ANNUAL REPORT 2010

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Československá obchodní banka, a. s.

MMX

ČSOB

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
Business activities:	Bank
ID No.:	00001350
Tax registr. No.:	CZ699000761
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 224 111 111
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz
Supervisory body:	Czech National Bank (CNB), Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic

KEY FIGURES

Consolidated, EU IFRS	2010	2009	2008
Financial statements figures			
Balance sheet at the year end (CZKm)			
Total assets	885,055	858,972	824,485
Loans and receivables	399,741	395,774	411,644
Deposits received from other than credit institutions	596,079	573,147	534,686
Debt securities in issue	24,105	32,572	43,907
Subordinated liabilities	11,974	11,970	11,965
Shareholders' equity [1)]	65,031	68,951	55,955
Statement of income (CZKm)			
Operating income	33,049	39,665	19,055
Operating expenses	14,551	13,640	15,014
Impairment of loans and receivables	3,429	5,477	2,130
Profit before tax	15,338	19,876	374
Profit for the year [1)]	13,471	17,368	1,034
Underlying profit for the year [1), 2)]	13,019	10,488	12,616
Ratios (%)			
Underlying return on average equity (ROAE) [3)]	19.6	17.1	21.6
Underlying return on average assets (ROAA) [3)]	1.5	1.2	1.6
Underlying cost/income ratio [3)]	44.8	43.4	46.9
Capital adequacy ratio – Bank [4)]	16.51	12.33	8.65
Capital adequacy ratio – ČSOB group [4)]	18.03	14.98	10.31
Leverage ratio [5)]	7.3	8.0	6.8
Loan-to-deposit ratio [3)]	68.5	71.1	75.2
General information (as at the year end)			
Number of employees – ČSOB group [6)]	7,641	8,018	8,468
Number of clients – Bank (thousands)	3,078	3,064	3,047
Number of branches – Bank [7)]	301	300	284
Number of ATMs [8)]	782	734	680
Financial market rates			
CZK/EUR exchange rate (average)	25.3	26.4	24.9
Interest rate (three month PRIBOR; average; in %)	1.31	2.19	4.04

Credit Rating (as at 31 December 2010)	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) Attributable to equity holders of the Bank.
2) For definition please refer to page 13.
3) As at the year end; for definition please refer to page 6.
4) According to the ČNB methodology; based on Basel II; as at the year end. End of period regulatory capital (ratios) does not reflect retained earnings until shareholders' approval of the audited financial statements in the following year.
5) Shareholders' equity as a percentage of total assets as at the year end.
6) Full-time equivalent employees.
7) Includes ČSOB branches and PSB financial centers, i.e. without approximately 3,260 post offices.
8) Includes ČSOB's and PSB's ATMs, i.e. without 4,781 cash desks of Albert and COOP stores and ČEPRO EuroOil petrol stations.
9) Source: CNB.

TABLE OF CONTENTS

OPENING STATEMENT BY THE CEO

Ladies and gentlemen,

I have a pleasure to report to you on the ČSOB group's performance in the successful year of 2010. Our business activities in the year, marked by improving macroeconomic conditions in the Czech Republic, resulted in a CZK 13 bn underlying net profit attributable to equity holders of the Bank, representing a 24% growth year on year on a comparable basis. A number of indicators prove that our group has come out of the global financial and economic crisis strong and resilient. We have increased underlying return on average equity to 19.6% and reduced credit cost ratio to 0.75%, while increasing capital adequacy ratio to 18%, suppressing loan to deposit ratio below 70% and maintaining underlying cost income ratio below 45%.

As these achievements well document, our financial performance goes hand in hand with top of the league risk management – we have actively contained the external pressure on asset quality (in both loan exposure and bond exposure) and consciously decreased risk weighted assets in the field of unused credit lines. This helped us optimize our credit base and further improve our ability to utilize scarce capital as economically as possible.

ČSOB group witnessed a continuing positive trend on the deposit side throughout the year and a positive turn of the trend on the loan side in the second half of the year fueled by the ongoing growth of retail lending and a favorable turn in the corporate segment. For a more detailed and comprehensive analysis of ČSOB group's financial and business performance please refer to the Report of the Board of Directors and the Financial Part of this Annual Report.

I am proud to reiterate that we consistently continue in pursuing and developing our corporate social responsibility (CSR) policy, in and out of the financial crisis. For a description of our comprehensive activities and achievements in the CSR field please refer to section Corporate Social Responsibility of this Annual Report and our separate 2010 Sustainable Development Report.

By no doubt, I would not be able to report on such a strong and resilient performance of the group without the continuing effort and enthusiasm of our more than seven thousand employees and ongoing loyalty and trust of our more than 4 million clients. Many thanks and all the best in the year of 2011.

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 by macroeconomic trends in the country. The global financial crisis, which was most pronounced in the last quarter of 2008 and the first half of 2009, led to a global economic downturn and a deterioration of economies in the EU. The Czech economy relies heavily on exports, and trading with Germany in particular. Therefore, the global economic downturn adversely affected the Czech economy in 2008 and 2009 resulting in, among other things, a decrease in foreign trade, a decline in gross domestic product (GDP) and an increase in the unemployment rate in 2009. The condition of the Czech economy showed signs of improvement in 2010 when the GDP as well as foreign trade returned to positive growth and the increase of unemployment rate slowed down.

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

Indicator [1]	Measurement Unit	2010	2009	2008	2007	2006
Nominal GDP	CZKbn	3,670	3,626	3,689	3,535	3,222
Real GDP growth	% change, Y/Y	2.3	(4.1)	2.5	6.1	6.8
Real GDP per capita	CZKths	284.9	279.1	292.9	288.8	273.6
Real GDP growth per capita	% change, Y/Y	2.1	(4.7)	1.4	5.6	6.5
Inflation rate (CPI)	%, at year end	2.3	1.0	3.6	5.4	1.7
Unemployment rate	%, average	7.4	6.7	4.4	5.3	7.1
General government budget balance/Nominal GDP	%	(4.7)	(5.8)	(2.7)	(0.7)	(2.6)
General government debt	CZKbn	1,413.5	1,279.6	1,104.9	1,023.8	948.3
General government debt/ Nominal GDP	%	38.5	35.3	30.0	29.0	29.4
Exports of goods and services [2]	% change, Y/Y	16.7	(14.9)	0.8	14.7	14.3
Imports of goods and services [2]	% change, Y/Y	18.9	(15.0)	0.9	12.9	14.3
Trade balance/Nominal GDP [2]	%	2.2	2.8	3.3	1.8	1.8
Interest rate (three month PRIBOR) [2]	%, average	1.3	2.2	4.0	3.1	2.3
CZK/EUR exchange rate [2]	average	25.3	26.4	24.9	27.8	28.3

Source:
1) CZSO, unless stated otherwise.
2) CNB.

ČSOB group's aim is to provide its clients with the best banking and insurance services in the Czech Republic tailored to the local market needs. The ČSOB group is part of the KBC group which is an integrated bancassurance group catering mainly for retail customers, private banking clientele, small and medium-sized enterprises and mid-cap customers with a geographic focus on the home markets of Belgium and Central and Eastern Europe (namely the Czech Republic, Slovakia, Poland, Hungary and Bulgaria) and a selective presence in the rest of the world. The strategy of the ČSOB group is fully aligned with KBC's strategy for the region of Central and Eastern Europe.

1. Highlights and Main Events

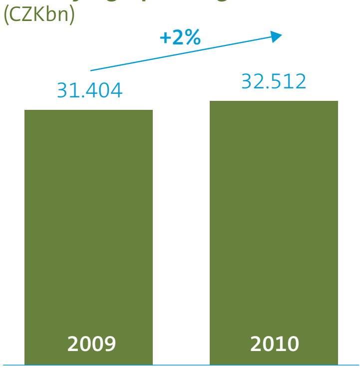
As at 31 December 2010 ČSOB group had CZK 596.1 bn of group deposits [1)] and a total loan portfolio [2)] of CZK 401.9 bn.

During FY 2010, ČSOB continued to further increase underlying revenues [3)], with underlying operating income reaching CZK 32.512 bn (+4% Y/Y) as at 31 December 2010. At the same time, ČSOB group's cost of risk materially contracted as credit cost ratio dropped to 75 bps for 2010, compared to 112 bps a year ago.

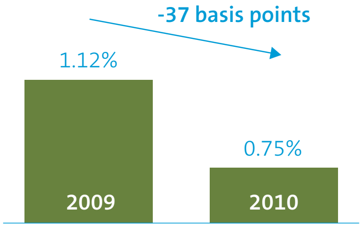
These achievements strongly contributed to the 24% year on year growth of the underlying net profit to CZK 13.019 bn (compared to CZK 10.488 bn in FY 2009). As a result, the profitability measured by underlying return on average equity (ROAE) grew to 19.6% and the consolidated capital adequacy ratio to 18%.

1) Defined as the Deposits received from other than credit institutions from the consolidated balance sheet.
2) Total loan portfolio is defined as the outstanding gross amount of the credit portfolio for the purpose of credit risk reporting. For detail please refer to the Consolidated Financial Statements for the Year 2010, Note 40).
3) For definition of the underlying result please refer to the chapter Consolidated Income Statement – Underlying hereinafter.

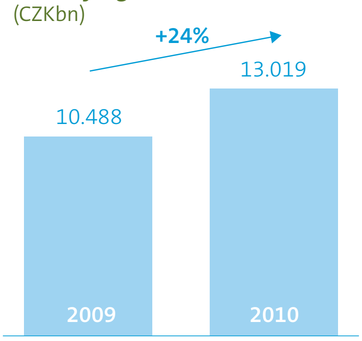
Underlying Operating Income
(CZKbn)



Credit Cost Ratio



Underlying Net Profit
(CZKbn)



Financial Ratios	2010 (%)	2009 (%)	Y/Y Change (pp)
Underlying return on average equity (Underlying ROAE) [1)]	19.6	17.1	2.5
Reported return on average equity (ROAE) [2)]	20.3	28.3	(8.0)
Underlying return on average assets (Underlying ROAA) [3)]	1.5	1.2	0.3
Reported return on average assets (ROAA) [4)]	1.6	2.0	(0.4)
Net interest margin [5)]	3.43	3.31	0.12
Underlying cost/income ratio [6)]	44.8	43.4	1.4
Reported cost/income ratio [7)]	44.0	34.4	9.6
Credit Cost Ratio [8)]	0.75	1.12	(0.37)

	31. 12. 2010 (%)	31. 12. 2009 (%)	Y/Y Change (pp)
Loan-to-deposit ratio [9)]	68.5	71.1	(2.6)
Capital adequacy ratio [10)]	18.0	15.0	3.0

1) Underlying return on average equity is underlying net profit for the year as a percentage of the five point average of total shareholders' equity calculated based on the period end closing balance and the closing balances of the preceding four quarters.

2) ROAE is net profit for the year as a percentage of the five point average of total shareholders' equity calculated based on the period end closing balance and the closing balances of the preceding four quarters.

3) Underlying return on average assets is underlying net profit for the year as a percentage of the five point average of total assets calculated based on the period end closing balance and the closing balances of the preceding four quarters.

4) ROAA is net profit for the year as a percentage of the five point average of total assets calculated based on the period end closing balance and the closing balances of the preceding four quarters.

5) Net interest margin is net interest income as a percentage of total average interest-bearing assets (excluding repo-operations), calculated based on the period end closing balance and the closing balances of the preceding four quarters.

6) Underlying cost/income ratio represents operating expenses before net provisions as a percentage of underlying operating income.

7) The cost/income ratio represents operating expenses before net provisions as a percentage of operating income.

8) Credit cost ratio represents total impairment losses on the granted credit portfolio as a percentage of average outstanding volume of the credit portfolio. For the purposes of this calculation, the credit portfolio includes (i) the outstanding gross amount of the credit portfolio , (ii) contingent liabilities gross (i.e. guarantees and other off-balance sheet commitments), and (iii) nominal value of bonds from Investment portfolio (excl. sovereign bonds). Average outstanding volume is calculated as average of the outstanding balances at the beginning and at the end of the period to which the credit cost ratio relates.

9) Loan-to-deposit ratio represents loans and receivables as a percentage of primary deposits. For the purpose of this calculation, the definitions are as follows:

a) loans and receiveables: total loans and receivables less a part of exposure to credit instutions related to interbank transactions (i.e. money market placements with banks, loro and nostro accounts and other settlement account)

b) primary deposits: (i) deposits received from other than credit institutions less pension funds clients deposits and (ii) deposits received from credit institutions less repo transactions with credit institutions less deposits of pension funds and repo-operations with banks.

10) End of period regulatory capital (ratios) does not reflect profit for the current year until shareholder approval of the audited financial statements for the period in the following year.

Note: pp = percentage point.

Main Events

- The ČSOB group has progressed in its effort to centralize the provision of ICT services: **on 1 January 2010**, ČSOB leasing started to procure the ICT services from KBC GS CZ, along with ČSOB and ČSOB Pojišťovna. In January 2010, an **asset purchase agreement between ČSOB and KBC GS CZ** became effective, pursuant to which ČSOB sold to KBC GS the ICT assets. The net profit of the sale of the ICT assets reached CZK 344 million and has been recognized in other net income.
- **In July 2010**, the **General factoring claim** to CZK 39,999 m against ČSOB was fully dismissed.
- **In December 2010**, the **J. Ring claim** of ČSOB against the Czech Ministry of Finance (CZK 1,655 m) was fully acknowledged and the Ministry of Finance's counter-claim (CZK 33,252 m) was fully dismissed.
- **In May 2010**, ČSOB's Top Management was enlarged to eight members – four members of the Board of Directors (who were concurrently Senior Executive Officers) and four other Senior Executive Officers.
  - Former Chief Financial and Risk Officer (CFRO) and BoD member, Mr. Hendrik Scheerlinck left for the position of the CEO of KBC's Hungarian subsidiary K&H
  - The CFRO position in ČSOB was split into two. Mr. Bartel Puelinckx was appointed the new CFO of ČSOB, Mr. Koen Wilmots the CRO of ČSOB.
  - Mr. Jiří Vévoda was appointed to until-then-vacant position of Chief Staff Officer (CSO) of ČSOB.
- **On 8 December 2010**, Messrs. Puelinckx, Wilmots and Vévoda were appointed of the Board of Directors members.
- **As at 1 January 2011**, Mr. Karel Svoboda was appointed the CEO of ČSOB Pension Fund Stabilita and left the position of the Senior Executive Officer of ČSOB responsible for Operations and Facilities. This position in ČSOB's Top Management ceased to exist and the agenda was distributed among the existing members of the Board of Directors.

Changes in the Supervisory Board: As at 23 June 2010, Mr. František Hupka, Ms. Martina Kantová and Ms. Ladislava Spielbergerová were appointed to the ČSOB supervisory board representing ČSOB employees. **As at 29 June 2010**, Mr. Marko Voljč was appointed a member of the Supervisory Board of ČSOB to replace Mr. John Hollows. **As at 1 December 2010**, Mr. Guy Libot was elected a new member of the ČSOB's Supervisory Board and replaced Ms. Riet Docx.

Awards

In 2010, the ČSOB group received a number of awards attesting the quality of its services.

The major awards include:

- Euromoney magazine's Awards for Excellence: Best Bank 2010 Czech Republic
- Awards by the *Hospodarske noviny* daily: Best Bank for ČSOB, Best Insurance Company for ČSOB Pojišťovna and second rank in the Most Client Friendly Bank category for PSB.
- EMEA Finance magazine: Best Bank Czech Republic
- Global Finance Best Bank 2010 Czech Republic

Specialized awards

- Corporate Bank of the Year 2010, based on a vote of Czech corporates' CFOs
- Global Finance Best Trade Finance 2010
- Global Finance Best Foreign Exchange Provider 2010
- Global Finance Best Sub-custodian 2010
- Best Bank in Acquisition Finance 2010 in Eastern Europe
- *Zlatá koruna* 2010 Award for the best building society product
- Employer of the Year 2010: ČSOB second (and a top financial institution) in the Most Desired Employer category, based on a vote of university students

Innovation Leadership

Enhancing Distribution Network and Cross-Selling:

- PSB launched
  - self-service kiosks and
  - an Era-branded mobile ATM which is mounted in a van and services clients in communities with no fixed ATM.
- Mortgage Bank (HB) enhanced the Mortgage On-Line, allowing clients to apply for a mortgage at any time from their homes, while only one personal visit at the branch for signing the loan documentation is sufficient. This Internet channel can be now used for financing a real estate purchase as well as refinancing an existing mortgage loan.
- Selected ATMs of PSB allow clients to conclude travel insurance with ČSOB Pojišťovna.
- 220 ATMs of ČSOB and PSB can newly be operated by the blind using ordinary headphones.
- PaySec newly offers online payments also via an internet banking application.
- ČSOB Pojišťovna launched a new life insurance, Forte which combines a very extensive coverage of risks and an attractive yield.
- ČSOB Pojišťovna offers both new and old MTPL clients a new product, MTPL Insurance Without Worries which also includes a direct settlement of the damage even for car accidents not caused by the client.

Enhancing Product Offer:

- ČSOB launched a new product Term Deposit Plus which offers clients a possibility to withdraw up to 20% of the deposit before its maturity.
- PSB launched a new product line Era – individual products are being phased in.
  - PSB launched a simplified Era personal account, a simplified Era account for businessmen, and a two-year term deposit.
  - PSB enhanced its consumer finance product Splátková karta (installment card).
- Each month, ČSOB launched at least one capital protected fund (CPF) and one unit-linked life insurance product.
  - CPFs included e.g. Optimum Fund ČSOB Quality Shares 2 which offers 100% protection at the maturity of the fund and an unlimited upside; underlying shares are selected based on criteria of socially responsible investment.
  - Life insurance included e.g. Maximal Invest – ČSOB Premium 9 combining a guaranteed yield of 16.22% at the maturity in 2015 with life insurance coverage and optional tax deductions.
- ČMSS enhanced the conditions of its unique product, Life Insurance of the Saving Phase.

