
Agreement on external communication	Contractual price	ČSOB PF Progres	None
Agreement on external communication	Contractual price	ČSOB PF Stabilita	None
Insurance of credit cards	Insurance	ČSOB Pojišťovna	None
Agreement on the re-invoicing of energy expenses (including amendment)	Re-invoicing	ČSOB Pojišťovna	None

Name of contract	Consideration	Party of the contract	Damage incurred
Agreement on compliance cooperation	Contractual price	ČMSS	None
General agreement on the delivery of promotion and advertising items from REDA, a.s.	Contractual price	ČMSS	None
Agreement on the re-invoicing of services provided by Reuters Czech Republic, s.r.o.	Re-invoicing	ČMSS	None
Share purchase agreement in relation to shares in ČSOB SK	Cash	KBC Bank	None

4.2.2 Other Legal Acts

In the accounting period, ČSOB adopted a Resolution of the sole shareholder/partner on behalf of some related entities (subsidiaries where the Bank is the sole shareholder/partner) on the following:

– Approval of the year-end financial statements,
– Settlement of profit and dividends pay-out,
– Election of Board members and their remuneration,
– Increase / decrease of share capital and/or share premium,
– Sale of companies in consolidation scope.

Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

4.2.3 Other Measures

In the accounting period:

– the following related entities paid dividends to ČSOB: Auxilium, BANIT, ČMSS, ČSOB Factoring CZ, Hypoteční banka, ČSOB IBS, ČSOB IS, ČSOB Leasing CZ and ČSOB Property fund;
– ČSOB paid out dividend to KBC Bank;
– ČSOB adopted a Resolution of the sole shareholder/partner on behalf of some related entities (subsidiaries where the Bank is the sole shareholder/partner) on the selling of HZL and pay out of share premium for the following related entities: Auxilium and ČSOB IBS.

5. Conclusion

The Board of Directors of ČSOB states that it has exercised due professional care in determining the range of related parties for the purposes of this report. In particular, entities controlling ČSOB were asked about the range of parties controlled by these entities.

The Board of Directors of ČSOB believes that the monetary benefits and, where applicable, the considerations within the framework of relations between the related parties described in this report were carried out at prices determined on an arm's length basis, similar to relations with other non-related entities, and that ČSOB incurred no damage from relations described above.

In Prague on 10 March 2010

Československá obchodní banka, a. s.

On behalf of the Board of Directors

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

Information on ČSOB Securities

Shares

Shares and Share Capital of ČSOB

	as at 31 December 2009	as at 2 March 2010
ISIN	CZ0008000288	CZ0008000288
Class	Ordinary shares	Ordinary shares
Type	Registered shares with limited transferability	Bearer shares
Edition	Book-entered	Book-entered
Number of shares	5,855,000	292,750,000
Nominal value	CZK 1,000	CZK 20
Total issue volume	CZK 5,855,000,000	CZK 5,855,000,000
Amount of share capital	**CZK 5,855,000,000**	**CZK 5,855,000,000**
Paid up	100%	100%

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, **is the sole shareholder of ČSOB**.

ČSOB has not issued any convertible bonds or priority bonds as defined by Section 160 of the Commercial Code. In 2008, ČSOB neither held any own shares, nor issued stock certificates.

ČSOB shares are not listed securities, i.e. they have not been admitted to trading on any official regulated market in either an EU member state, or an EEC member state.

Rights Attached to ČSOB Shares

Shareholder rights and liabilities attached to ČSOB shares include in particular:

a) The right to obtain a share in the company's profit (dividend) approved by the General Meeting for distribution according to the company's economic results.

b) The right to ask the Board of Directors to convene an Extraordinary Meeting of Shareholders to discuss proposed matters. This right only pertains to a shareholder or shareholders who hold shares with a total nominal value exceeding 3% of the share capital.

c) The right to attend the General Meeting of Shareholders.
At a General Meeting, shareholders have the right to:
1. Vote;
2. Request and receive explanation to matters related to the company and controlled persons, should such explanation be necessary to assess a topic discussed by the General Meeting; and
3. Put forward proposals and counter-proposals.

d) The right to obtain a share in the liquidation balance when the company is dissolved trough liquidation.

Voting rights attached to ČSOB shares are unlimited.