Corporate Social Responsibility

As ČSOB group proved sustainability in financial performance, so it consistently continues the social responsibility policy – in and out of the financial crisis. The policy comprises of four areas: responsibility in client relationships, care for employees, environment protection and care for the community. ČSOB is proud that the comprehensive CSR policy is highly recognized and was awarded for example in the prestigious international contest Top Filantrop 2010.

For further detail please refer to the chapter Corporate Social Responsibility below.

2. Financial Results

All financial figures hereinafter were drawn from ČSOB's 2010 audited, consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.

Consolidated Income Statement Data

	2010 (CZKm)	2009 (CZKm)	Y/Y Change (%)
Interest income	32,353	33,886	(4.5)
Interest expense	(7,595)	(10,370)	(26.8)
Net interest income	24,758	23,516	5.3
Fee and commission income	8,872	8,738	1.5
Fee and commission expense	(3,432)	(3,159)	8.6
Net fee and commission income	5,440	5,579	(2.5)
Dividend income	45	447	(89.9)
Net (losses)/gains from financial instruments at fair value through profit or loss	1,340	2,876	(53.4)
Net realized gains on available-for-sale financial assets	86	6,340	(98.6)
Other net income	1,380	907	52.1
Operating income	33,049	39,665	(16.7)
Staff expenses	(6,414)	(6,218)	3.2
General administrative expenses	(7,053)	(5,979)	18.0
Depreciation and amortization	(1,084)	(1,443)	(24.9)
Operating expenses	(14,551)	(13,640)	6.7
Impairment losses	(3,386)	(6,509)	(48.0)
In which Impairment on loans and receivables	(3,429)	(5,477)	(37.4)
Share of profit of associates	226	360	(37.2)
Profit before tax	15,338	19,876	(22.8)
Income tax benefit/(expense)	(1,776)	(2,459)	(27.8)
Profit for year	13,562	17,417	(22.1)
Attributable to:			
Equity holders of ČSOB	13,471	17,368	(22.4)
Minority interest	91	49	85.7

Net Interest Income

The ČSOB group generated a 5.3% higher net interest income in 2010 compared to 2009, mainly as a result of an increase in the net interest margin on loans granted which increased from 3.31% in 2009 to 3.43% in 2010. The increase in the net interest margin was primarily driven by faster decreasing market interest rates in 2010 (defined by the Prague interbank offered rate PRIBOR and the Prague interbank bid rate PRIBID), which positively impacted the ČSOB group's funding cost, compared to average rates on loans granted and bonds held by the ČSOB group which declined to a lesser extent.

Decreasing interest income from reverse repo loans with the ČNB was caused by drop of ČSOB group's average rate in 2010. It was primarily driven by the decrease of the ČNB's two weeks repo rate, which is the maximum limit rate at which banks' bids can be satisfied in the ČNB's two weeks repo tenders.

The 3.4% year-on-year decrease in interest income from loans granted to other than credit institutions in 2010 compared to 2009 resulted from a decrease in the total loan portfolio, while the average loan interest rate also decreased in 2010. The overall decrease was driven by a decrease in interest income from corporate loans (due to both volumes and interest rates down year on year in the segment) which was partially offset by interest income from mortgages and building savings loans, where volumes increased over 2010 and average interest rates went slightly up in 2010.

The 26.8% year-on-year decrease in interest expense was mainly driven by a decrease in interest rates and the positive development of the ČSOB group's funding structure. Average interest rates declined on all of the ČSOB group's major categories of interest-bearing liabilities, which favorably impacted interest expenses. With respect to volumes of interest-bearing liabilities, the volume of debt securities, which had higher average interest rates, declined in 2010 and such decline was offset by the increase in deposits received from other than credit institutions.

Net Fee and Commission Income

Net fee and commission income decreased in 2010 compared to 2009, mainly as a result of a 38% increase in the contribution to the Deposit Insurance Fund, which increased from 0.10% p.a. to 0.16% p.a. effective from 1 July 2010. This increase resulted in a CZK 175 m higher contribution compared to 2009.

Other Items

Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange recorded a gain of CZK 1.34 bn in 2010 compared to CZK 2.88 bn in 2009. This decrease resulted primarily from:

(i) Revaluation of CDOs

In 2009, ČSOB booked an unrealized gain of CZK 1.2 bn. In 2010, the CDOs were sold for an amount close to the book value as at the end of 2009. The sale (i.e. only an insignificant change to fair value) contributed CZK 1.2 bn to a year-on-year decrease in net gains of CZK 1.5 bn.

(ii) Market Prices

Due to movements in market variables, the carrying amount of the portfolio of assets and liabilities measured at fair value through profit or loss fluctuated in 2010. Further decline of market interest rates generated losses realized from revaluation of floating income assets, whereas fixed income assets generated unrealized gains.

Net realized gains on available-for-sale assets decreased in 2010 compared to 2009. This decrease was primarily caused by a non-recurring CZK 6.1 bn gain on the sale of shares in ČSOB SK to KBC Bank in 2009 and to a lesser extent a gain of CZK 86 m from transactions with AFS assets in 2010.

Operating Expenses

Staff Expenses comprise expenses relating to wages and salaries, variable compensation and social security charges. The ČSOB group's compensation arrangements include a certain element of performance based and discretionary rewards to employees in the form of both short term cash bonuses (usually paid annually), mid-term bonuses based on net profit and key performance indicators (generally paid after three years) and certain limited deferred compensation.

The total staff expenses grew 3% year on year on the back of increase in the two largest contributing items, i.e. wages and salaries (up 2% to CZK 4.5 bn) and social security charges (up 6% to CZK 1.5 bn).

General Administrative Expenses include rental, maintenance and operating expenses on buildings, IT costs and communication expenses, legal and consultancy expenses, marketing and entertainment expenses, and other miscellaneous expenses.

General administrative expenses are mainly affected by (i) the inflation rate, (ii) the number of customers and products and (iii) internal factors, such as cost savings, restructuring or business expansion plans.

The comparability of how the operating expenses are split among staff expenses, general administrative expenses and other expenses was distorted by the transfer of ICT services to KBC GS CZ (for detail please refer to Consolidated Financial Statements for the Year 2010, Note 2).

Total general administrative expenses grew 18% year on year. This is due especially to the year-on-year increase in information technology expenses in 2010 which arose mainly from the outsourcing of ICT services since June 2009. Simultaneously, the outsourcing of ICT services yielded a reduction in other expense categories such as staff expenses and communication expenses.

Looking at other major contributing items beside ICT, marketing expenses were up 8% year on year to CZK 855 m. The two aforementioned increases were partially offset by decreases in rental expenses (-2% year on year to CZK 590 m) and communication (-37% year on year to CZK 403 m).

Impairment Losses comprise estimates of probable losses in the asset portfolio arising from on-balance-sheet and off-balance-sheet transactions, taking into account the structure and quality of the asset portfolio and general economic factors.

The valuation structure and quality of the asset portfolio is primarily affected by (i) the general business environment, (ii) macroeconomic conditions, (iii) developments within specific industry sectors, and (iv) certain company specific events, such as restructurings. Due to this mixture of factors, impairment losses can occur at the same time as impairment reversals and, in aggregate, net impairment losses on financial assets can be volatile.

Impairments on loans and receivables in 4Q 2010 were the lowest in the last eight quarters. Credit costs of corporate loans peaked in 2Q 2009 and have significantly decreased since then. Impairments on SME loans were (compared to ČSOB's expectations) low during the whole year of 2010. Within 2010, the peak of loan impairments was reached in 3Q. Cost of risk across all segments, except for retail loans, started to come down in 4Q. In addition, the 4Q 2010 impairments were aided by the CZK 0.3 bn positive impact of the J. Ring arbitration award within other impairments.

Consolidated Balance Sheet

The following table provides **an overview of key data relating to the ČSOB group** as at 31 December 2010 and 2009.

	2010 (CZKm)	2009 (CZKm)	Y/Y Change (%)
Financial assets held for trading	173,810	160,117	8.6
Available-for-sale financial assets	102,521	101,567	0.9
Held-to-maturity investments	150,240	132,761	13.2
Loans and receivables	399,741	395,774	1.0
Total assets	885,055	858,972	3.0
Financial liabilities designated at fair value through profit or loss	117,774	105,057	12.1
Deposits received from other than credit institutions	596,079	573,147	4.0
Total liabilities	819,215	789,121	3.8
Total equity	65,840	69,851	(5.7)
Total liabilities and equity	885,055	858,972	3.0

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 258.9 bn as at 31 December 2010), term and saving deposits (CZK 218.1 bn as at 31 December 2010) and building savings deposits (CZK 86.1 bn as at 31 December 2010), (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 2010, the ČSOB group had a loan-to-deposit ratio of 68.5%. As at 31 December 2010 and 2009, deposits by other than credit institutions totaled CZK 596.1 bn and CZK 573.1 bn, respectively.

As at 31 December 2010, the total authorised share capital was CZK 5,855 m (31 December 2009: CZK 5,855 m) and comprised of 292,750,000 ordinary shares with a nominal value of CZK 20 each (31 December 2009: 5,855,000 ordinary shares with a nominal value of CZK 1,000 each) and is fully paid up.

In adopting the resolution of the sole shareholder dated 24 February 2010, KBC Bank amended the ČSOB's Articles of Association. The amendment consisted of 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.

As at 14 September 2010, ČSOB's shares were converted back from bearer shares into registered shares in reaction to the new Czech legislation.

Further events in 2011 related to shares of ČSOB can be found on page 250 of this Annual Report.

Regulatory Capital Adequacy

The table below sets forth **the consolidated capitalization and risk weighted assets of the ČSOB group** as at 31 December 2010 and 2009.

(CZKm, unless indicated otherwise)	2010	2009	Y/Y Change (%)
Share capital and premium [1]	13,364	13,364	0.0
Reserve funds and retained profit	35,060	34,328	2.1
Goodwill and intangibles	(3,625)	(3,922)	(7.6)
Negative valuation difference from real value changes in realized capital instruments	(70)	(67)	4.5
Minority interest	854	879	(2.8)
Core Tier 1 capital	45,583	44,582	2.2
Tier 1 capital	45,583	44,582	2.2
Tier 2 capital	12,564	11,970	5.0
Deductible items of Tier 1 [2]	(313)	(695)	(55.0)
Deductible items of Tier 2 [2]	(313)	(695)	(55.0)
Total capital	57,522	55,162	4.3
Capital requirement on credit and settlement risk	21,564	25,288	(14.7)
Capital requirement on market risk	613	1,176	(47.9)
Capital requirement on operational risk	3,354	2,987	12.3
Total capital requirement	25,530	29,452	(13.3)
Risk weighted assets	319,124	368,150	(13.3)
Tier 1 ratio (in %)	14.2	11.9	2.3pp
Core Tier 1 ratio (in %)	14.2	11.9	2.3pp
Capital adequacy ratio (in %)	18.0	15.0	3.0pp

Notes:
1) Calculation is based on ČNB rules.
2) Deductible items comprise 50% of carrying value of non-consolidated financial entities as at 31 December of the respective year.

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

Between 31 December 2009 and 2010, the ČSOB group's capital requirement decreased mainly in the area of credit risk and to a lesser extent market risk. The credit risk dropped due to significant de-risking in the corporate and SME segments where outstanding loan portfolio decreased notably. The market risk requirement is down thanks to visible stabilization of financial markets in 2010.

Consolidated Income Statement – Underlying

Unless specifically stated that a figure is based on EU IFRS, the figures in this section are underlying, i.e. adjusted by ČSOB for one-off items.

The ČSOB group calculates the underlying net profit attributable to equity holders of ČSOB and underlying operating profit by excluding 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 and operating income by segment, respectively. A majority of the adjustments relate to the adverse impact of the global financial crisis, which management believes to be of a non-recurring nature, and management further 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 the relevant periods.

The ČSOB group increased the underlying net profit by CZK 2.5 bn (+24%) year on year to CZK 13.019 bn. The increase was mainly driven by a CZK 2.3 bn decrease of impairment losses. ČSOB group managed to increase underlying operating profit by CZK 0.2 bn year on year, especially thanks to net interest income.

The CZK 452 million difference between reported (CZK 13.471 bn) and underlying net profit for FY 2010 was primarily due to one-off settlement payment received from KBC GS CZ for transferred ICT services. What distorts the Y/Y comparison of the reported net profit even more are the FY 2009 one-off items which amounted to CZK 6.880 bn (after tax), especially due to the sale of the remaining stake in ČSOB Slovakia to KBC Bank 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 profits attributable to to equity holders of ČSOB.

Consolidated Profit and Loss Statement – Underlying

	2009 (CZKm)	2010 (CZKm)	Y/Y Change (%)
Interest income	34,204	33,038	(3)
Interest expense	(10,688)	(8,280)	(23)
Net interest income	23,516	24,758	5
Net fee and commission income	5,579	5,440	(2)
Net gains from financial instruments at FVPL *	707	1,148	63
Other operating income *	1,603	1,166	(27)
Operating income	31,405	32,512	4
Staff expenses	(6,218)	(6,414)	3
General administrative expenses	(5,979)	(7,053)	18
Depreciation and amortisation	(1,443)	(1,084)	(25)
Operating expenses	(13,640)	(14,551)	7
Impairment losses *	(5,660)	(3,386)	(40)
Impairment on loans and receivables	(5,363)	(3,489)	(35)
Impairment on available-for-sale securities *	0	(5)	N/A
Impairment on other assets *	(297)	108	+/-
Share of profit of associates	360	206	(43)
Profit before tax	12,465	14,781	19
Income tax expense *	(1,928)	(1,671)	(13)
Profit for the period	10,537	13,110	24
Attributable to:			
Equity holders of the parent	10,488	13,019	24
Minority interest	49	91	86

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.
** Lines designated by asterisk as reported differ from underlying figures.*

3. Business Results

As at 31 December 2010, the ČSOB group had CZK 596.1 bn of group deposits and a total loan portfolio of CZK 401.9 bn. Assets under management (including assets managed through pension and mutual funds, excluding deposits and off-balance sheet items) were CZK 143.7 bn, down from CZK 148.3 bn as at the end of 2009.

ČSOB Group Market Position

Rank	Product	Market share	Y/Y
1	Building Savings Loans [1]	43.9%	↘
1	Building Savings Deposits [1]	36.1%	↗
1	Mortgages [1]	38.2%	↗
1	Housing Loans [1), 4]	34.6%	↗
1	Mutual Funds [1]	30.6%	↘
2	Deposits [1]	22.0%	↗
2	Total Loans and Leases [1]	17.7%	↘
2	Factoring [2]	23.3%	↘
3	Pension Funds [3]	16.1%	↘
3	Corporate / SME Loans [1]	12.9%	↘
3	Consumer Loans [1]	14.8%	↘
3	Leasing [2]	9.7%	↘

Insurance	MS		Rank
Life [2]	8.9%	↘	5
Non-life [2]	4.9%	↘	6
Total [2]	**6.8%**	↘	**4**

Notes: Arrows show Y/Y change. Market shares as at 31 December 2010.
1) Outstanding at the given date.
2) New business in the year to the given date.
3) Number of clients at the given date.
4) Comprise mortgages and building savings loans.
Source: CNB, financial associations.

Retail and SME

The retail and SME segment is the largest segment of the ČSOB group's operations. The segment focuses on deposits, lending, mutual and pension funds and certain ancillary services for retail and SME customers. Retail customers comprise private individuals and entrepreneurs. The former include mass-affluent (with total savings between CZK 0.6 m and CZK 10 m) and 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 m), housing cooperatives and municipalities. As at 31 December 2010, the ČSOB group had more than 4 million retail and more than 200,000 SME customers in the Czech Republic and 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 loan portfolio (outstanding gross amounts) and deposits** as at 31 December 2010 and 2009.

	2010 (CZKm)	2009 (CZKm)	Y/Y Change (%)
Loan portfolio – retail (consumer loans and mortgages)	163,085	153,027	6.6
Loan portfolio – SME	62,936	66,925	(6.0)
Loan portfolio – building savings loans (55%)	71,946	65,802	9.3
Loan portfolio – leasing	23,325	29,195	(20.1)
Building savings (55%)	86,139	82,607	4.3

The ČSOB group is the largest provider of mortgage loans to individuals in the Czech Republic, primarily through its specialized subsidiary, Hypoteční banka. As at 31 December 2010, the ČSOB group had approximately 106,000 mortgage loan customers; the average size of the ČSOB group's outstanding mortgage was CZK 1.3 m.

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 2010.

	As at 31 December 2010	
	(%)	(CZKm)
Investment loans	65.7	41,328
Overdrafts	15.9	9,989
Revolving	9.8	6,168
Other loans	8.7	5,451
Total	100.0	62,936

Corporate

The ČSOB group corporate segment focuses on providing financial services and products to domestic companies with annual turnover in excess of CZK 300 m, local subsidiaries of international corporations, and selected institutional customers, including non-banking 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 West European style products and standards of service. As at 31 December 2010, the ČSOB group had approximately 4,500 corporate customers in the Czech Republic.

The ČSOB group has established a sales network of 10 regional branches devoted to serving corporate customers. In addition, the ČSOB group also has one specialized branch servicing non-banking financial institutions. The corporate segment regularly conducts market surveys to measure customer satisfaction and to identify new opportunities to meet the evolving needs of its customers.

The ČSOB group provides its corporate customers with a wide range of financial services, from traditional account and payment management services and classic forms of investment and working capital financing, to solutions for managing corporate foreign currency and interest rate risks, acquisition and project financing, cash pooling and internet-based transactional systems. The range of its products combined with its distribution network has enabled the ČSOB group to become an important service provider in key product areas, including cash management, acquisition finance and online trade finance services.