Bonds

(outstanding)

All the bonds and mortgage bonds described herein were issued under the **ČSOB's bond issuance program** in the Czech Republic. The program was approved by the Securities Commission in November 2003 (including joint issue terms for a previously non-determined number of bond issues) with a maximum amount of CZK 30 bn of outstanding bonds and 10-year tenor.

By 31 December 2009, ČSOB had issued the following bond issues under the bond issuance program in the Czech Republic:

Issue name	ISIN	Issue date	Total issue amount	
Mortgage bond ČSOB 4.60%/2015	CZ0002000706	15. 11. 2005	CZKm	1,300
Bond ČSOB ZERO CZK/2010	CZ0003701450	23. 1. 2008	CZKm	1,000
Bond ČSOB ZERO EUR/2010	CZ0003701468	23. 1. 2008	EURm	30
Bond ČSOB ZERO USD/2010	CZ0003701476	23. 1. 2008	USDm	30
Bond ČSOB ZERO CZK II/2010	CZ0003701484	13. 2. 2008	CZKm	1,000
Bond ČSOB ZERO CZK III/2010	CZ0003701492	27. 2. 2008	CZKm	1,000
Bond ČSOB ZERO CZK IV/2010	CZ0003701500	19. 3. 2008	CZKm	1,000
Bond ČSOB ZERO CZK V/2010	CZ0003701534	16. 4. 2008	CZKm	1,000
Bond ČSOB ZERO CZK VI/2010	CZ0003701542	30. 4. 2008	CZKm	1,000
Bond ČSOB ZERO CZK VII/2010	CZ0003701641	21. 5. 2008	CZKm	1,000
Bond ČSOB ZERO CZK VIII/2010	CZ0003701674	2. 7. 2008	CZKm	1,000
Bond ČSOB ZERO EUR II/2010	CZ0003701682	2. 7. 2008	EURm	30
Bond ČSOB ZERO CZK IX/2010	CZ0003701708	23. 7. 2008	CZKm	1,000
Bond ČSOB ZERO CZK X/2010	CZ0003701716	6. 8. 2008	CZKm	1,000
Bond ČSOB ZERO CZK XI/2010	CZ0003701724	27. 8. 2008	CZKm	5,000
Bond ČSOB VAR/2018	**CZ0003701799**	**22. 12. 2008**	**CZKm**	**100**
Bond ČSOB ZERO USD II/2011	CZ0003701914	11. 3. 2009	USDm	30
Bond ČSOB ZERO CZK XII/2012	CZ0003702029	9. 7. 2009	CZKm	1,000
Bond ČSOB Komodity I/2012	CZ0003702060	24.11. 2009	CZKm	200
Bond ČSOB ZERO EUR III/2012	CZ0003702235	26.11. 2009	EURm	10
Bond ČSOB ZERO CZK XIII/2012	CZ0003702243	26.11. 2009	CZKm	1,000

Note: Mortgage bond = Hypoteční zástavní list; Bond = Dluhopis

The VAR/2018 bond is listed at the Free market of the Prague Stock Exchange (trading started on 22 December 2008). The remaining bonds and mortgage bonds are unlisted.

In the first three months 2010, ČSOB issued the following bond issues under the bond issuance program in the Czech Republic:

Issue name	ISIN	Issue date	Total issue amount	
Bond ČSOB Inflace I/2015 (Tranche 1)	CZ0003702292	10. 3. 2010	CZKm	170

Note: Bond = Dluhopis

The bond issuance program's prospectus, amendments thereto and pricing supplements as well as the prospectus of the VAR/2018 bond are available at ČSOB's website: www.csob.cz.

Activity of ČSOB

ČSOB is active as a **universal bank** in the Czech Republic.

Legislation Governing ČSOB

As a legal entity subject to the Czech law, ČSOB **follows the applicable legislation in force in the territory of the Czech Republic**. Its activities are regulated primarily under the Banking Act, the Act on Business Activities on the Capital Market (also known as the Act on Undertakings on the Capital Market) and the Commercial Code.

A single banking licence granted to ČSOB in accordance with the Banking Act by the decision of the CNB of 28 July 2003, reference number 2003/3350/520, is of fundamental importance for ČSOB's business activities. In addition, ČSOB holds a certificate of registration in the register of insurance brokers and independent loss adjusters of insured accidents confirming that it was entered in the register as a tied **insurance broker** under number 038614VPZ on 20 March 2006.

Main Areas of Activities

ČSOB's scope of business is defined in the ČSOB Articles of Association (in the part "Corporate Activities and Organisation of the Company – III. Scope of Business").

ČSOB, being a universal bank, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the domestic and foreign activities of banks. In particular, **it accepts deposits from the public and provides loans**.

In addition to these basic services, ČSOB is authorized to carry out the following activities according to the applicable Czech legal regulations:

- Investment in securities on the Bank's own account
- Financial leasing
- Payments and clearance
- Issuance and administration of payment instruments
- Provision of guarantees
- Issuance of letters of credit
- Provision of collection services
- Provision of all investment services according to a special law
- Issuance of mortgage bonds
- Financial brokerage
- Provision of depository services
- Exchange office services (purchase of foreign exchange)
- Provision of banking information
- Trading in foreign exchange values and gold on the Bank's own account or on a client's account
- Rental of safe-deposit boxes
- Activities directly related to the activities mentioned above, and
- Activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company.

ČSOB (as well as ČSOB Pojišťovna) has been using **outsourcing** ICT services provided by KBC Global Services Czech Branch, organizační složka, with its registered seat at Radlická 333/150, 150 57 Prague 5, Company Reg. No. 285 16 869, registered with the Commercial Register maintained by the Municipal Court in Prague, section A, insert 64399 (hereinafter referred to as the KBC GS CZ), since 1 June, 2009; and on that day, all the employees of ČSOB (as well as of ČSOB Pojišťovna) ICT Department became employees of KBC GS CZ.

KBC GS CZ is a part (so-called "organizational unit") of the Belgian KBC Global Services NV. Its manager is Mr. Petr Hutla, performing such office since 14 January, 2009, together with his positions of member of the Board of Directors and head manager for Distribution in ČSOB.

Information on Outsourcing of ICT Services

– is available in Note no. 2.5 of the Notes to the Separate Financial Statements for 2009 according to EU IFRS and in Note no. 2.5 of the Notes to the Consolidated Financial Statements for 2009 according to EU IFRS.

Significant Contracts

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

ČSOB is unaware of any agreements in which it is a contracting party and that come into effect, are amended, or the efficiency of which terminates in consequence of any changes in the control circumstances implied by an offer for takeover.

Trademarks, Licenses, Patents

Being aware of the ever-growing importance of intellectual property as a vital and integral part of the modern society, ČSOB pays extraordinary attention to the intellectual property rights and their protection.

ČSOB is the applicant/owner of more than a hundred trademarks registered with the trademark authorities established to protect industrial property rights and uses the trademarks for product and service identification when performing its business activities.

ČSOB is a holder of many licenses, mainly software product licenses, to support ČSOB's business activities.

ČSOB is not a patent applicant/owner.

Governmental, Legal or Arbitration Proceedings in 2009

which may have, or have had in the recent past, significant effects on ČSOB's and/or the ČSOB group's financial position or profitability

Information on Court Disputes

– is available in Notes no. 27 and 33 of the Notes to the Separate Financial Statements for 2009 according to EU IFRS and in Notes no. 30 and 36 of the Notes to the Consolidated Financial Statements for 2009 according to EU IFRS.

Court disputes (as at 31 December 2009) where the value of receivables / liabilities exceeds 5% of net business assets, or 5% of ČSOB shareholders' equity, respectively, are shown in the following tables.

I. Litigation Initiated by ČSOB

(the plaintiff)

Counterparty of the Dispute	Receivable (CZKm)
1. Nomura International PLC a Nomura Principal Investment PLC	24,008
2. Nomura Principal Investment PLC and others	2,000

II. Litigation against ČSOB
(the defendant)

Counterparty of the Dispute	Liability (CZKm)
1. General factoring, a.s. *	40,000
2. Česká republika	33,252
3. imAGe Alpha, a.s., Weinberger Holding Inc.	17,647
4. ICEC-HOLDING, a.s.	11,893

** Legal successor of the company IP banka, a.s.*

Legal disputes indicated in list I represent no risk even in case of a potential defeat.