The ČSOB group also offers a wide range of products for institutional customers. This range comprises both regular banking products tailored to meet the requirements of institutional customers, and specialized services in the areas of cash management, custody of securities, and fund depository services.

The following table sets forth **ČSOB group's credit portfolio in the corporate segment**, outstanding gross amounts as at 31 December 2010 and 2009.

	2010 (CZKm)	2009 (CZKm)	Y/Y Change (%)
Corporate loans	76,501	84,160	(9.1)
Factoring	3,560	3,716	(4.2)
Total	80,061	87,876	(8.9)

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 technical minimum, long-term funding and investment decisions, setting up adequate internal pricing 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 directly from customers is accounted for within the retail/SME and corporate segments, while the operating income reported within the financial markets sub-segment is generated primarily from proprietary trading by the ČSOB group.

Group Center

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. In 2010, net gain on disposal of ICT business is included.

Insurance

As at 31 December 2010, ČSOB Pojišťovna was the fifth largest life insurance company in the Czech Republic with a 8.9% 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 4.9% market share in terms of gross written premiums for non-life insurance (according to the Czech Insurance Association). ČSOB Pojišťovna provides its customers with a wide range of insurance products, including single and regular premium life insurance as well as car (for both individuals and fleets), house, accident, travel and industrial insurance. As at 31 December 2010, ČSOB Pojišťovna had approximately 894,000 customers, comprising individuals and business entities, including SME's, as well as large corporations. Insurance products are mainly distributed through financial advisors, brokers and ČSOB group's branches. Since 2007 ČSOB Pojišťovna has been rated A- with a stable outlook by Standard & Poor's Rating Services.

The following table sets out **the information on gross written premiums for the individual insurance products provided by ČSOB Pojišťovna, by type**, for the year ended 31 December 2010.

	2010	
	(%)	(CZKbn)
Single life insurance	35.3	3,609
Regular life insurance	26.2	2,682
Car insurance	20.9	2,144
Industrial	9.6	981
Other	8,0	820
Total	100.0	10,235

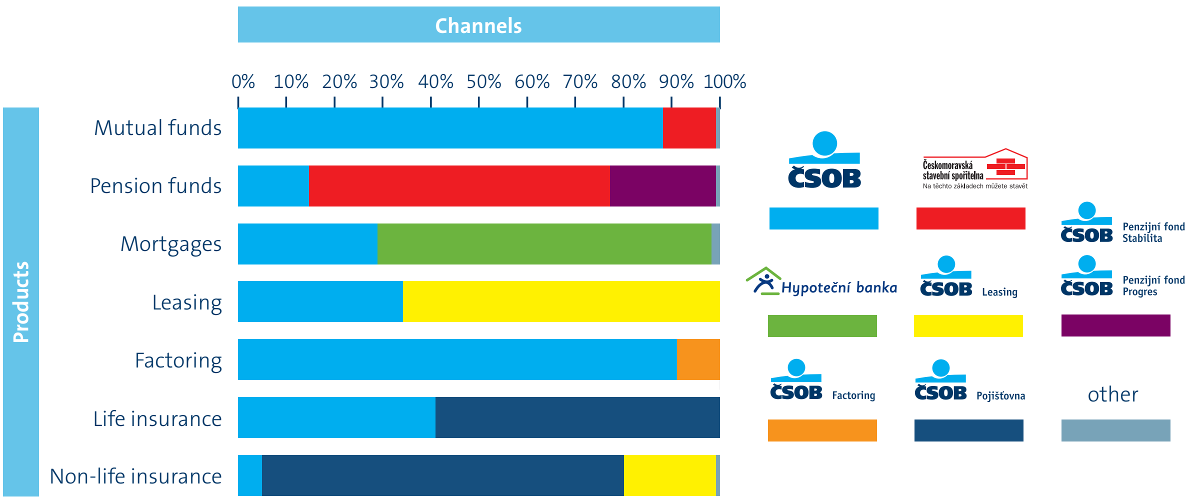
The following table sets out **the information on the development of gross written premium for the products provided by ČSOB Pojišťovna, split between life insurance and non-life insurance**, for the years ended 31 December 2009 and 2010.

	2010 (CZKm)	2009 (CZKm)	Y/Y Change (%)
Life	6.3	5.6	12.5
Non-life	3.9	4.1	(4.9)
Total	10.2	9.7	5.2

ČSOB Group Synergies

The concept of multibranding and multichannel distribution gives ČSOB an opportunity to better serve its target customer groups. The following chart documents the 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 2010 – shares of distribution channels per product type:



Notes:
% of distribution channels per product type, up to 100%.
Products represent new sales in 2010 in CZKm, except for ČSOB PF which is calculated in pieces.

Company Profile

ČSOB and ČSOB Group Profile

From ČSOB's History

1964 ČSOB established by the state as a bank to provide foreign trade financing and convertible currency operations in the then Czechoslovak market.

1993 Continuation of ČSOB's activities in both Czech and Slovak market after the split of Czechoslovakia.

1999 ČSOB privatized – Belgium-based KBC Bank becoming the majority shareholder of ČSOB.

2000 Acquisition of Investiční a Poštovní banka (IPB).

2007 KBC Bank becoming ČSOB's sole shareholder after buying out all minority shareholders.

2007 New environmentally friendly building of ČSOB's headquarters in Prague – Radlice for 2,600 employees (Building of the Year 2007).

2008 As at 1 January, ČSOB's Slovak branch separated into a separate entity, fully controlled by KBC Bank via 100% of voting rights.

ČSOB

Československá obchodní banka, a. s. (ČSOB) is a universal bank operating in the Czech Republic. It constitutes the main operating entity of the financial group ČSOB group, itself 100% controlled by KBC Group.

ČSOB is operating under two recognized brands in the Czech Republic – ČSOB and Poštovní spořitelna (Postal Savings Bank – PSB). It provides its services to all groups of customers, i.e. retail as well as SME, corporate and institutional clients. 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.

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.

ČSOB Group

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 group 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.

Since KBC became ČSOB's owner in 1999, the integration of the both groups has been deepening, allowing for business synergies, such as customer distribution channels, integration of systems, transfer of expertise and the introduction of new products. The integration steps also included the transition to IFRS and the application of KBC policies in the areas 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 centrally managed ICT system within the KBC Group, which was implemented in 2009.

With total assets of CZK 885.1 bn as at 31 December 2010 and total net profit of CZK 13.6 bn in 2010, the ČSOB group is one of the top three banking groups in the Czech Republic. As at 31 December 2010, the ČSOB group had CZK 596.1 bn of group deposits and a total loan portfolio of CZK 401.9 bn.

Annual reports and other information about ČSOB and ČSOB group are available at www.csob.cz.

ČSOB Group in Figures

(as at 31 December 2010)

Employees [1]	7,641
Customers	>4 million
Payments cards (the Bank)	2,043 ths
Branches and advisory centers	580
ČSOB retail / SME branches	237
ČSOB corporate branches	11
PSB branches (“Financial centers”)	53
Other [2]	279
PSB outlets of Czech Post network	ca. 3,260
ATMs [3]	782

Notes:
1) FTEs. The figure does not include employees transferred to the KBC GS CZ.
2) Including branches of Hypoteční banka, advisory centers of ČMSS, branches of ČSOB Leasing and ČSOB Pojišťovna.
3) Plus cash desks (CashBack) of Albert and COOP stores and ČEPRO EuroOil petrol station.

KBC Group Profile

ČSOB is a wholly-owned subsidiary of KBC Bank NV. KBC Bank is fully owned by KBC Group NV.

KBC Group is an integrated bancassurance group, catering mainly for retail, SME and mid-cap customers. It concentrates on its home markets of Belgium and five countries in Central and Eastern Europe (the Czech Republic, Slovakia, Hungary, Poland and Bulgaria). Elsewhere around the globe, the group has established a presence in selected countries and regions.

As of the end of 2010, KBC Group served 12 million customers in its home markets and employed over 50 thousand employees (in FTEs).

KBC Group’s Shareholders

(as at 31 December 2010)

Shareholder	(%)
KBC Ancora	23
Cera	7
MRBB (a farmers association)	13
Other core shareholders	11
KBC group companies	5
Free float	41
Total	**100**

Source: www.kbc.com.

KBC Group in Figures

(as at 31 December 2010)

Total assets	EURbn	320.8
Loans and advances to customers	EURbn	150.7
Deposits from customers and debt securities	EURbn	197.9
Net profit	EURbn	1.9
Underlying net profit	EURbn	1.7
Tier 1 ratio, group level (Basel II)	%	12.6
Cost/income ratio, banking (based on underlying profit)	%	56

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

Long-term Ratings

(as at 31 December 2010)

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.

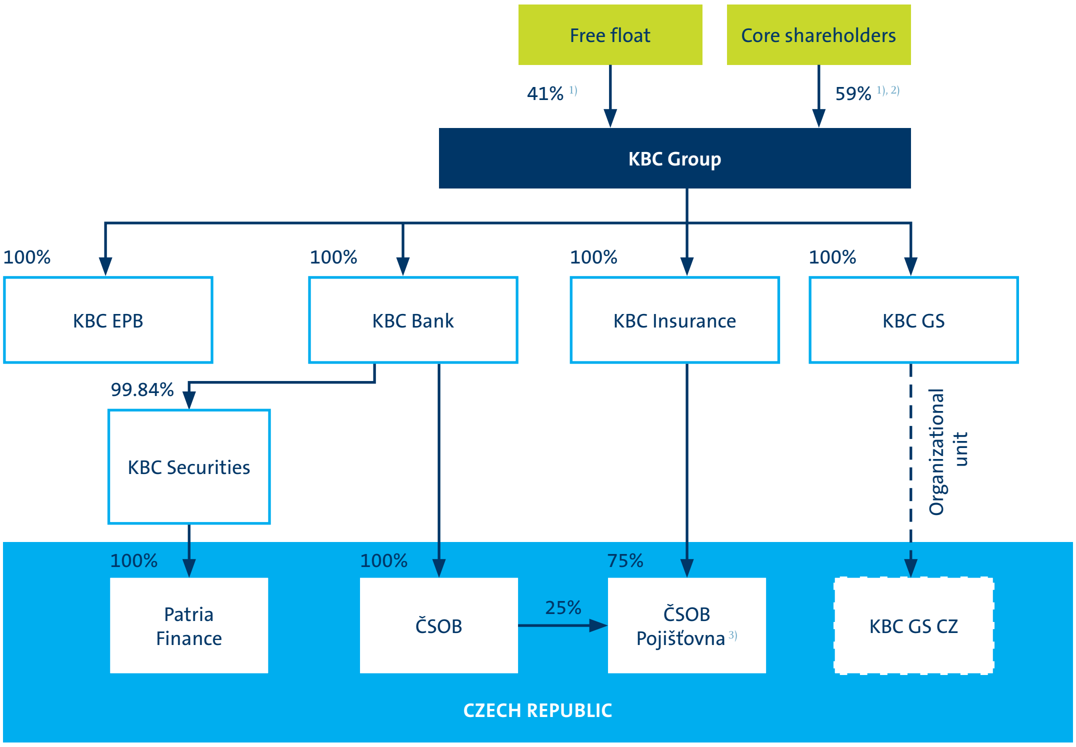
KBC Group and KBC Bank control ČSOB as they dispose with 100% of votes, based on the KBC Bank's ownership interest in ČSOB. ČSOB meticulously follows the legislation applicable on the territory of the Czech Republic to prevent any abuse of this control. ČSOB did not hold any shares of KBC or KBC Group between 1 January and 31 December 2010.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2010 as defined by Section 66a of the Commercial Code please refer to chapter Companies of the ČSOB group.

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

Main Companies of KBC Group in the Czech Republic

(as at 31 December 2010)



Notes:
Percentages in the chart denote the ownership interest.
1) Source: www.kbc.com.
2) Including 5% of shares owned by KBC group companies.
3) Voting rights in ČSOB Pojišťovna are distributed as follows: 40% ČSOB, 60% KBC Insurance.

For a detailed overview of companies of the KBC group please refer to pages 187–195 of the 2010 Annual Report of KBC Group.

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**.

Awards in 2010

ČSOB Long-term Effort in Social Responsibility Was Largely Rewarded.

Top Filantrop Award
Silver position in category "The most corporate socially responsible big company in 2010".
Golden position in category "The most responsible attitude to the environment in 2010" for its ecological employee campaign "Šetrně a zdravě" (Considerate and Healthy).

The "Ď" (Thanks) Award for the support of the Education Fund
ČSOB won the award in the Foundation and Charity in the Czech Republic category for the 16 years of supporting and financing studies of young disabled people and involvement of employees in the project.

The CSR Award
Bronze position in category "The large companies" for the concept of CSR and friendly approach to the environment and community.

The Olga Havel Award 2010
ČSOB was acknowledged for its long term cooperation with Committee of Good Will – The Olga Havel Foundation, including the Education Fund, Prague International Marathon related events and ČSOB employees patronage of disabled students.

The Bridges 2009 Award
PSB won in the non-government entities category for its cooperation with the Ergotep cooperative.

Corporate Social Responsibility from the Perspective of...

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 true 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.**

An intensive campaign about ČSOB philanthropic activities was prepared for clients and the public in 2010. In philanthropic activities, the public could also participate, in particular by nominating mayors of small municipalities up to 2 thousand inhabitants within the program "ČSOB and PSB Support Regions".

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 employees can feel comfortable when carrying out their work duties. In each selection process and existing employee evaluation every individual receives due respect regardless of gender, race, faith or belief.

This is proven by the fact that the group offers good work conditions to employees to aid reconciliation of their professional and private life, including part-time work, flexible working hours, etc. All this is supported by the recently implemented "the Programme for Mums and Dads". 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 the environment-friendly building in Prague-Radlice. In 2008, this was the only building in Europe to receive a golden certificate by the internationally acknowledged Leadership in Energy and Environmental Design (LEED) and other awards. In its approving process ČSOB has integrated the so-called 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 ČSOB group funds renewable resource projects. Its support to environmental issues is also reflected in its philanthropic projects. ČSOB inspired its employees to embrace more respectful and a healthier lifestyle through the internal ecological campaign "Šetrně a zdravě" (Considerate and Healthy).

Our Community

Support to education, but also to **financial literacy**, integration of the socially and physically 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 no less important.

We Are Socially Responsible

We Educate...

- ČSOB donated CZK 0.9 million to the Education Fund, common project of ČSOB and Committee of Good Will – The Olga Havel Foundation; the amount will be distributed through scholarships for disabled and disadvantaged students. During this long-term cooperation ČSOB has distributed more than CZK 18 million.

- ČSOB Education Fund Program supported 10 projects to improve financial literacy with a total expenditure of CZK 1 million. In addition, ČSOB is the main partner for selected projects to improve financial literacy for low-income groups of people and prevention projects for children: Association of Citizen Advisory Offices, Advisory in Financial Straits, COFET and Finanční gramotnost o.p.s. and Múzy dětem.

- ČSOB published research findings on the status of financial literacy in the Czech Republic – common project of ČSOB and Stem/Mark research agency.

- PSB and the Czech National Safer Internet Centre launched the "Safely-Online" project: the www.bezpecne-online.cz website gives advice on safe use of the Internet.

We Support Regions...

- ČSOB and PSB allocated a total of CZK 2.1 million in small grants to support community life and local care for cultural and natural heritage.

- Investment grants for environmental protection and landscape restoration were launched – three projects received CZK 300 thousands each in 2010.

- PSB's Mayor of the Year Award – an expert panel selected the winner who received CZK 250 thousands for his/her municipality.

Our Employees Help...

- Volunteering program “Helping Together” – ČSOB supports 37 projects in total amount of CZK 1 million with the aim to motivate ČSOB’s employees’ who have been actively engaged in the non-profit sector.

- About 450 ČSOB employees took part in volunteering activities:
  – 300 employees attended volunteering days and helped for 1 day for various Czech NGOs,
  – 50 employees helped people affected by floods in the Liberec region, and
  – 100 employees attended Czech mountains clean up after the winter.

- Two charity collections of clothes and fashion accessories among employees for the Sue Ryder Home.

- ČSOB football team attended a beneficial football match as a support of the Sue Ryder Home.

- 60 ČSOB employees ran in the Prague half marathon and the Prague marathon for the Committee of Good Will – The Olga Havel Foundation. Our Good Will runners raised CZK 81 thousands to support studies of disabled secondary school and university students.

- The six-month ecological employee campaign “Šetrně a zdravě” (Considerate and Healthy) concluded with markets offering fair trade products and organic food and with an introduction of environment friendly technologies in the ČSOB headquarters.

- Before Christmas, employees had a chance to help, e.g. by purchasing presents for children from children’s homes in Liptál and Dlažkovice, by participating in a charity autograph session with actors from the Dejvice Theatre or by collecting obsolete car first-aid kits.

We Break Down Barriers...

- PSB supported the festival “I Live Just Like You”: a consultation center assisting the disabled to find a job and a tent city presenting sheltered workshops from the entire nation.

- PSB hosted Job FAIR without Barriers 2010: students could meet with “barrier-free employers” or be advised on how they could look for an appropriate job and how to prepare themselves for work-related interviews.

- Unique and long-term cooperation with the Ergotep cooperative for disabled persons has been expanded. Ergotep, inter alia, carries out web projects for PSB, such as the PaySecCUP competition, part of the www.bezpecne-online.cz project.

- PSB newly became the general partner of Safety Line; Konto Bariery, the Artevide foundation, the Paraple Centre, Paraplegic union and the Kontakt bB organization have enjoyed its long term support and cooperation.