In this respect, ČSOB emphasizes the existence of the Agreement and State Guarantee concluded with the Ministry of Finance of the Czech Republic and the Agreement and Indemnity concluded with the Czech National Bank in 2000. These guarantee agreements fully cover the risks of the Bank related to the take-over of ex-IPB enterprise. The possibility for the Ministry of Finance of the Czech Republic and the Czech National Bank to perform their obligations under these guarantee agreements was confirmed by the European Commission in 2004. Based on the above, the Bank is of the opinion that the disputes related to ex-IPB assets do not represent a significant negative impact on its financial position.

According to the Bank, legal disputes in list II do not constitute any risk, given their absolute unreasonableness. In addition, legal disputes with numbers 1 and 4 in list II have the risk of any potential defeat covered by the CNB's indemnity issued in connection with the sale of the IPB.

Other Information

Annex to Additional Information
Information according to Annex No. 30 of Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms

Information Published within this Annual Report

Information	Reference [1)]
Important Events and Significant Changes in 2009	Report of the Board of Directors Managing and Supervisory Bodies of ČSOB Corporate Governance Policy Note no. 2.5 [2)] Note no. 3 [2)]
New Products and Services Introduced in 2009	Report of the Board of Directors
Description of Markets where ČSOB Competes	Company Profile Report of the Board of Directors
Profit Distribution	Note no. 13
Activities Undertaken in the Area of Environmental Protection [3)]	Corporate Social Responsibility
Information on Entities Included into the ČSOB Consolidated Financial Statements as at 31 December 2009	Companies of the ČSOB group Note no. 3 [2)]
Research and Development Costs – ČSOB neither Incurs nor Reports.	

1) The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for 2009 according to EU IFRS (unless stated otherwise)
2) The content refers to a note in Notes to the Consolidated Financial Statements for 2009 according to EU IFRS
3) Together with this Annual Report, ČSOB also publishes the ČSOB Group Sustainability Report 2009

Remuneration Charged by Auditors for 2009

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 118, paragraph 4, provisions k)

Services provided (CZKm)	ČSOB	Consolidated ČSOB unit
Auditor services	26	37
Advisory	1	1
Total	**27**	**38**

Information about the Contribution to the Securities Brokers Guarantee Fund

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 16, paragraph 1.

As a securities trader, ČSOB contributes to the Guarantee Fund, which ensures the guarantee system from which compensation is paid to the clients of a securities trader that is not able to fulfil its obligations to its clients.

(CZKm)	ČSOB	Consolidated ČSOB unit
Basis for calculation of the contribution to the Securities Brokers Guarantee Fund for 2009	637.04	895.98
The contribution	12.74	17.92

Expected Economic and Financial Situation of ČSOB in 2010

In 2010, the ČSOB group will continue to focus on providing high quality services to its clients. We aim at expanding our client base, and to further increase our market share in specific areas.

In the difficult year 2009 when the real GDP of the Czech economy decreased by 4.2%, the ČSOB group reached a solid economic result, kept solid asset quality and increased the level of capitalization and liquidity. According to the CNB's macroeconomic outlooks, the GDP is expected to grow modestly in 2010. The ČSOB group expects to further improve its efficiency and maintain its capitalization and liquidity. Although a continuing pressure on the growth of the cost of risk is predicted, the ČSOB group, thanks to its long-term conservative approach, expects to maintain the asset quality on a very good level compared with banks operating in the Czech Republic.

Events after the Reporting Period

Shares of ČSOB

In adopting the resolution of the sole shareholder dated 24 February 2010, KBC Bank NV amended the ČSOB's Articles of Association. The amendment consisted in the 1:50 split of shares and conversion of registered shares into bearer shares. The share capital of ČSOB now consists of 292,750,000 dematerialized ordinary shares with a nominal value of CZK 20 per share and the aforesaid change was evidenced by an entry in the Register of Companies dated 2 March 2010 when the said amendment came into force.

The said amendment also impacts the hitherto limits to negotiability of shares issued by ČSOB requiring consent from the ČSOB's Supervisory Board and the way of convening ČSOB's general meetings.

Changes in Top Management of ČSOB

In relation to the changes announced by KBC Group on 25 March 2010, Hendrik Scheerlinck, a member of ČSOB's Board of Directors and Senior Executive Officer, Finance and Risk Management, will terminate his tenure in ČSOB as at 28 April 2010. As at 29 April 2010, Mr. Scheerlinck will move within the KBC group to the position of the CEO of Hungary's K&H Bank, a sister company of ČSOB. The position of Senior Executive Officer, Finance and Risk Management will be split into two: Mr. Bartel Puelinckx will assume the position of chief financial officer (CFO) and Mr. Koen Wilmots will assume the position of chief risk officer (CRO). As at the same date, Mr. Jiří Vévoda will join the Top Management of ČSOB and assume the position of chief staff officer (CSO) which has been vacant since the change announced in November 2009 (for more detail please refer to page 37 herein).

Information on the Publication of the ČSOB Annual Report

ČSOB will publish its Annual Report 2009 on its Internet website at www.csob.cz.

The Czech National Bank will add the ČSOB Annual Report 2009 to the collection of deeds of the Register of Companies pursuant to Section 21a of the Accounting Act.

Annex to Additional Information

Information according to Annex No. 30 of Decree No. 123/2007 Coll.,

stipulating the prudential rules for banks, credit unions and investment firms

1. Information on the Capital of the Regulated Consolidated Unit

Summary of Conditions and Main Features of the Capital and Its Constituents

The rules for capital adequacy calculation of the Regulated consolidated unit are stipulated by the Czech National Bank's Decree No. 123/2007 Coll. on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (as amended by Decree No. 282/2008 Coll.); the Regulation also contains rules for definition of the Regulated consolidated unit.

The total authorized share capital as at 31 December 2009 equals CZK 5,855 bn and was composed of 5,855,000 ordinary shares with a nominal value of CZK 1,000 each. Share premium was CZK 7,509 bn.

To support the capital structure of its group, ČSOB received subordinated debt in nominal amount of CZK 12 bn in two tranches: CZK 5 bn in September 2006 with the maturity date falling on 29 September 2016 and CZK 7 bn in February 2007 with the maturity date falling on 28 March 2017.

In 2nd quarter 2009, the regulatory consolidated capital was increased by CZK 1,181 m by course of allocation and distribution of Retained profit from previous periods.

In May 2009, ČSOB took over the remaining share of minority shareholders from Hypoteční banka (0.1%). After increasing the capital of Hypoteční banka by CZK 6 bn (as at 14 December 2009), the 100% interest of ČSOB equalled CZK 19,5 bn.

Full sale of ČSOB group share in ČSOB SK to KBC Bank was finished in December 2009. The purchase of a 49.54% stake in ČSOB SK from ČSOB group (ČSOB, ČSOB Leasing CZ and ČSOB Factoring CZ) was completed for a total amount CZK 12,46 bn. This transaction had significant influence on the amount of deductible items from the original capital and at the same time simplified the shareholders structure of ČSOB SK.

In December 2009, goodwill of subsidiaries ČSOB AM CZ and ČSOB PF Stabilita was impaired. Impairment caused an increase of the regulatory capital in amount CZK 622 m.

Information on Capital of the Regulated Consolidated Unit

Information on capital (CZKths)	31. 12. 2009	31. 12. 2008
1. Original capital (Tier 1)	**44,581,618**	**42,130,816**
Paid-up basic capital registered in the Commercial Register	5,855,000	5,855,000
Own shares	0	0
Share premium	7,508,552	7,508,552
Mandatory reserve funds	18,686,645	18,686,645
Retained profit from previous periods	15,641,207	14,479,435
Minority interests	879,343	815,490
Goodwill from consolidation	(263,073)	(887,727)
Resulting exch. rate differences from consolidation	0	0
Goodwill other than from consolidation	(2,688,910)	(2,688,910)
Intangible assets other than goodwill	(970,211)	(1,274,828)
Negative valuation difference from real value changes in AFS shares	(66,935)	(362,841)
2. Total supplementary capital (Tier 2)	**11,970,269**	**11,966,647**
3. Total capital to cover market risk (Tier 3)	**0**	**0**
4. Items deductible from original and supplementary capital (from Tier 1 + Tier 2)	**(1,389,520)**	**(12,364,304)**
in which: IRB Provision shortfall and IRB equity expected loss amount	(764,364)	(474,863)
Total regulatory capital	**55,162,366**	**41,733,159**