ČSOB Group

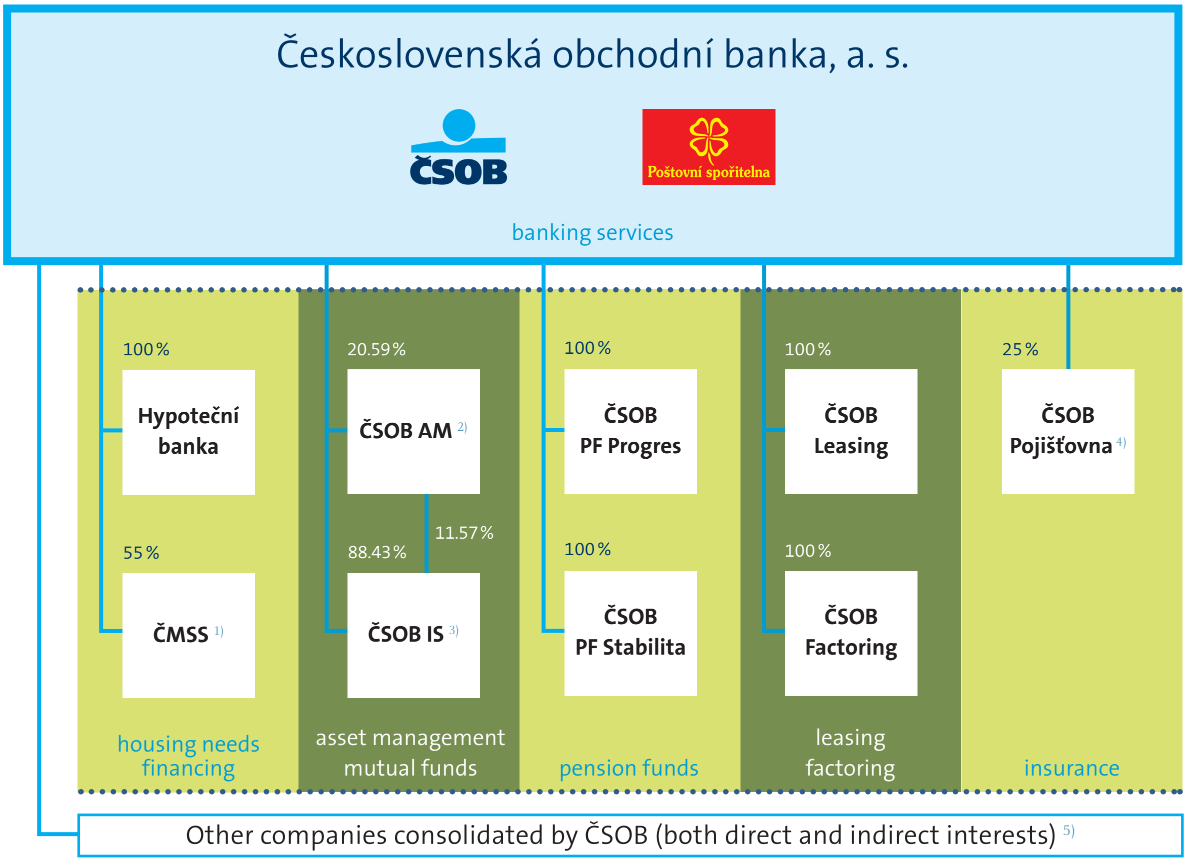
The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bancassurance KBC group with a geographic focus on Belgium and the CEE region.

As at 31 December 2010, ČSOB had ownership interests in 36 legal entities and, in addition to ČSOB, other 27 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, asset management, mutual fund, securities brokerage, pension funds, leasing, factoring and insurance.

ČSOB's Consolidated Group

(as at 31 December 2010, EU IFRS)



Notes:
Percentages in the chart denote the ČSOB's ownership interest on company's equity.
Percentages in voting rights in companies consolidated by ČSOB are stated in this part of ČSOB Annual Report 2010.
1) 45% of shares owned by Bausparkasse Schwäbisch Hall; a proportional consolidated subsidiary of ČSOB.
2) 79.41% of shares owned by KBC Participations Renta; a fully consolidated subsidiary of ČSOB.
3) 73.15% of shares owned direct by ČSOB and 15.28% of shares owned indirect via subsidiary Auxilium; a fully consolidated subsidiary of ČSOB.
4) 75% of shares owned by KBC Insurance; subsidiary consolidated in ČSOB by an equity method.
5) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2010.

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:	CZK 5,076,331 ths
Shareholders:	100% 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

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.

In 2010, Hypoteční banka provided more than 16,000 mortgage loans in total volume of CZK 27 billion. Maintained its position as leader in the market for new mortgage loans with a market share of 32%.

As at 31 December 2010, Hypoteční banka provided services through its 27 branches and approximately 2,500 agents and brokers.

Indicator *		2010	2009
Total assets	CZKm	163,243	164,811
Loans and advances to customers	CZKm	145,070	136,759
Total equity	CZKm	21,085	20,559
Profit for the year after tax	CZKm	1,848	1,389

** EU IFRS, audited.*

Českomoravská stavební spořitelna, a.s.

Date of establishment:	26. 6. 1993
Business activities:	Building savings and loans
Identification number:	49241397
Share capital:	CZK 1,500,000 ths
Shareholders:	55% ČSOB 45% Bausparkasse Schwäbisch Hall

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

ČMSS belongs to the leading providers of financial services in the Czech Republic. ČMSS's product portfolio comprises deposits, housing loans, pension products and elementary banking services.

In 2010, ČMSS has intermediated more than 364,000 new contracts on building savings. The total target amount of these contracts reached CZK 136.4 billion (Y/Y +4.2%).

As at 31 December 2010, ČMSS provided services through its 151 advisory centers and approximately 2,900 tied agents.

Indicator *		2010	2009
Total assets	CZKm	168,936	161,426
Volume of loans and bridging loans	CZKm	129,121	118,505
Volume of client deposits	CZKm	157,652	151,451
Total equity	CZKm	9,632	8,976
Profit for the year after tax	CZKm	2,031	1,980

** EU IFRS, audited.*

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

Date of establishment:	31. 12. 1995
Business activities:	Management of clients' assets
Identification number:	63999463
Share capital:	CZK 34,000 ths
Shareholders:	
% of registered capital	79.41% KBC Participations Renta *
	20.59% ČSOB
% of voting rights	52.94% ČSOB
	47.06% KBC Participations Renta *

** Renamed as at 1 July 2010 (former KBC Renta Conseil Holding).*

Contact

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

ČSOB AM provides to its clients investment services of asset management and is one of the leading companies on the Czech market.

Customers of ČSOB AM include insurance companies, pension funds, municipalities, trading, production and energy companies, trade unions, foundations and other non-profit organizations, as well as private individuals. ČSOB AM also manages the assets of ČSOB local funds and several foreign funds within the KBC group.

Indicator		2010	2009
Assets under management *	CZKm	110,623	116,005

** According to methodology of Czech Capital Market Association (AKAT), i.e. incl. institutions, private individuals and foreign funds and Czech mutual funds.*

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

Date of establishment:	3. 7. 1998
Business activities:	Collective investment
Identification number:	25677888
Share capital:	CZK 216,000 ths
Shareholders:	
% of registered capital	73.15% ČSOB
	15.28% Auxilium
	11.57% ČSOB AM
% of voting rights	84.72% ČSOB AM
	15.28% Auxilium

Contact

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

ČSOB IS provides collective investment services, including the management of local mutual funds and the distribution of the KBC Group's funds in the Czech Republic. ČSOB IS also participates in product development for the entire ČSOB group.

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

Indicator		2010	2009
Volume of assets under management [1]	CZKm	8,888	8,613
Volume of assets in foreign funds [2]	CZKm	68,359	72,760

1) Incl. local (Czech) mutual funds offered by ČSOB IS.
2) Incl. assets of foreign funds distributed by the ČSOB group in the Czech Republic. Nearly 90% of these funds are denominated in CZK.
Source: According to methodology of Czech Capital Market Association (AKAT), funds distribution statistic.

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:	CZK 320,000 ths
Shareholders:	100% ČSOB

Penzijní fond Progres

Contact

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

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 had more than 310,000 customers as at 31 December 2010.

Indicator		2010	2009
Funds registered in favour of participants	CZKm	9,271	8,128
– of which contributions of participants	CZKm	7,469	6,563
Profit for the year after tax *	CZKm	99	121

** EU IFRS, unaudited.*

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

Date of establishment:	26. 10. 1994
Business activities:	Supplementary pension insurance with state contribution
Identification number:	61859265
Share capital:	CZK 297,167 ths
Shareholders:	100% ČSOB

Penzijní fond Stabilita

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone:	+420 224 116 767
Fax:	+420 224 119 536
E-mail:	csobpfstabilita@csob.cz
Internet:	www.csobpf.cz

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 had more than 430,000 customers as at 31 December 2010.

Indicator		2010	2009
Funds registered in favour of participants	CZKm	17,763	16,697
– of which contributions of participants	CZKm	13,915	13,094
Profit for the year after tax *	CZKm	171	180

** EU IFRS, unaudited.*

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:	CZK 3,050,000 ths
Shareholders:	
% of registered capital	100% ČSOB
% of voting rights	50.82% ČSOB
	49.18% KBC Lease Holding

ČSOB Leasing

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 Leasing provides financing for all types of cars, motorcycles, machinery, equipment and information technology.

ČSOB Leasing provides customers with a complete range of financial products, including financial leasing, loans and operating leasing.

Leasing products are mainly distributed through third-party dealerships, ČSOB Leasing branches and sales offices and ČSOB branches.

Indicator		2010	2009
Volume of new leasing business	CZKm	9,590	9,241
Total assets *	CZKm	23,571	29,249
Profit for the year after tax *	CZKm	423	(98)

** EU IFRS, unaudited.*

ČSOB Factoring, a.s.

Date of establishment:	16. 7. 1992
Business activities:	Factoring
Identification number:	45794278
Share capital:	CZK 70,800 ths
Shareholders:	100% ČSOB

ČSOB Factoring

Contact

Address:	Benešovská 2538/40 101 000 Praha 10
Telephone:	+420 267 184 805
Fax:	+420 267 184 822
E-mail:	info@csobfactoring.cz
Internet:	www.csobfactoring.cz

ČSOB Factoring maintains in the long term its market shares over 20%.

In 2010, the total turnover of receivables assigned to ČSOB Factoring reached more than CZK 26 billion.

ČSOB Factoring is one of the founding members of the Association of Factoring Companies in Czech Republic and a member of Czech Leasing and Financial Association.

Indicator		2010	2009
Turnover of receivables	CZKm	26,000	23,600
Profit for the year after tax *	CZKm	48	250
Total assets *	CZKm	3,349	3,584

** EU IFRS, unaudited.*

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

Date of establishment:	17. 4. 1992
Business activities:	Life and non-life insurance
Identification number:	45534306
Share capital:	CZK 1,536,400 ths
Shareholders:	
% of registered capital	75% KBC Insurance
	25% ČSOB
% of voting rights	60% KBC Insurance
	40% ČSOB

Contact

Address:	Masarykovo nám. 1458 532 18 Pardubice, Zelené předměstí
Telephone:	+420 467 007 111
	+420 800 100 777
Fax:	+420 467 007 444
E-mail:	info@csobpoj.cz
Internet:	www.csobpoj.cz

ČSOB Pojišťovna is an universal insurance company providing a broad range of life and non-life insurance for both individuals and companies.

As at 31 December 2010, ČSOB Pojišťovna had approximately 894,000 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.

Indicator *		2010	2009
Gross written premium life insurance	CZKm	6,291	3,263
Gross written premium non-life insurance	CZKm	3,944	4,074
Profit for the year after tax	CZKm	903	1,432

** EU IFRS, unaudited.*

Companies of the ČSOB Group

(as at 31 December 2010)

ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Share of ČSOB in: Registered Capital Total	Direct	Indirect	Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS [1]
			CZK	%	%	%	%		Y/N
Controlled Companies									
25636855	**Auxilium, a.s.** Advisory services	Praha 5, Radlická 333/150	1,000,000,000	100.00	100.00	none	100.00	none	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	none	100.00	none	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	none	100.00	none	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	20.59	none	52.94	none	Y
45794278	**ČSOB Factoring, a.s.** Factoring	Praha 10, Benešovská 2538/40	70,800,000	100.00	100.00	none	100.00	none	Y
25677888	**ČSOB Investiční společnost, a.s., a member of the ČSOB group** [3] Management of investmenst and mutual funds	Praha 5, Radlická 333/150	216,000,000	90.81	73.15	17.66	100.00	ČSOB AM, Auxilium	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	none	100.00	none	Y
63998980	**ČSOB Leasing, a.s.** [4] Leasing	Praha 4, Na Pankráci 310/60	3,050,000,000	100.00	100.00	none	50.82	none	Y
27151221	**ČSOB Leasing pojišťovací makléř, s.r.o.** Insurance broker	Praha 4, Na Pankráci 60/310	2,000,000	100.00	none	100.00	100.00	ČSOB Leasing	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	none	100.00	none	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	none	100.00	none	Y
27924068	**ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group** [5] Collective investment	Praha 5, Radlická 333/150	907,000,000	69.63	59.76	9.87	100.00	ČSOB AM, ČSOB Pojišťovna	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	none	100.00	100.00	ČSOB Factoring	Y

Legal Entity				Share of ČSOB in:				Indirect Share of ČSOB via	Cons. EU IFRS [1]
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights		
				Total	Direct	Indirect			
			CZK	%	%	%	%		Y/N
Controlled Companies									
13584324	**Hypoteční banka a.s.** Mortgage banking	Praha 5, Radlická 333/150	5,076,331,000	100.00	100.00	none	100.00	none	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	69.63	none	69.63	100.00	ČSOB Property fund	Y
00000949	**MOTOKOV a.s., in liquidation** Wholesale of machines and technical equipment	Praha 8, Thámova 181/20	62,000,000	70.09	0.50	69.59	70.09	ČSOB IBS	Y
00548219	**MOTOKOV International a.s., in liquidation liquidation** Other financial intermediary activity	Praha 8, Thámova 181/20	2,150,000	94.91	none	94.91	94.91	ČSOB IBS	Y
36859516	**Property LM, s.r.o.** Real estate activity; rent of flats and non-residential spaces	Bratislava, Medená 22/98, Slovak Republic	125,300	69.63	none	69.63	100.00	ČSOB Property fund	Y
36859541	**Property Skalica, s.r.o.** Real estate activity; rent of flats and non-residential spaces	Bratislava, Medená 22/98, Slovak Republic	46,711,840	69.63	none	69.63	100.00	ČSOB Property fund	Y
99999999 [2]	**Tee Square Limited, Ltd.** Poradenské služby investičním fondům v karibské oblasti	British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986	7,689,860	100.00	100.00	none	100.00	none	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	none	55.00	none	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	none	20.00	none	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	25.00	none	40.00	none	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	none	25.00	40.00	ČSOB Pojišťovna	Y
60736682	**E.T.I., a.s. in liquidation** Operation of electricity stations	Ratíškovice 502	45,000,000	10.00	10.00	none	10.00	none	N

Legal Entity				Share of ČSOB in:				Indirect Share of ČSOB via	Cons. EU IFRS [1]
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights		
				Total	Direct	Indirect			
			CZK	%	%	%	%		Y/N
Others									
45316619	**IP Exit, a.s.** [6] / No activity	Praha 1, Senovážné náměstí 32	13,382,866,400	27.42	10.77	16.65	27.39	ČSOB IBS, ČSOB Pojišťovna	Y
63078104	**Premiéra TV, a.s.** / No activity	Praha 8, Pod Hájkem 1	29,000,000	29.00	29.00	none	29.00	none	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	none	23.25	none	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 2010.
2) ID No. 99999999 – a foreign entity.
3) Shares in registered capital: ČSOB 73.15%, Auxilium 15.28%, ČSOB AM 11.57%; shares in voting rights: ČSOB AM 84.72%, Auxilium 15.28%.
4) Shares in in voting rights: ČSOB 50.82%, KBC Lease Holding 49.18%.
5) Shares in registered capital: ČSOB 59.76%, ČSOB AM 4.41%, ČSOB Pojišťovna 35.83%; shares in voting rights: ČSOB 95.59%, ČSOB AM 4.41% .
6) Shares in registered capital: ČSOB 10.77%, ČSOB IBS 16.62%, ČSOB Pojišťovna 0.11%; shares in voting rights: ČSOB 10.77%, ČSOB IBS 16.62%.

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.

Managing and Supervisory Bodies

ČSOB has a two-tier board system consisting of a **Board of Directors** and a **Supervisory Board**. The Board of Directors represents ČSOB in all matters and is charged with its management, while the Supervisory Board is an independent body that oversees the Board of Directors. ČSOB has also established the **Audit Committee** as an independent governing body of ČSOB since 1 January 2010. Members of the Audit Committee are elected by and reporting to the General Meeting of shareholders.

ČSOB's Board of Directors

As at 31 December 2010, ČSOB's Board of Directors functions as the Bank's statutory and supreme executive body and had **seven members** all of whom were also Senior Executive Officers. Member's term in 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
Petr Hutla	Member Senior Executive Officer, Distribution	27. 2. 2008	27. 2. 2008
Bartel Puelinckx	Member Senior Executive Officer, Finance Management	8. 12. 2010	8. 12. 2010
Koen Wilmots	Member Senior Executive Officer, Risk Management	8. 12. 2010	8. 12. 2010
Jiří Vévoda	Member Senior ExecutiveOfficer, Human Resources and Transformation [2)]	8. 12. 2010	8. 12. 2010

As at 31 December 2010.
1) Current chairman term since 20 May 2009.
2) Since 1 January 2011 renamed to Products and Staff Functions.

ČSOB's Top Management

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 additionally other Senior Executive Officers.

As at 1 January 2010, ČSOB's Top Management consisted of five members of the Board of Directors (Pavel Kavánek, Hendrik Scheerlinck, Petr Knapp, Jan Lamser and Petr Hutla) and one additional Senior Executive Officer (Karel Svoboda).

In May 2010, ČSOB's Top Management enlarged to eight members – four members of the Board of Directors (Pavel Kavánek, Petr Knapp, Jan Lamser and Petr Hutla) and four other Senior Executive Officers (Karel Svoboda, Bartel Puelinckx, Koen Wilmots and Jiří Vévoda).

From 8 December 2010 to 31 December 2010, ČSOB's Top Management consisted of seven members of the Board of Directors (Pavel Kavánek, Petr Knapp, Jan Lamser, Petr Hutla, Bartel Puelinckx, Koen Wilmots and Jiří Vévoda) and one additional Senior Executive Officer (Karel Svoboda, who left the position as at 31 December 2010).

Changes in the ČSOB's Board of Directors and ČSOB's Top Management in 2010

Mr. Hendrik Scheerlinck, a member of ČSOB's Board of Directors and Senior Executive Officer, Finance and Risk Management (CFRO), terminated his tenure in ČSOB as at 28 April 2010. As at 29 April 2010, he left for the position of Chief Executive Officer of KBC's Hungarian subsidiary K&H and KBC group's Country Manager for Hungary, and the CFRO position in ČSOB was split into two.

Mr. Bartel Puelinckx, former Senior Managing Director in K&H responsible for Credits and HR, was appointed new Chief Finance Officer (CFO) of ČSOB on 1 May 2010 and a member of the ČSOB's Board of Directors on 8 December 2010.

Mr. Koen Wilmots, former Managing Director of ČSOB Group Credits, was appointed Chief Risk Officer (CRO) of ČSOB on 1 May 2010 and a member of the ČSOB's Board of Directors on 8 December 2010.

Mr. Jiří Vévoda, former Associate Partner at McKinsey & Company, was appointed to until-then-vacant position of Chief Staff Officer (CSO) of ČSOB on 1 May 2010 and a member of the ČSOB's Board of Directors on 8 December 2010.

As at 1 January 2011, **Mr. Karel Svoboda** was appointed the Senior Executive Officer of ČSOB PF Stabilita and left his position of the ČSOB's Senior Executive Officer responsible for Operations and Facilities on 31 December 2010. This position in ČSOB's Top Management ceased to exist and responsibilities from within Operations and Facilities were relocated among the existing Board of Directors.

As a result, **as at 1 January 2011, the ČSOB's Board of Directors has seven members and is identical with the ČSOB's Top Management**.

Areas of Responsibility of ČSOB's Top Management

For description of areas of responsibility managed by ČSOB's Top Management please refer to the ČSOB's Organisation Chart to page 48 of this Annual Report.

ČSOB's Supervisory Board

ČSOB's Supervisory Board oversees the performance of the Board of Directors and had **nine members** as at 31 December 2010. Member's term in 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
Dirk Mampaey	Member	14. 9. 2009	14. 9. 2009
Patrick Roland Vanden Avenne	Member	22. 4. 2006	22. 4. 2006
Hendrik George Adolphe Gerard Soete	Member	24. 2. 2007 [2]	21. 4. 2007
Marko Voljč	Member	29. 6. 2010	29. 6. 2010
Guy Libot	Member	1. 12. 2010	1. 12. 2010
František Hupka	Member [3]	23. 6. 2005	23. 6. 2010
Martina Kantová	Member [3]	23. 6. 2010	23. 6. 2010
Ladislava Spielbergerová	Member [3]	23. 6. 2010	23. 6. 2010

As at 31 December 2010.
1) Current chairman term since 3 June 2009.
2) Co-opted.
3) Elected by employees.

Changes in the ČSOB's Supervisory Board in 2010

The term of the three members of the Supervisory Board elected by employees (Mr. František Hupka, Ms. Libuše Gregorová and Ms. Martina Kopecká) expired on 23 June 2010. According to the outcome of the employee elections, the following employees were **elected** members of the Supervisory Board of ČSOB **with effect since 23 June 2010: Mr. František Hupka, Ms. Martina Kantová and Ms. Ladislava Spielbergerová**.

As at 29 June 2010, Mr. Marko Voljč was appointed a new member of the Supervisory Board to replace Mr. John Hollows. The replacement followed the changes in the Top Management of KBC group within which Marko Voljč was appointed the CEO of the Central and Eastern Europe and Russia Business Unit as John Hollows left this position to become KBC Group's Chief Risk Officer.

As at 1 December 2010, Mr. Guy Libot was elected a new member of the ČSOB's Supervisory Board. Since 2010, Guy Libot has been working for KBC Global Services NV as the General Manager, Banking, Central & Eastern Europe and Russia. In the Supervisory Board, he replaced Ms. Riet Docx.

The Audit Committee

Since 1 January 2010, the Audit Committee has acted as an independent body of ČSOB. **As at 31 December 2010**, the Audit Committee composed of **three members** who are also members of the ČSOB Supervisory Board:

Dirk Mampaey (Chairman)
Jan Švejnar (Member)
Guy Libot (Member; replaced Ms. Riet Docx since 1 December 2010.)

Since 1 February 2011, **Mr. Petr Šobotník** has became the **fourth member** (independent) of the Audit Committee (not a member of any other ČSOB body).

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.

The Business 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

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 2010, this applied to the Senior Executive Officer for Operations and Facilities, Senior Executive Officer for Human Resources and Transformation, Senior Executive Officer for Finance Management and Senior Executive Officer for Risk Management.

Monetary and Non-monetary Income
(Section 118, paragraph 4, provision f)

In 2010, **persons discharging managerial responsibilities** received the following income from both ČSOB and persons controlled by ČSOB:

	Monetary Income		Non-monetary Income	
	Received from		Received from	
(CZKths)	ČSOB	Persons Controlled by ČSOB	ČSOB	Persons Controlled by ČSOB
Members of the Board of Directors	73,479	-	4,821	-
Members of the Supervisory Board	5,553	-	-	-
Other members of the Top Management	14,252	-	4,512	-

The income of the Chairman and Members of the Board of Directors in 2010 included: CZK 58,783 ths under the Contracts on the Performance of the Line Management Function, and remuneration totalling CZK 14,696 ths 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 2,268 ths 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 3,285 ths. 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 2010, 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 2010 were Marko Voljč, Jan Švejnar, and Dirk Mampaey. 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.

Introducing Members of Managing and Supervisory Bodies

ČSOB's Board of Directors and ČSOB's Top Management

Pavel Kavánek

(Born on 8 December 1948)

Chairman of the Board of Directors and Chief Executive Officer

He graduated from the 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

He graduated from the 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 Supervisory Board of ČSOB Leasing (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

He graduated from the Faculty of Mathematics and Physics and of Protestant Theological Faculty at Charles University of Prague; the 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 the Postal Savings Bank.

Membership in bodies of other companies:
Deputy Chairman of the Supervisory Board of ČMSS (CZ); the control commission of the Unijazz Association.

Petr Hutla

(Born on 24 August 1959)

Member of the Board of Directors and Senior Executive Officer, Distribution

He graduated from the Czech Technical University, Faculty of Electrical Engineering.

Mr. 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 Banking (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:
Chairman of the Supervisory Board of Hypoteční banka (CZ); member of the Supervisory Board in: ČSOB Investiční společnost (CZ), ČSOB Asset Management (CZ), ČSOB PF Stabilita (CZ) a ČSOB PF Progres (CZ; since 12 January 2011); 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).

Bartel Puelinckx

(Born on 16 December 1965)

Member of the Board of Directors and Senior Executive Officer, Finance Management (Chief Financial Officer)

He studied economics at the University of Leuven (Belgium), and law at the University of Brussels.

Mr. Puelinckx has worked in the KBC Group since 1992, in various positions within KBC Bank. In addition, he worked in Hungary's K&H Bank from 2006 to 2010, most recently as Senior Managing Director, Head of HR & Credit Management Division. Since 1 May 2010, he has been a member of ČSOB's Top Management as the Senior Executive Officer, Finance Management. Since 8 December 2010, he has been a member of the Board of Directors.

Membership in bodies of other companies:
None.

Koen Wilmots

(Born on 24 July 1964)

Member of the Board of Directors and Senior Executive Officer, Risk Management (Chief Risk Officer)

He studied law at the Catholic University of Leuven (Belgium), followed by a post-graduate course at the Robert Schuman University in Strasbourg.

Mr. Wilmots has worked in the banking sector since 1992, when he took up a position with Kredietbank. He has worked at ČSOB since 1999; his position was Executive Director, Credits until 30 April 2010. Since 1 May 2010, he has been a member of ČSOB's Top Management as the Senior Executive Officer, Risk Management. Since 8 December 2010, he has been a member of the Board of Directors.

Membership in bodies of other companies:
Member of the Supervisory Board of Hypoteční banka (CZ).

Jiří Vévoda

(Born on 4 February1977)

Member of the Board of Directors and Senior Executive Officer, Products and Staff Functions (Chief Staff Officer)

He graduated from the Joint European Studies Programme at the Staffordshire University (1999) and the University of Economics, Prague (2001).

From 2000 to 2004, Mr. Vévoda worked for GE Capital in the Czech Republic, Ireland, Finland and Sweden. From 2004 to 2010, he worked for McKinsey & Company. Since 1 May 2010, he has been a member of ČSOB's Top Management as the Senior Executive Officer, as at 1 January 2011 responsible for Products and Staff Functions. Since 8 December 2010, he has been a member of the Board of Directors.

Membership in bodies of other companies:
None.

Karel Svoboda

(Born on 12 April 1970)

Senior Executive Officer, Operations and Facilities (untill 31 December 2010)

He graduated from the University of Economics, Prague (1992); a post-graduate study program in statistics at the Texas A&M University, College Station, USA (1994).

From 1995 to 1997, Mr. Svoboda worked as an assistant professor at the University of Economics, Prague. 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 and the Director of the Life Insurance Division.

From 1 August 2008 to 31 December 2010, he was a member of ČSOB's Top Management as the Senior Executive Officer, Operations and Facilities.

Membership in bodies of other companies:
Chairman of the Board of Directors ČSOB PF Stabilita (CZ); Member of the Board, Společenství vlastníků jednotek Haškova 9/845, Praha 7 (a housing entity).

ČSOB's Supervisory Board

Jan Švejnar

(Born on 2 October 1952)

Chairman
of the Supervisory Board

He graduated from Cornell University (USA) with a degree in Industrial and Work Relations, and obtained a Ph.D. in Economics from Princeton University.

Mr. Švejnar is an independent economist living abroad since 1970. Since 1992, he has 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.

He is a member of the ČSOB's Audit Committee.

Membership in bodies of other companies:
Chairman of the Executive and Supervisory Committee of CERGE-EI; member of the Academic Council of Faculty of Social Sciences of the Charles University; member of the Czech government's National Economic Council (NERV).

Dirk Mampaey

(Born on 25 October 1965)

Member
of the Supervisory Board

He graduated from the Free University of Brussels and International Banking School in Switzerland and Philadelphia (USA) with a degree in Commercial Engineering.

Mr. Mampaey started his professional career at Kredietbank in 1988. He has acquired wide-ranging experience in managerial positions in the areas of corporate banking, strategy and expansion and payments. In 2007 he was appointed Senior General Manager of KBC for Banking in 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.

He is a Chairman of the ČSOB's Audit Committee.

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

Marko Voljč

(Born on 5 December 1949)

Member
of the Supervisory Board

He graduated from the University of Ljubljana and Belgrade, with a degree in economics.

Between 1976 and 1979, Mr. Voljč was head of the analytical department of the National Bank of Slovenia. From 1979 through 1992, he worked for the World Bank in Washington D.C. and Mexico City. In 1992, he joined Nova Ljubljanska Banka in Slovenia as its President and the Chief Executive Officer (CEO). In 2004, he became General Manager of the Central Europe Directorate at KBC headquarters in Brussels. In that capacity, he served on the supervisory boards of KBC's banking subsidiaries in Poland, Hungary and the Czech Republic. From May 2006 to April 2010, he was CEO of K&H Bank (KBC Group) in Budapest and also became Country Manager of the Hungarian operations. Since 29 April 2010, 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 Pojišťovna (CZ), ČSOB (SK), Warta Life and Non-life (Poland) a Absolut Bank (Russia); member of the Supervisory Board in: KredytBank (Poland), CIBank (Bulgaria) a DZI (Bulgaria). Member of the Audit Committees of those companies.

Patrick Vanden Avenne

(Born on 15 February 1954)

Member
of the Supervisory Board

He graduated from 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 (a 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).

Hendrik Soete

(Born on 9 November 1950)

Member
of the Supervisory Board

He holds M.Sc. and Ph.D. degrees in Agricultural Sciences from the Catholic University in Leuven (Belgium).

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 the 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).

Guy Libot

(Born on 1 March 1963)

Member
of the Supervisory Board

He holds a master's degree from University of Antwerp in applied economics and commercial engineering.

Between 1989 and 1995, Mr. Libot worked for Kredietbank in the USA and the Netherlands. Between 1995 and 2003, he worked for KBC Bank – first as the Branch General Manager in Singapore and later as the CEO in the Netherlands. He became the Deputy President of Kredyt Bank in Poland and in 2003 and the Deputy CEO of K&H Bank in Hungary in 2006. Since 2010, he has been working for KBC Global Services as the General Manager, Banking, Central & Eastern Europe and Russia.

He is a member of the ČSOB's Audit Committee.

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

František Hupka

(Born on 13 April 1971)

Member
of the Supervisory Board
elected by employees

He obtained a bachelor degree in Economics and Management from the University of Western Bohemia in Pilsen.

In 1991, Mr. Hupka joined ČSOB as an IT support specialist. Since 2002, he has served as the Chairman of the Bank's Trade Union Committee. He has been a member of ČSOB's Supervisory Board elected by employees since June 2005.

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

Martina Kantová

(Born on 31 March 1974)

Member
of the Supervisory Board
elected by employees

She graduated from the Secondary school of economics in Hradec Králové.

Ms. Kantová has been working for ČSOB (formerly IPB) at a branch in Hradec Králové since 1996. Since 2005, she has been working as a Retail Credits Advisor. She has been a member of KBC's European Worker Council since 2008. She has been a member of the Bank's Trade Union Committee since 2007 and the chairperson of a local trade union organization in Hradec Králové since 2009.

Membership in bodies of other companies:
None.

Ladislava Spielbergerová

(Born on 6 November 1974)

Member of the Supervisory Board elected by employees

She obtained a bachelor degree from the Banking Institute/College of Banking in Prague.

Ms. Spielbergerová has been working for ČSOB since 1995. Since 2010, she has been working as a Personal Banker at the branch in Dvůr Králové nad Labem. She has been a member of KBC's European Worker Council since 2005 and the Deputy Chairman of the Bank's Trade Union Committee since 2008.

Membership in bodies of other companies:
None.

Independent Member of the ČSOB's Audit Committee (since 1 February 2011)

Petr Šobotník

(Born on 16 May 1954)

Member
of the Audit Committee
(independent)

He graduated from the University of Economics, Prague.

Between 1983 and 1991, Mr. Šobotník acted as a chief accountant in corporations as well as government bodies. In 1991, joined the audit firm Coopers & Lybrand; he became the partner for audit in 1995. After the merger of the audit firms, he served as the position the Lead Audit Partner in PricewaterhouseCoopers from 1998 to 2002. He then worked in various top management positions in PwC untill June 2010. At present, he is an independent consultant.

Membership in bodies of other companies:
President of the Czech Chamber of Auditors since 2007 (reelected in November 2010 for additional two years), representative of the Czech Republic in FEE – Ethics Working Party since 2004; member of the Audit Committee in Skanska a.s. (since 2010).

Corporate Governance Policy

Československá obchodní banka, a. s., voluntarily meets and complies with the corporate governance guidelines set out in the Code of Corporate Governance based on the OECD Principles.

General Meeting

The General Meeting of shareholders is the highest body of ČSOB. **Pursuant to § 190 of the Commercial Code the sole shareholder** (KBC Bank NV) **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. 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.

Board of Directors

The ČSOB's Board of Directors performs its tasks within the framework of competencies defined for the statutory body by the Commercial Code, the Articles of Association and relevant management documents of the company.

The members of the Board of Directors are elected by the company's General Meeting provided they comply with other requirements stipulated by the Banking Act. In compliance therewith, the ČSOB's Board of Directors has a full-scale executive composition. ČSOB's shareholders and clients receive regular reports including relevant data in the required scope on the members of the Board of Directors and their professional and personal qualifications enabling them to execute their duties.

In 2010, **a change in the Board of Directors** took place when Hendrik Scheerlinck resigned from his position as at 28 April 2010 and Bartel Puelinckx, Koen Wilmots and Jiří Vévoda were elected new Board members on 8 December 2010. Since 8 December 2010, the ČSOB's Board of Directors has had seven members.

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 a 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 the statutory 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 in 2010

Risk Committees

Asset and Liability Committee (ALCO)
Credit Risk Committee (CRC)
Credit Risk Sanctioning Committee (CSC)
Operational Risk Committee (ORC)
Financial Markets Risk Committee (FMRC)

For more detailed information on Board of Directors Committees please refer in Note 37 to the Separate Financial Statement for the Year 2010 prepared in accordance with EU IFRS.

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.

Public Affairs Committee: The Committee supports and deals with initiatives and projects impacting strategic and business interests of the Bank and ČSOB group.

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. Mrs. Riet Docx resigned from her position in the Supervisory Board as of 30 November 2010. As of 1 December 2010 Mr. Guy Libot was elected a new member of the Supervisory Board by the General Meeting. Elections of the Supervisory Board members elected by the employees took place in 2010. František Hupka, Martina Kantová and Ladislava Spielbergerová became members of the Supervisory Board as of 23 June 2010.

In compliance with its plan of work, the Supervisory Board **held four meetings in 2010** 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.

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.

Committee of Supervisory Board

The Compensation Committee is an advisory and initiave body of the Supervisory Board. The Compensation Committee sets, judges and assesses remuneration of members of ČSOB's Top Management.

The Compensation Committee is composed of **three members**: Marko Voljč (Chairman), Jan Švejnar and Dirk Mampaey were the Committee members **in 2010**. The Compensation Committee meets whenever necessary, but no less than once a year.