2. Information on Capital Requirement of the Regulated Consolidated Unit

Amount of the Regulatory Capital Requirements of the Regulated Consolidated Unit

Capital requirements (CZKths)	31. 12. 2009	31. 12. 2008
1. Credit risk total	**25,268,108**	**26,453,938**
1.1 Total capital requirements for credit risks with standardized approach (STA)	***2,951,914***	***3,699,865***
Exposures to central governments and central banks	0	0
Exposures to institutions	82,825	70,978
Exposures to enterprises	1,585,296	2,052,021
Retail exposures	700,743	948,799
Share exposures	88,877	102,452
Other exposures	494,172	522,915
Securitized exposures	0	2,701
1.2 Total capital requirement to credit risk subject to IRB approach	***22,316,195***	***22,754,072***
Exposures to central governments and central banks	451,617	237,344
Exposures to institutions	1,889,652	2,513,593
Exposures to enterprises	12,510,856	15,006,260
Retail exposures	5,088,292	3,617,593
Share exposures	0	0
Securitized exposures	1,255,987	144,160
Other exposures	1,119,791	1,235,123
2. Capital requirement **to settlement risk**	**20,000**	**20,000**
3. Capital requirement **to position currency and commodity risk**	**1,176,423**	**2,500,667**
4. Capital requirement **to operational risk**	**2,987,450**	**3,404,046**
5. Capital requirement **to trading portfolio exposure risk**	**0**	**0**
6. Capital requirement **to trading portfolio to other tools**	**0**	**0**
7. Other and transitional capital **requirement resulting from transition to IRB or AMA approach**	**0**	**0**
Total capital requirement	**29,451,982**	**32,378,651**

3. ČSOB's Ratios (Unconsolidated)

Ratio		31. 12. 2009	31. 12. 2008
Capital adequacy	%	12.33	8.65
Return on average assets (ROAA)	%	2.90	0.09
Return on average equity (ROAE)	%	63.91	2.09
Assets per employee	CZKths	120,163	100,763
Administrative expenses per employee *	CZKths	1,603	1,442
Profit after income tax per employee *	CZKths	3,429	97

** Annualized*

Statement of the Supervisory Board of ČSOB

The Supervisory Board has performed its tasks in compliance with Articles 197 – 201 of the Commercial Code, as amended, ČSOB's Articles of Association and the Supervisory Board's Rules of Conduct. The Board of Directors has submitted regular reports on ČSOB's activities and its financial situation to the Supervisory Board.

The separate financial statements of the Bank and consolidated financial statements of the Bank and its subsidiaries (the "ČSOB group") have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The separate financial statements were audited by Ernst & Young Audit, s.r.o. The auditors have opined that the separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of 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.

The auditors have opined that the consolidated financial statements give a true and fair view of the financial position of the ČSOB group at 31 December 2009, and of 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.

The Supervisory Board has reviewed the 2009 separate annual financial statements and the proposal for distribution of profit and has accepted the results of the audit of the 2009 separate annual financial statements and has recommended to the General Meeting to approve them.

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2009

Hereby declare that, to their best knowledge, the ČSOB Annual Report 2009 gives a true and fair account of ČSOB and its consolidation unit's financial situation, business activities and business results achieved in the previous financial year as well as the outlook for the future trends in the financial situation, business activities and business results.

In Prague, 21 April 2010

Československá obchodní banka, a. s.

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

AUDITOR'S REPORT ON THE ANNUAL REPORT AND ON THE RELATED PARTIES REPORT

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Československá obchodní banka, a. s.:

I. We have audited the consolidated financial statements of Československá obchodní banka, a. s. (or "the Company") as at 31 December 2009, which are presented in the annual report of the Company on pages 52–135, on which we have issued an auditor's report, dated 3 March 2010, which is presented in the annual report of the Company on pages 50–51. We have also audited the separate financial statements of the Company as at 31 December 2009, which are presented in the annual report of the Company on pages 138–220, on which we have issued an auditor's report, dated 3 March 2010, which is presented in the annual report of the Company on pages 136-137 (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 Československá obchodní 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 which describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1–48 and 222–242 is consistent with that contained in the audited financial statements as at 31 December 2009. 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 included in the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2009 presented in the annual report of the Company on pages 222–227. The management of Československá obchodní 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 applicable 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 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 Československá obchodní banka, a. s. for the year ended 31 December 2009 is materially misstated.