The Audit Committee

The Audit Committee is an official body of ČSOB. Its authority and responsibilities are determined by the ČSOB's Articles of Association and the Audit Committee's Rules of Procedure. In particular, the Audit Committee monitors completion of the financial statement and the process of mandatory audit, supervises and monitors the quality of internal control, the work of internal audit, the Compliance unit, financial reporting and the system of risk management. The Audit Committee recommends a statutory auditor and examines the adequacy of auditor's independence.

In 2010, the Audit Committee had **three members** who are also members of the Supervisory Board. The composition of the Committee was as follows: Dirk Mampaey (Chairman of the Audit Committee), Jan Švejnar and Riet Docx who was replaced by Guy Libot as at 1 December 2010. In December 2010, the number of the Audit Committee members increased to four. As a result of this change, Petr Šobotník was elected the fourth member of the Audit Committee (January 2011).

The Audit Committee members are elected by the General Meeting based on their expertise that is required to perform their control tasks in a professional manner. The CEO of ČSOB, members of the ČSOB's Board of Directors, 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 2010 where issues falling within the Audit Committee's competence were treated.

Internal Control Mechanisms to Eliminate Financial Reporting Process Risks

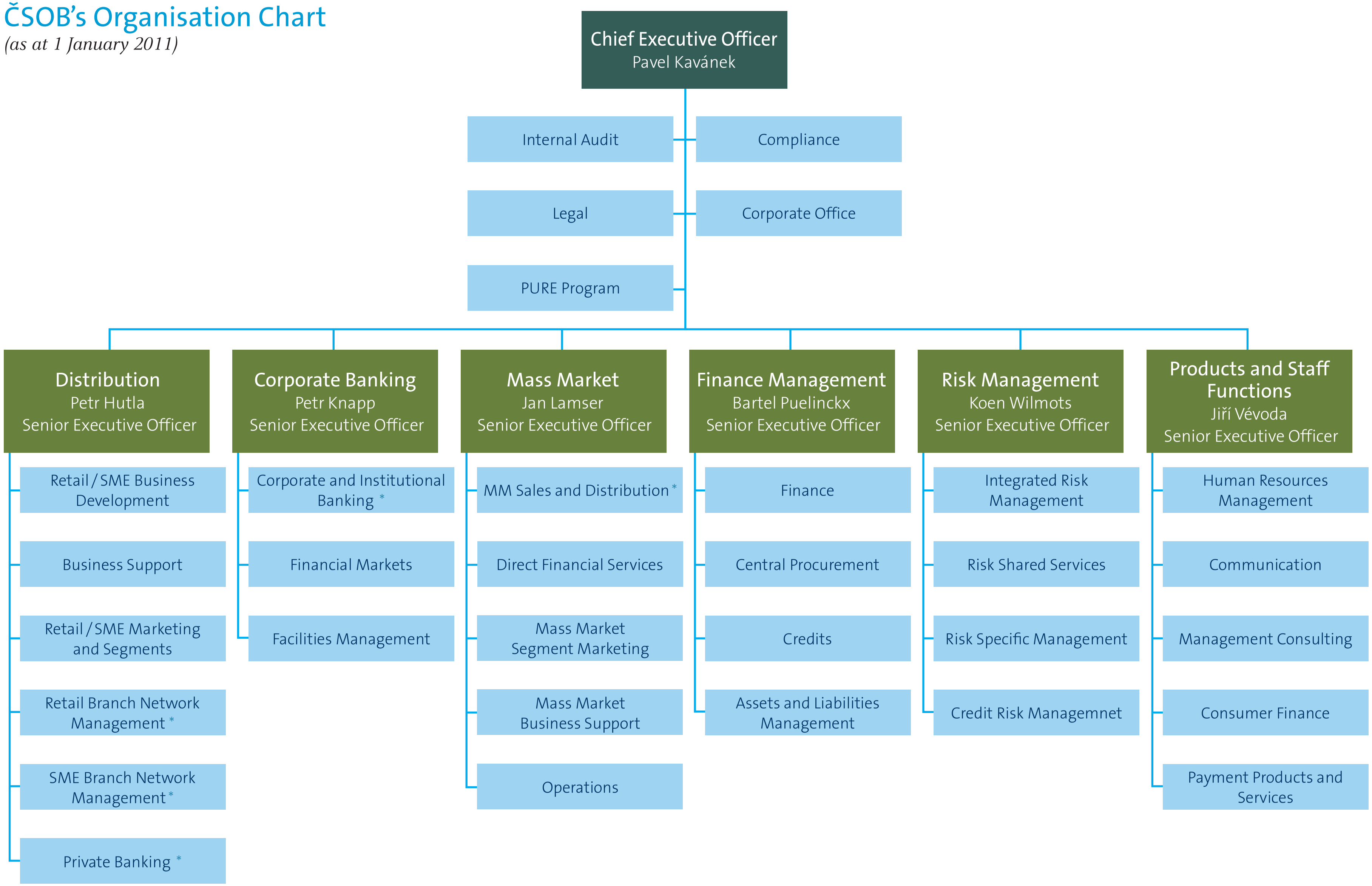
To ensure fair representation of both consolidated and separate financial statements balances of each general ledger account are subject to regular, no less than monthly, internal examination. Control procedures are established to eliminate the risk of misstatement whether due to accounting error or fraud. Corrections of accounting errors are monitored centrally. Adequacy of accounting examinations is assessed on a regular basis and findings are reported to the Internal Audit and 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 2010 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the Year 2010 prepared in accordance with EU IFRS.

Control mechanisms are extended based on recommendations from internal audit, 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 2010 prepared in accordance with EU IFRS and to Note 40.5 to the Consolidated Financial Statement for the Year 2010 prepared in accordance with EU IFRS.

ČSOB's Organisation Chart

(as at 1 January 2011)



** These units manage respective branch network.*

FINANCIAL PART

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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 2010 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flow 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 Partner

Roman Hauptfleisch
Auditor, License No. 2009

24 February 2011
Prague, Czech Republic

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

(CZKm)	Note	2010	Reclassified 2009
Interest income	5	32,353	33,886
Interest expense	6	(7,595)	(10,370)
Net interest income		**24,758**	**23,516**
Fee and commission income		8,872	8,738
Fee and commission expense		(3,432)	(3,159)
Net fee and commission income	7	**5,440**	**5,579**
Dividend income		45	447
Net gains from financial instruments at fair value through profit or loss and foreign exchange	8	1,340	2,876
Net realised gains on available-for-sale financial assets	2.5	86	6,340
Other net income	9	1,380	907
Operating income		**33,049**	**39,665**
Staff expenses	10	(6,414)	(6,218)
General administrative expenses	11	(7,053)	(5,979)
Depreciation and amortisation	22, 23, 24	(1,084)	(1,443)
Operating expenses		**(14,551)**	**(13,640)**
Impairment losses	12	(3,386)	(6,509)
Share of profit of associates	20	226	360
Profit before tax		**15,338**	**19,876**
Income tax expense	13	(1,776)	(2,459)
Profit for the year		**13,562**	**17,417**
Attributable to:			
Owners of the parent		13,471	17,368
Non-controlling interests		91	49
Earnings per share			
Equity holders of the parent for the year:		CZK	CZK
Basic earnings per share	14	46.01	59.33
Diluted earnings per share	14	46.01	59.33

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

(CZKm)	Note	2010	2009
Profit for the year		**13,562**	**17,417**
Exchange differences on translating foreign operation		(1)	197
Net gain / (loss) on cash flow hedges		501	(1,423)
Net loss on available-for-sale financial assets		(616)	(997)
Share of other comprehensive income of associates		80	53
Reorganisation reserve		-	(1,423)
Income tax benefit / (expense) relating to components of other comprehensive income		34	(100)
Other comprehensive income for the year, net of tax	32	**(2)**	**(3,693)**
Total comprehensive income for the year, net of tax		**13,560**	**13,724**
Attributable to:			
Owners of the parent		13,469	13,675
Non-controlling interests		91	49

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

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

(CZKm)	Note	2010	2009
ASSETS			
Cash and balances with central banks	16	21,164	23,050
Financial assets held for trading	17	173,810	160,117
Financial assets designated at fair value through profit or loss	17	11,132	16,987
Available-for-sale financial assets	18	102,521	101,567
Held-to-maturity investments	18	150,240	132,761
Loans and receivables	19	399,741	395,774
Derivatives used for hedging	21	9,437	8,040
Current tax assets		39	27
Deferred tax assets	13	488	271
Investment in associate	20	1,163	1,196
Investment property	22	713	791
Property and equipment	23	8,057	8,468
Goodwill and other intangible assets	24	3,625	3,922
Non-current assets held-for-sale	25	140	919
Other assets	26	2,785	5,082
Total assets		**885,055**	**858,972**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	27	21,096	23,036
Financial liabilities designated at fair value through profit or loss	27	117,774	105,057
Financial liabilities at amortised cost	28	663,418	644,982
Derivatives used for hedging	21	5,567	5,158
Current tax liabilities		1,203	883
Deferred tax liabilities	13	830	603
Other liabilities	29	8,676	8,644
Provisions	30	651	758
Total liabilities		**819,215**	**789,121**
Share capital	31	5,855	5,855
Share premium		7,509	7,509
Statutory reserve		18,687	18,687
Retained earnings		30,560	34,478
Available-for-sale reserve	31	2,422	2,814
Cash flow hedge reserve	31	(2)	(393)
Foreign currency translation reserve	31	-	1
Shareholders’ equity		65,031	68,951
Non-controlling interests, presented within equity		809	900
Total equity		**65,840**	**69,851**
Total liabilities and equity		**885,055**	**858,972**

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 24 February 2011 and signed on its behalf by:

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

Bartel Puelinckx
Member of the Board of Directors
and Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Attributable to equity holders of the parent					Non-	Total
(CZKm)	Share capital (Note: 31)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 31, 32)	controlling interest	Equity
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**
At 1 January 2010	**5,855**	**7,509**	**18,687**	**34,478**	**2,422**	**900**	**69,851**
Total comprehensive income for the year	-	-	-	13,471	(2)	91	13,560
Capital decrease by non-controlling shareholders of subsidiaries	-	-	-	-	-	(176)	(176)
Dividends paid (Note: 15)	-	-	-	(17,389)	-	-	(17,389)
Dividends of subsidiaries	-	-	-	-	-	(6)	(6)
At 31 December 2010	**5,855**	**7,509**	**18,687**	**30,560**	**2,420**	**809**	**65,840**

[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 2010

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

(CZKm)	Note	2010	2009
OPERATING ACTIVITIES			
Profit before tax		15,338	19,876
Adjustments for:			
Change in operating assets	34	(8,469)	(58,189)
Change in operating liabilities	34	36,812	41,293
Non-cash items included in profit before tax	34	7,118	8,106
Sale of ČSOB SK	2.5	-	12,459
Net (gains) / losses from investing activities		(378)	6
Income tax (paid) / received		(1,405)	392
Net cash flows from operating activities		**49,016**	**23,943**
INVESTING ACTIVITIES			
Purchase of investment securities		(39,339)	(27,230)
Maturity / disposal of investment securities		11,042	9,701
Purchase of property, equipment and intangible assets		(1,394)	(2,011)
Purchase of investment property	22	-	(3)
Disposal of property, equipment, intangible assets and assets held-for-sale		932	1,628
Disposal of investment property	22	-	13
Disposal of ICT business	2.5	966	-
Dividends from associates		337	75
Disposal of subsidiary, associate and joint venture companies	3	-	500
Net cash flows used in investing activities		**(27,456)**	**(17,327)**
FINANCING ACTIVITIES			
Repayment of bonds		(7,792)	(4,527)
Increase in non-controlling interests		(91)	11
Dividends paid	15	(17,389)	(679)
Net cash flows used in financing activities		**(25,272)**	**(5,195)**
Net (decrease) / increase in cash and cash equivalents		**(3,712)**	**1,421**
Cash and cash equivalents at the beginning of the year	34	29,572	28,151
Net (decrease) / increase in cash and cash equivalents		(3,712)	1,421
Cash and cash equivalents at the end of the year	34	**25,860**	**29,572**
Additional information			
Interest paid		(9,367)	(10,184)
Interest received		32,879	33,688
Dividends received		45	447

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 from 1 January 2010

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.

IFRS 1 First-time Adoption of IFRS (Amendments) is effective for periods beginning on or after 1 January 2010. The amendments relate to oil and gas assets and determining whether an arrangement contains a lease.

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,amends the definition of business combinations, changes the valuation of non-controlling interest and the accounting for transaction costs.

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.

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. It requires that a change in the ownership interest in a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Such transactions will not give rise to goodwill or gain or loss.

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. An entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

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 18 Transfers of Assets from Customers is effective for periods beginning on or after 1 July 2009. The Interpretation deals with transfers of property, plant and equipment, which must be used for connecting a customer to a network in utilities industry.

Improvements to IFRSs, issued in April 2009 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard.

Effective after 1 January 2010

The following standards, amendments and interpretations have been issued and are effective after 1 January 2010. 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 July 2010. The amendment describes limited exemption from comparative IFRS 7 disclosures for first-time adopters.

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 instruments.

The new standard has reduced the number of asset 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 both conditions are met:

- 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 asset categories are required when the entity changes its business model. IFRS 9 retains a fair value option. At initial recognition entities can elect to measure financial assets 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.

All equity instruments are measured at fair value either through Other Comprehensive Income or profit or loss.

Financial liabilities are classified and measured either at amortised cost or at fair value through profit or loss. A financial liability can be designated as measured at fair value through profit or loss if doing so results in more relevant information, because either:

- It eliminates or reduces a measurement or recognition inconsistency;
- A group of financial liabilities is managed and its performance is evaluated on a fair value basis.

Original requirements related to derecognition of financial assets and financial liabilities are carried forward unchanged from IAS 39 to IFRS 9.

The standard will have a significant impact on the Group financial statements, however 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 and the third phase on hedge accounting is still ongoing and the completion of the entire project is expected in 2011.

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

IFRIC 14 Prepayment of a Minimum Funding Requirement (Amendments) is effective for periods beginning on or after 1 January 2011. The amendment applies in limited circumstances when an entity is subject to minimum funding requirement and makes an early payment of contributions to cover those requirements. The early payment can be treated as an asset.

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.

Improvements to IFRSs, issued in May 2010 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard.

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) 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 consist of derivatives held for trading and financial instruments other than derivatives held for trading.

- *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 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.

- *Financial instruments held for trading other than derivatives*

Financial assets or financial liabilities 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.

(ii) 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 or reclassify 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.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market 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.

(iv) 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.

(v) 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.

(vi) '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 or Cash and balances with central banks. 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 instruments 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 at inception 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. The hedge 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. Related interest income from hedging instrument is recorded in Interest income, revaluation of hedging instrument is recognised 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 receivables to credit institutions and financial liabilities at amortised cost to 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 as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in profit or loss on the acquisition date.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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.

Impairment losses relating to goodwill cannot be reversed in future periods.

(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

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.

2.5 Comparative balances

Reclassifications

Since the Group is a part of the consolidation scope of the KBC Bank, which prepares financial statements according to EU IFRS, the Group has decided to use the same structure for its financial statements and presentation of items within this structure consistent with KBC Bank and to be further aligned with the requirements of the EU IFRS. Therefore certain items are presented differently in the financial statements at 31 December 2010 from the presentation applied in the financial statements at 31 December 2009. To conform to the changes in presentation in the current year, certain balances have been reclassified.

A reconciliation of the selected items of the statement of income for the period ended 31 December 2009 is provided below:

	2009	Reclassifications			2009
(CZKm)	As reported	A	B	C	Reclassified
Interest expense	(10,868)	498			(10,370)
Fee and commission expense	(2,188)		(971)		(3,159)
Net gains from financial instruments at fair value through profit or loss and foreign exchange	3,374	(498)			2,876
Other net income	955			(48)	907
Staff expenses	(6,355)			137	(6,218)
General administrative expenses	(6,973)		971	23	(5,979)
Provisions	112			(112)	-

The explanation for the reclassifications is as follows:

A/ **New hedging construction**

In 2009, the Group developed a new hedging construction to hedge the interest rate risk arising from changes in external interest rates on a group of client term deposits. Net interest expense accrued on interest rate swaps held for trading up to date, when the swaps became hedging instruments, was reclassified from Net gains from financial instruments at fair value through profit or loss into Interest expense;

B/ **Retail service fees**

Until the end of 2009, the Group presented the whole amount of fees paid for retail services as General administrative expenses. At 1 January 2010, the fee has been divided into a fixed portion and a variable portion. From the date, only the fixed portion of the fee is included in General administrative expenses hereafter. The performance related variable portion of the fee, has been reclassified into Fee and commission expense;

C/ **Provisions**

Until the end of 2009, the Group presented movements of provisions other than credit related under the separate caption of Provisions included in operating expenses. From 2010, the provisions were reclassified into the appropriate captions of operating income and expenses.

Transformation of business in Slovakia

In 2007, KBC Bank established a new legal entity in the Slovak Republic, Československá obchodná banka, a.s. (ČSOB SK), for the purpose of separating the organisation and management of the KBC Group's banking business in the Czech and Slovak Republics with each management team reporting directly to KBC Group. ČSOB SK's foundation agreement was signed on 14 August 2007 and it became effective on 1 January 2008. Pursuant to the voting rights agreement dated 14 August 2007, ČSOB, ČSOB Leasing and ČSOB Factoring transferred their respective voting rights in ČSOB SK to KBC Bank effective from 1 January 2008.

In the consolidated financial statements of the Group as of and for the year ended 31 December 2008, the shares in ČSOB SK owned by the Group were classified as an available-for-sale financial asset. The assets and liabilities that the Group contributed to ČSOB SK had a net book value of CZK 5,409 m and a fair value of CZK 9,584 m. The difference between the net book value and the fair value of assets was recognised as a Reorganisation reserve of CZK 1,423 m and an Available-for-sale reserve of CZK 2,752 m. The reorganisation reserve represented the dilution of the Group's interest in the assets of the Slovak branch of ČSOB and its subsidiaries in exchange for an interest in ČSOB SK into which KBC Bank had contributed cash.

On 15 December 2009, as part of the KBC Group's internal reorganisation to improve efficiency, KBC Bank completed the purchase of the remaining 49.54% stake in ČSOB SK from the Group for the total consideration of CZK 12,459 m, as a result of which the Group no longer holds any shareholding interest in ČSOB SK. The Group reported a net profit before tax of CZK 6,091 m as a result of the transaction recorded under net realised gains on available-for-sale financial assets in the income statement.

Additionally, in July 2009, the Group received a dividend from ČSOB SK of CZK 244 m from the 2008 profit. No such dividend was received in 2010.

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. Such a transfer represents a sale of business to a newly created enterprise.

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 of 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 and KBC Global Services NV 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 was proceeding in its effort to centralise the purchase of ICT services. ICT services outsourcing has been implemented in ČSOB Leasing from 1 January 2010.

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).

In 2010, the value of the newly created part of the enterprise of KBC Global Services NV was assessed. The sales price which represents net cash inflow to the Group was determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague and amounted to CZK 966 m. The net profit of the sale of the enterprise reached the amount of CZK 344 m and has been recognised in Other net income.

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 28 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2010	% 2009
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	Czech Republic	20.59	20.59
ČSOB Factoring, a.s.	ČSOB Factoring	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	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	69.63	69.67
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100.00	100.00
Merrion properties, s.r.o.	Merrion properties	Czech Republic	69.63	69.67
Property LM, s.r.o.	Property LM	Slovak Republic	69.63	69.67
Property Skalica, s.r.o.	Property Skalica	Slovak Republic	69.63	69.67
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 2010, 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 and buyout of shares.

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

In December 2010, 49.18% of the voting rights in ČSOB Leasing previously held by the Group, were transferred to the KBC Lease Holding NV. The Group is therefore entitled to exercise 50.82% of the voting rights in ČSOB Leasing.

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 52.94% of the voting rights in the ČSOB AM, therefore the company is considered to be a subsidiary.

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 40% of the voting rights in the ČSOB Pojišťovna.

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, Merrion properties, 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.

The Group sold all participation certificates of První speciální fond kvalifikovaných investorů pro finanční instituce, open-ended equity fund AXA investiční společnost a.s. in March 2009. Carrying value of assets reported in the Financial assets designated at fair value through profit or loss disposed from the consolidated statement of financial position in 2009 was CZK 500 m. Amount of proceeds from the sale which represents net cash inflow to the Group was CZK 500 m.

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 allocated to operating segments, but is managed on the Group basis.

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 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. In 2010, net gain on disposal of ICT business is included.

Segment reporting information by customer segments for 2010

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Group Centre	**Total**
Statement of income					
Net interest income	17,933	2,208	1,537	3,080	**24,758**
Net fee and commission income	4,068	1,025	(81)	428	**5,440**
Dividend income	45	-	-	-	**45**
Net gains / (losses) from financial instruments at fair value through profit or loss	1,064	728	1,333	(1,785)	**1,340**
Net realised gains / (losses) on available-for-sale financial assets	170	-	(279)	195	**86**
Other net income	304	90	9	977	**1,380**
Operating income	**23,584**	**4,051**	**2,519**	**2,895**	**33,049**
of which:					
External operating income	*18,877*	*3,802*	*9,325*	*1,045*	***33,049***
Internal operating income	*4,707*	*249*	*(6,806)*	*1,850*	***-***
Depreciation and amortisation	(348)	(31)	(1)	(704)	**(1,084)**
Other operating expenses	(11,118)	(1,321)	(380)	(648)	**(13,467)**
Operating expenses	**(11,466)**	**(1,352)**	**(381)**	**(1,352)**	**(14,551)**
Impairment losses - additions	(4,257)	(1,365)	(8)	357	**(5,273)**
Impairment losses - reversals	1,343	499	-	45	**1,887**
Impairment losses	**(2,914)**	**(866)**	**(8)**	**402**	**(3,386)**
Share of profit of associates	-	-	-	226	**226**
Profit before tax	**9,204**	**1,833**	**2,130**	**2,171**	**15,338**
Income tax benefit / (expense)	(1,733)	(392)	600	(251)	**(1,776)**
Segment profit	**7,471**	**1,441**	**2,730**	**1,920**	**13,562**
Attributable to:					
Equity holders of the Bank	7,471	1,441	2,730	1,829	**13,471**
Non-controlling interest	-	-	-	91	**91**
Assets and liabilities					
Segment assets	358,483	81,472	534,473	(90,536)	**883,892**
Investment in associates	-	-	-	1,163	**1,163**
Total assets	**358,483**	**81,472**	**534,473**	**(89,373)**	**885,055**
of which:					
Internal assets	-	-	-	*(179,397)*	***(179,397)***
Total liabilities	**515,432**	**89,099**	**203,451**	**11,233**	**819,215**
Capital expenditure	**745**	**3**	**1**	**250**	**999**

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	16,492	2,307	1,827	2,890	**23,516**
Net fee and commission income	4,171	1,035	(147)	520	**5,579**
Dividend income	127	6	-	314	**447**
Net gains / (losses) from financial instruments at fair value through profit or loss	995	532	2,497	(1,148)	**2,876**
Net realised gains on available-for-sale financial assets	379	256	120	5,585	**6,340**
Other net income	303	116	(139)	627	**907**
Operating income	**22,467**	**4,252**	**4,158**	**8,788**	**39,665**
of which:					
External operating income	*18,003*	*4,629*	*9,868*	*7,165*	***39,665***
Internal operating income	*4,464*	*(377)*	*(5,710)*	*1,623*	***-***
Depreciation and amortisation	(273)	(29)	(2)	(1,139)	**(1,443)**
Other operating expenses	(10,249)	(1,225)	(397)	(326)	**(12,197)**
Operating expenses	**(10,522)**	**(1,254)**	**(399)**	**(1,465)**	**(13,640)**
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	**7,317**	**1,623**	**3,742**	**7,194**	**19,876**
Income tax benefit / (expense)	(1,496)	(340)	304	(927)	**(2,459)**
Segment profit	**5,821**	**1,283**	**4,046**	**6,267**	**17,417**
Attributable to:					
Equity holders of the Bank	5,821	1,283	4,046	6,218	**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**
of which:					
Internal assets	-	-	-	*(174,923)*	***(174,923)***
Total liabilities	**490,184**	**90,691**	**197,930**	**10,316**	**789,121**
Capital expenditure	**850**	**3**	**-**	**295**	**1,148**

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

The Group operates only in the Czech Republic.

5. INTEREST INCOME

(CZKm)	2010	2009
Cash balances with central banks	190	448
Loans and receivables		
Credit institutions	127	312
Other than credit institutions	19,955	20,655
Available-for-sale financial assets	3,604	3,722
Held-to-maturity investments	6,356	5,272
Financial assets held for trading	1,513	2,389
Financial assets designated at fair value through profit or loss	528	1,036
Derivatives used for hedging	80	52
	32,353	**33,886**

6. INTEREST EXPENSE

(CZKm)	2010	2009
Financial liabilities at amortised cost		
Central banks	-	9
Credit institutions	248	385
Other than credit institutions	5,379	6,195
Debt instruments in issue	594	1,486
Subordinated liabilities	212	356
Discount amortisation on other provisions (Note: 30)	4	5
Financial liabilities designated at fair value through profit or loss	552	1,579
Derivatives used for hedging	606	355
	7,595	**10,370**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2010	2009
Fee and commission income		
Payment services	4,706	4,755
Administration of credits	1,922	1,797
Collective investments	661	588
Asset management	285	272
Custody	148	156
Securities	54	78
Other	1,096	1,092
	8,872	**8,738**
Fee and commission expense		
Retail service fees	928	971
Payment services	881	812
Contribution to Deposit Insurance Fund	634	459
Commissions to agents	479	381
Other	510	536
	3,432	**3,159**
Net fee and commission income	**5,440**	**5,579**

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

Net gains 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 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)	2010	2009
Net gains from financial instruments at fair value through profit or loss and foreign exchange- as reported	**1,340**	**2,876**
Net interest income (Notes: 5, 6)	1,490	1,846
	2,830	**4,722**
Financial instruments held for trading		
Interest rate contracts	1,151	2,693
Foreign exchange	4,526	1,457
Equity contracts	7	21
Commodity contracts	10	29
	5,694	4,200
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	774	1,923
Financial liabilities designated at fair value through profit or loss	(554)	(1,571)
	220	352
Exchange differences revaluations	(3,084)	170
Financial instruments at fair value through profit or loss and foreign exchange	**2,830**	**4,722**

9. OTHER NET INCOME

(CZKm)	2010	2009
Net gain on disposal of ICT business (Note: 2.5)	344	-
Net operating leasing and rental income	311	356
Services provided to ČSOB SK	185	275
Net decrease / (increase) in provisions for legal issues	152	(48)
Net gain on disposal of non-current assets held-for-sale	-	111
Net gain on disposal of property and equipment	34	24
Contributions to pension fund clients	(305)	(320)
Other	659	509
	1,380	**907**

10. STAFF EXPENSES

(CZKm)	2010	2009
Wages and salaries	4,544	4,458
Salaries and other short-term benefits of senior management	73	77
Social security charges	1,466	1,377
Pension and similar expense	133	130
Other	198	176
	6,414	**6,218**

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 Ministry of Finance of the Czech Republic (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).

In case of contract termination, the members of the Board of Directors are entitled to receive amount of 6 to 24 monthly salaries as termination benefits (number of months depends on individual contracts). During 2010, no such compensation was paid out.

11. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2010	2009
Information technology	2,784	1,744
Marketing	855	790
Rental expenses - minimum lease payments	590	601
Other building expenses	478	480
Communication	403	637
Professional fees	343	367
Administration	218	150
Retail service fees	137	157
Travel and transportation	123	113
Car expenses	38	70
Insurance	33	52
Operating taxes	-	28
Other	1,051	790
	7,053	**5,979**

An increase in Information technology expenses in 2010 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 2,478 m (2009: 1,158 m). Simultaneously, the outsourcing of ICT yielded a reduction in other expense categories such as staff expenses and communication expenses.

12. IMPAIRMENT LOSSES

(CZKm)	2010	2009
Impairment of loans and receivables (Note: 19)	(3,429)	(5,477)
Provisions for loan commitments and guarantees (Note: 30)	(60)	114
Impairment of available for sale assets (Note: 18)	(5)	(245)
Impairment of held-to-maturity investments (Note: 18)	(8)	(17)
Impairment of property, plant and equipment (Note: 23)	(25)	-
Impairment of investment property (Note: 22)	(35)	(156)
Impairment of goodwill (Note: 24)	-	(622)
Impairment of non-current assets held-for-sale (Note: 25)	-	(8)
Impairment of other assets	176	(98)
	(3,386)	**(6,509)**

13. TAXATION

The components of income tax expense for the years ended 31 December 2010 and 2009 are as follows:

(CZKm)	2010	2009
Current tax expense	1,910	1,402
Previous year (over) / under accrual	(197)	37
Deferred tax expense relating to the origination and reversal of temporary differences	63	1,035
Deferred tax expense resulting from reduction in tax rate	-	(15)
	1,776	**2,459**

A reconciliation between the tax expense/(benefit) and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2010 and 2009 is as follows:

(CZKm)	2010	2009
Profit before taxation	15,338	19,876
Applicable tax rates	19%	20%
Taxation at applicable tax rates	2,914	3,975
Previous year under / (over) accrual	(197)	37
Tax effect of non-taxable income	(1,337)	(2,525)
Tax effect of non-deductible expenses	394	968
Effect on opening deferred taxes due to reduction in tax rate	-	(15)
Other	2	19
	1,776	**2,459**

The applicable tax rate for 2010 was 19% (2009: 20%).

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)	2010	2009
At 1 January	**(332)**	**695**
Sale of ČSOB SK (Note: 2.5)	-	74
Statement of income charge	(63)	(1,020)
Available-for-sale securities (Note: 32)		
Fair value remeasurement	159	(407)
Transfer to net profit	(15)	20
Cash-flow hedges (Note: 32)		
Fair value remeasurement	(38)	316
Transfer to net profit	(72)	(29)
Exchange differences	19	19
At 31 December	**(342)**	**(332)**

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

(CZKm)	2010	2009
Deferred tax asset		
Employee benefits	241	167
Revaluation of financial assets and liabilities at fair value through profit or loss	184	227
Accelerated tax depreciation	151	11
Allowances for credit losses	136	109
Legal claims	135	92
Provisions	124	105
Interest rate bonus	82	114
Impairment losses on financial investments	39	39
Cash flow hedges	13	96
Unused tax losses applicable in the next periods	13	24
Initial fee income	(51)	11
Amortisation of goodwill	(265)	(210)
Available-for-sale securities	(416)	(603)
Other temporary differences	102	89
	488	**271**
Deferred tax liability		
Accelerated tax depreciation	1,062	1,035
Finance lease valuation	181	255
Initial fee expense	127	94
Available-for-sale securities	98	7
Revaluation of financial assets and liabilities at fair value through profit or loss	70	72
Cash-flow hedging derivatives	19	-
Provisions	(1)	(2)
Employee benefits	(5)	-
Allowances for credit losses	(280)	(289)
Unused tax losses applicable in the next periods	(423)	(569)
Other temporary differences	(18)	-
	830	**603**

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

(CZKm)	2010	2009
Accelerated tax depreciation	113	(213)
Employee benefits	79	167
Finance lease valuation	74	76
Legal claims	43	-
Impairment losses on financial investments	-	(77)
Allowances for credit losses	18	169
Provisions	18	(70)
Deferred tax expense resulting from reduction in tax rate	-	(15)
Interest rate bonus	(32)	(16)
Revaluation of financial assets and liabilities at fair value through profit or loss	(41)	(2)
Amortisation of goodwill	(55)	(71)
Available-for-sale securities	(80)	-
Initial fee income	(95)	(82)
Unused tax losses applicable in the next periods	(157)	(852)
Other temporary differences	52	(34)
	(63)	**(1,020)**

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 net profit and share data used in the basic and diluted earnings per share calculation:

(CZKm)	2010	2009
Net profit attributable to ordinary equity holders of the parent	13,471	17,368
Weighted average number of ordinary shares for basic and diluted earnings per share (Note: 31)	292,750,000	292,750,000
Earnings per share		
Equity shareholders of the parent for the year:	CZK	CZK
Basic earnings per share	46.01	59.33
Diluted earnings per share	46.01	59.33

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 decision of a profit allocation for 2010 has not been taken before the date of issue of the financial statements.

Based on a sole shareholder decision from 10 May 2010, a dividend of CZK 59.40 per share was paid for 2009, representing a total dividend of CZK 17,389 m.

In March 2010, the 1:50 split of the Bank shares came into force (Note: 31).

Based on a sole shareholder decision from 16 June 2009, a dividend of CZK 2.32 per share was paid for 2008, representing a total dividend of CZK 679 m.

16. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2010	2009
Cash	7,774	7,393
Mandatory minimum reserves (Note: 40.2)	9,603	10,008
Other balances with central banks (Note: 40.2)	3,787	5,648
	21,164	**23,049**
Accrued interest income (Note: 40.2)	-	1
	21,164	**23,050**

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)	2010	2009
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 37)	107,777	88,449
Money market placements	13,802	14,255
Debt instruments		
Central government	31,142	31,447
Non credit institutions	102	107
Credit institutions	6,214	7,021
Corporate	373	766
Derivative contracts (Note: 21)	14,093	17,507
	173,503	**159,552**
Accrued interest income	307	565
	173,810	**160,117**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Central government	4,630	8,572
Non credit institutions	381	378
Credit institutions	5,944	6,628
Corporate	-	1,185
	10,955	**16,763**
Accrued interest income	177	224
	11,132	**16,987**
Financial assets at fair value through profit or loss	**184,942**	**177,104**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 953 m (2009: CZK 4,288 m) pledged as collateral in repo transactions.

At 31 December 2009, the Bank had a position of structured notes (CDOs) included in the portfolio of Financial assets designated at fair value through profit or loss. Fair value of the notes was CZK 1,185 m as of 31 December 2009. On 15 June 2010, all the CDOs were sold for CZK 1,196 m.

18. FINANCIAL INVESTMENTS

(CZKm)	2010	2009
Available-for-sale financial assets		
Debt securities		
Central government	69,473	66,396
Non credit institutions	556	990
Credit institutions	28,259	30,271
Corporate	1,471	1,046
Equity securities		
Credit institutions	434	578
Corporate	457	546
	100,650	**99,827**
Accrued interest income	1,871	1,740
	102,521	**101,567**
Held-to-maturity investments		
Debt securities		
Central government	141,796	124,427
Non credit institutions	871	900
Credit institutions	3,138	2,900
Corporate	814	1,156
Accrued interest income	3,621	3,378
	150,240	**132,761**
Financial investments	**252,761**	**234,328**

Included within Financial investments are debt securities of CZK 12,692 m (2009: CZK 7,015 m) pledged as collateral in repo transactions.

Due to significant deterioration in the issuer's creditworthiness, the Group decided in 2010 to gradually sell its entire remaining portfolio of bonds issued by the Greek government, which were originally classified as Held-to-maturity investments. Following the decision, the bonds in the amount of CZK 8,217 m were reclassified to Available-for-sale financial assets and are being sold based on the market conditions. Carrying amount of the Greek government bonds remaining in Available-for-sale debt securities was CZK 3,768 m as at 31 December 2010.