Ernst & Young

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

D. Burnham

Roman Hauptfleisch

Douglas Burnham
Partner

Roman Hauptfleisch
Auditor, Licence No. 2009

23 April 2010
Prague, Czech Republic

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

ABBREVIATIONS

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
ČSOB SK	Československá obchodní banka, a.s., pobočka zahraničnej banky v SR (foreign branch, until 31 December 2007) Československá obchodná banka, a. s. (separate legal entity, since 1 January 2008)
PSB	Poštovní spořitelna

Abbreviation	Business Company
Auxilium	Auxilium, a.s.
AXA First special OEF	První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s.
BANIT	Bankovní informační technologie, s.r.o.
Business Center	Business Center, s.r.o.
CBCB	CBCB - Czech Banking Credit Bureau, a.s.
Centrum Radlická	Centrum Radlická a.s.
ČMSS	Českomoravská stavební spořitelna, a.s.
CNB	Czech National Bank
ČSOB AM CZ	ČSOB Asset Management, a.s., a member of the ČSOB group
ČSOB AM SK	ČSOB Asset Management, správ.spol., a.s. (Slovak Republic)
ČSOB d.s.s.	ČSOB d.s.s., a.s.
ČSOB distribution	ČSOB distribution, a.s.
ČSOB Factoring CZ	ČSOB Factoring, a.s.
ČSOB Factoring SK	ČSOB Factoring a.s. (Slovak Republic)
ČSOB IBS	ČSOB Investment Banking Services, a.s., a member of the ČSOB group
ČSOB IS	ČSOB Investiční společnost, a.s., a member of the ČSOB group
ČSOB korporátní	ČSOB korporátní, ČSOB Investiční společnost, a.s., a member of the ČSOB group, open-ended equity fund
ČSOB Leasing CZ	ČSOB Leasing, a.s.
ČSOB Leasing SK	ČSOB Leasing, a.s. (Slovak Republic)
ČSOB Leasing poisťovací maklér	ČSOB Leasing poisťovací maklér, s.r.o. (Slovak Republic)
ČSOB Leasing pojišťovací makléř	ČSOB Leasing pojišťovací makléř, s.r.o.
ČSOB PF Progres	ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group
ČSOB PF Stabilita	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group
ČSOB Poisťovňa	ČSOB Poisťovňa, a.s. (Slovak Republic)
ČSOB Pojišťovna	ČSOB Pojišťovna, a. s., a member of the ČSOB holding
ČSOB Pojišťovací servis	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding
ČSOB Property fund	ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group
ČSOB růstový	ČSOB růstový, ČSOB Investiční společnost, a.s., a member of the ČSOB group, open-ended equity fund
ČSOB SP	ČSOB stavebná sporiteľňa, a.s. (Slovak Republic)
ČSOB výnosový	ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB group, open-ended equity fund
Hypoteční banka	Hypoteční banka, a.s.

Abbreviation	Business Company
IMF	International Monetary Fund
IPB Group Holding	IPB Group Holding, a.s. in liquidation
IPB Leasing	IPB Leasing, a.s.
KBC Bank	KBC Bank NV
KBC Group	KBC Group NV (legal entity)
KBC group	group of companies of the KBC Group NV
KBC GS	KBC Global Services NV
KBC GS CZ	KBC Global Services NV Czech Branch, organization unit
KBC Insurance	KBC Insurance (i.e. KBC Verzekeringen NV)
Merrion Properties	Merrion Properties, s.r.o.
MF CZ	Ministry of Finance of the Czech Republic
Motokov	MOTOKOV a.s. in liquidation
MOTOKOV International	MOTOKOV International a.s. in liquidation
Patria Finance	Patria Finance, a.s.
Property LM	Property LM, s. r. o.
Property Skalica	Property Skalica, s.r.o.

CONTACT DETAILS

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The 2009 ČSOB Annual Report was released in electronic version at www.csob.cz on 30 April 2010.