The following table shows a reconciliation of the impairment losses on financial investments for 2009 and 2010:

	Available-for-sale financial assets		Held-to Maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2009	**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**
Increase (Note: 12)	-	5	8	13
Utilisation	-	(152)	(8)	(160)
Foreign currency translation	-	-	-	-
At 31 December 2010	**136**	**470**	**-**	**606**

19. LOANS AND RECEIVABLES

(CZKm)	2010	2009
Analysed by category of borrower		
Central government	161	29
Non credit institutions	5,554	5,471
Credit institutions	14,137	8,945
Other legal entities	140,789	155,712
Private individuals	250,941	235,682
Gross loans	411,582	405,839
Allowance for impairment losses	(12,466)	(10,720)
	399,116	**395,119**
Accrued interest income	625	655
	399,741	**395,774**

Of which finance lease receivables may be analysed as follows:

(CZKm)	2010	2009
Gross investment in finance leases, receivable	**13,719**	**19,078**
At not more than one year	5,563	9,797
At more than one but not more than five years	7,798	9,196
At more than five years	358	85
Unearned future finance income on finance leases	(1,213)	(1,468)
Net investment in finance leases	**12,506**	**17,610**
At not more than one year	5,071	9,043
At more than one but not more than five years	7,109	8,488
At more than five years	326	79
Accumulated allowance for uncollectible minimum lease payments receivable	1,103	1,423

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 2009 and 2010 by segments and by individual and collective impairment:

(CZKm)	Credit Institutions	Non-credit Institutions	Other legal entities	Private Individuals	Total
At 1 January 2009	**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**
Net increase in allowances for credit losses (Note: 12)	2	11	1,368	2,048	3,429
Write-offs	(2)	-	(964)	(687)	(1,653)
Foreign currency translation	(2)	-	(28)	-	(30)
At 31 December 2010	**214**	**13**	**7,796**	**4,443**	**12,466**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2009	**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**
Increase in allowances for credit losses (Note: 12)	4,742	522	5,264
Decrease in allowances for credit losses (Note: 12)	(1,517)	(318)	(1,835)
Write-offs	(1,653)	-	(1,653)
Transfers	3	(3)	-
Foreign currency translation	(28)	(2)	(30)
At 31 December 2010	**11,438**	**1,028**	**12,466**

During 2010, the Group took possession of assets (mainly cars related to leased assets) with an estimated value of CZK 140 m (2009: CZK 294 m), which the Group is in the process of selling.

20. INVESTMENT IN ASSOCIATE AND JOINT VENTURE

The Group has a 25% ownership interest (2009: 25%) in ČSOB Pojišťovna (Note: 3). The following table illustrates the summarised financial information of the investment in this associate:

(CZKm)	2010	2009
The associate's assets and liabilities		
Assets	37,935	35,326
Liabilities	33,282	30,542
Net assets	**4,653**	**4,784**
Carrying amount of the investment	**1,163**	**1,196**
The associate's revenue and profit		
Revenue	11,153	8,196
Profit for the year	903	1,440
Profit for the year – share of the Group	226	360

The Group has a 55% ownership interest (2009: 55%) in ČMSS (Note: 3). For 2010 and 2009, the Group's interest in this joint venture is as follows:

(CZKm)	2010	2009
Condensed assets and liabilities		
Cash and balances with central banks	1,587	1,439
Available-for-sale financial assets	5,485	8,950
Loans and receivables	81,610	71,462
Held-to-maturity investments	3,517	6,298
Tax assets	-	-
Property and equipment	399	413
Goodwill and other intangible assets	108	100
Other assets	209	123
Total assets	**92,915**	**88,785**
Financial liabilities at amortised cost	86,709	83,298
Tax liabilities	115	106
Other liabilities	786	439
Provisions	7	5
Total liabilities	**87,617**	**83,848**
Condensed statement of income		
Net interest income	1,977	1,861
Net fee and commission income	342	344
Other operating income	7	10
Operating income	**2,326**	**2,215**
Operating expenses	(741)	(732)
Impairment losses	(216)	(151)
Profit before tax	**1,369**	**1,332**
Income tax expense	(252)	(243)
Profit for the year	**1,117**	**1,089**

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 2010 and 2009 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.

	2010			2009		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	578,102	10,787	13,260	665,829	11,584	15,078
Forwards	36,426	3	2	52,240	14	23
Options	27,161	234	189	23,821	187	165
	641,689	**11,024**	**13,451**	**741,890**	**11,785**	**15,266**
Foreign exchange contracts						
Swaps/Forwards	143,594	688	1,246	72,915	1,561	817
Cross currency interest rate swaps	37,188	1,750	346	35,558	2,166	551
Options	28,242	408	407	59,268	1,633	1,636
	209,024	**2,846**	**1,999**	**167,741**	**5,360**	**3,004**
Equity contracts						
Forwards/Options	100	40	20	100	33	20
Commodity contracts						
Swaps	3,787	183	169	6,238	329	317
Total derivatives held for trading (Notes: 17, 27)	**854,600**	**14,093**	**15,639**	**915,969**	**17,507**	**18,607**

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. Cross 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 2010, a loss of CZK 1 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2009: CZK 31 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 2010 and 2009 are set out as follows:

	2010			2009		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	174,389	4,110	4,354	162,477	3,217	3,930
Cross currency interest rate swaps	43,183	5,327	344	44,944	4,823	522
Total hedging derivatives	**217,572**	**9,437**	**4,698**	**207,421**	**8,040**	**4,452**

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

(CZKm)	2010	2009
Interest expense (Note: 32)	(380)	(153)
Taxation	72	29
Net losses	**(308)**	**(124)**

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)	2010	2009
Less than 3 months	7,577	1,931
More than 3 months but not more than 6 months	4,422	13,027
More than 6 months but not more than 1 year	7,096	16,224
More than 1 year but not more than 2 years	41,125	28,839
More than 2 years but not more than 5 years	96,412	106,369
More than 5 years	60,940	41,031
	217,572	**207,421**

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 an 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 2010 and 2009 are set out as follows:

	2010			2009		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps	10,700	-	869	13,200	-	706
Cross currency interest rate swaps	-	-	-	-	-	-
Total hedging derivatives	**10,700**	**-**	**869**	**13,200**	**-**	**706**

In 2010, the total realised interest income in the amount of CZK 283 m (2009: 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.

There is no realised foreign exchange loss on the hedged item attributable to the hedged currency risk included in Net gains from financial instruments at fair value through profit or loss in 2010 (2009: foreign exchange loss in the amount of CZK 482 m).

22. INVESTMENT PROPERTY

(CZKm)	2010	2009
Cost at 1 January	1,027	1,040
Depreciation and impairment at 1 January	(236)	(38)
Net book value at 1 January	**791**	**1,002**
Additions	-	3
Disposal	-	(13)
Depreciation	(35)	(42)
Impairment (Note: 12)	(35)	(156)
Foreign exchange adjustments	(8)	(3)
Net book value at 31 December	**713**	**791**
of which		
Cost	1,019	1,027
Depreciation and impairment	(306)	(236)
Fair value at 31 December	**720**	**839**
Other disclosures		
Rental income	74	79
Direct operating expenses from investments generating rental income	18	20
Direct operating expenses from investments not generating rental income	2	2

On 31 December 2010 and 2009, management valued investment property based on a valuation performed by 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 losses resulting from the decreased value of the investment property in 2010 and 2009 were caused by decrease of expected future cash-flows and by increase in the discount factor used in the valuation model.

23. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2009	8,204	2,748	752	5,967	423	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	**6,214**	**561**	**212**	**2,685**	**423**	**10,095**
Transfers	291	244	32	648	(1,215)	-
Additions	-	-	-	-	883	883
Disposals	(16)	(6)	(1)	(470)	-	(493)
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	**6,190**	**77**	**209**	**1,901**	**91**	**8,468**
of which						
Cost	8,452	589	720	4,873	91	14,725
Depreciation and impairment	(2,262)	(512)	(511)	(2,972)	-	(6,257)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2010	8,452	589	720	4,873	91	14,725
Depreciation and impairment at 1 January 2010	(2,262)	(512)	(511)	(2,972)	-	(6,257)
Net book value at 1 January 2010	**6,190**	**77**	**209**	**1,901**	**91**	**8,468**
Transfers	112	35	14	699	(860)	-
Additions	-	-	-	-	837	837
Disposals	(3)	-	-	(324)	-	(327)
Depreciation	(330)	(49)	(34)	(196)	-	(609)
Depreciation related to operating leased assets	-	-	-	(287)	-	(287)
Impairment charge (Note: 12)	-	-	-	(25)	-	(25)
Net book value at 31 December 2010	**5,969**	**63**	**189**	**1,768**	**68**	**8,057**
of which						
Cost	8,552	591	597	4,093	68	13,901
Depreciation and impairment	(2,583)	(528)	(408)	(2,325)	-	(5,844)

24. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2009	3,639	4,032	763	337	8,771
Amortisation and impairment at 1 January 2009	(63)	(3,370)	(486)	-	(3,919)
Net book value at 1 January 2009	**3,576**	**662**	**277**	337	**4,852**
Transfers	-	373	112	(485)	-
Additions	(3)	-	-	262	259
Disposals	-	(8)	(7)	(23)	(38)
Amortisation	-	(397)	(92)	-	(489)
Impairment (Note: 12)	(622)	-	-	-	(622)
Transfer to non-current assets held-for-sale	-	(22)	(18)	-	(40)
Net book value at 31 December 2009	**2,951**	**608**	**272**	91	**3,922**
of which					
Cost	3,636	4,098	806	91	8,631
Amortisation and impairment	(685)	(3,490)	(534)	-	(4,709)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2010	3,636	4,098	806	91	8,631
Amortisation and impairment at 1 January 2010	(685)	(3,490)	(534)	-	(4,709)
Net book value at 1 January 2010	**2,951**	**608**	**272**	91	**3,922**
Transfers	-	146	58	(204)	-
Additions	-	-	-	162	162
Disposals	-	-	(19)	-	(19)
Amortisation	-	(354)	(86)	-	(440)
Net book value at 31 December 2010	**2,951**	**400**	**225**	**49**	**3,625**
of which					
Cost	3,636	4,269	826	49	8,780
Amortisation and impairment	(685)	(3,869)	(601)	-	(5,155)

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)	2010	2009
Retail / SME - Bank	2,511	2,511
Retail / SME - subsidiaries		
ČSOB PF Stabilita	200	200
ČSOB PF Progres	144	144
Hypoteční banka	66	66
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 8.95% (2009: 10.50%) and a long term growth of 3.0% were used for both the 2010 and 2009.

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 8.95% (2009: 10.50%) has been applied. This reflects a 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 2011 - 2013. Cash flows beyond the three-year period have been extrapolated to ten years. For ČSOB PF Stabilita, the management does not expect any further long term growth and therefore zero long term growth rate has been applied for determination of recoverable amount of ČSOB PF Stabilita.

For ČSOB PF Stabilita to be impaired with all other assumptions held constant, the risk discount rate would need to increase by 3 basis points before the CGU's value in use calculation showed any impairment.

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 2011 - 2013. 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 297 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 185 m, which would still not trigger an impairment.

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 2011 - 2013. 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% (2009: 3.5%). 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 8.95% (2009: 10.50%) 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 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 (Note: 12)	(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	-	-	-	-	-

(CZKm)	Land and buildings	IT equipment	Software	Other	Total
Net book value at 1 January 2010	**-**	**420**	**22**	**477**	**919**
Additions	-	-	-	395	395
Disposals	-	(420)	(22)	(732)	(1,174)
Net book value at 31 December 2010	**-**	**-**	**-**	**140**	**140**
of which					
Cost	-	-	-	140	140
Impairment	-	-	-	-	-

Movement of operating tangible and intangible assets disclosed in Disposals represents mainly ICT-related assets which were transferred to KBC GS CZ in January 2010 (Note: 2.5).

26. OTHER ASSETS

(CZKm)	2010	2009
Other debtors, net of provisions (Note: 35, 40.2)	1,206	2,956
Prepaid charges	738	979
Accrued income (Note: 35, 40.2)	640	893
VAT and other tax receivables	121	78
Other receivables from clients (Note: 35, 40.2)	36	24
Receivables from securities clearing (Note: 35, 40.2)	32	39
Other	12	113
	2,785	**5,082**

As at 31 December 2009 included within Other debtors, net of provisions and Accrued income was 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. 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 believed that the receivable from the MF CZ existed and was fully recoverable and that the CNB's ruling was not correct. This assessment was 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 was subject to an arbitration before the ICC International Court of Arbitration (ICC), in the statement of financial position. The Group continued 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 was recognised in the statement of income.

After more than 3 years of arbitration between the ČSOB and the MF CZ before the ICC on 20 December 2010 the ICC Tribunal issued a final award. The award required the MF CZ to pay the principal amount of CZK 1,654 m and interest accruing at a rate of 3M PRIBOR plus 0.27% p.a. from 11 April 2005 until payment by the MF CZ. Additionally, the MF CZ was ordered to pay CZK 111 m as a contribution to ČSOB's arbitration proceeding costs. The amounts were received on 31 December 2010.

In accordance with the Award and the fact that all relevant payments were received, as of 31 December 2010 ČSOB ceased to recognise the receivable from the CNB. The positive difference of CZK 292 m between the awarded amounts and the receivable from the CNB (including accrued interest income) has been recognised in the statement of income.

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2010	2009
Financial liabilities held for trading		
Short positions	5,457	4,429
Derivative contracts (Note: 21)	15,639	18,607
	21,096	**23,036**
Financial liabilities designated at fair value through profit or loss		
Term deposits	35,667	28,267
Repo transactions	81,553	76,329
Promissory notes	7	139
Bonds issued	469	216
	117,696	**104,951**
Accrued interest expense	78	106
	117,774	**105,057**
Financial liabilities at fair value through profit or loss	**138,870**	**128,093**

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 22 m less than the carrying amount at 31 December 2010 (31 December 2009: CZK 16 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)	2010	2009
Deposits received from credit institutions		
Current accounts	8,410	8,602
Term deposits	9,366	10,603
Repo transactions	12,665	6,822
	30,441	**26,027**
Deposits received from other than credit institutions		
Current accounts	258,926	258,849
Term deposits with agreed maturity	37,550	60,165
Savings deposits	180,549	134,939
Building savings deposits	86,139	82,607
Pension funds clients deposits	27,172	24,974
Repo transactions	-	7,000
Other deposits	5,743	4,613
	596,079	**573,147**
Debt securities in issue		
Bonds issued	11,612	19,404
Promissory notes	12,490	13,164
Certificates of deposit	3	4
	24,105	**32,572**
Subordinated liabilities		
Subordinated debt	**11,974**	**11,970**
Accrued interest expense	819	1,266
Financial liabilities at amortised cost	**663,418**	**644,982**

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. 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.

29. OTHER LIABILITIES

(CZKm)	2010	2009
Other clearing accounts	2,209	2,149
Accrued charges	1,933	1,709
Payables to employees including social security charges	1,892	1,670
Other creditors	987	1,116
Other debts to clients	559	740
Payables to securities clearing entities	406	453
Income received in advance	266	326
VAT and other tax payables	194	165
Other	230	316
	8,676	**8,644**

30. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loans commitments and guarantees	Total
At 1 January 2010	**270**	**2**	**112**	**374**	**758**
Additions	15	-	-	218	233
Amounts utilised	(155)	(1)	(24)	-	(180)
Unused amounts reversed	(2)	(1)	-	(158)	(161)
Discount amortisation (Note: 6)	-	-	4	-	4
Foreign currency translation	1	-	-	(4)	(3)
At 31 December 2010	**129**	**-**	**92**	**430**	**651**

Pending legal issues and other losses

Provisions for legal issues and other losses represent 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 2010, the Group had a provision in the total amount of CZK 129 m. It is expected that the majority of the costs will be probably incurred in the next 3 years.

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.

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 13 years.

31. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2010, the total authorised share capital was CZK 5,855 m (31 December 2009: CZK 5,855 m) and comprised of 292,750,000 ordinary shares with a nominal value of CZK 20 each (31 December 2009: 5,855,000 ordinary shares with a nominal value of CZK 1,000 each) and is fully paid up.

In adopting the resolution of the sole shareholder dated 24 February 2010, KBC Bank 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.

As at 14 September 2010, ČSOB's shares were converted back from bearer shares into registered shares in reaction to the new Czech legislation.

No Treasury shares were held by the Group at 31 December 2010 and 2009.

On 31 December 2010, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2009: 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 2010 and 2009 are as follows:

(CZKm)	Reorgani-sation reserve	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2009	**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**
Other comprehensive income (Note: 32)	-	(392)	391	(1)	(2)
At 31 December 2010	**-**	**2,422**	**(2)**	**-**	**2,420**

Unrealised gains and losses from Available-for-sale financial assets relating to debt instruments held by pension funds recognised in equity in the amount of CZK 443 m as at 31 December 2010 were included within Available-for-sale reserve. In accordance with the Czech law, when an available-for-sale asset is disposed, 85% of the net realised gains on available-for-sale financial assets will be distributed to pension plan holders.

32. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2010	2009
Exchange differences on translating foreign operation	(1)	197
Cash flow hedges		
Net unrealised gains / (losses) on cash flow hedges	121	(1,576)
Net losses on cash flow hedges reclassified to the statement of income (Note: 21)	380	153
Tax effect relating to cash flow hedges (Note: 13)	(110)	287
	391	(1,136)
Available-for-sale financial assets		
Net unrealised (losses) / gains on available-for-sale financial investments	(585)	3,837
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	(36)	(222)
Realised losses on available-for-sale financial investments reclassified to the statement of income on impairment	5	178
Sale of ČSOB SK (Note: 2.5)	-	(4,790)
Tax effect relating to available-for-sale financial investments (Note: 13)	144	(387)
	(472)	(1,384)
Share of other comprehensive income of associates	80	53
Reorganisation reserve		
Sale of ČSOB SK (Note: 2.5)	-	(1,423)
Other comprehensive income for the year, net of tax	**(2)**	**(3,693)**

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 2010:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	121,579	-	121,579
Debt instruments	15,681	22,150	-	37,831
Derivative contracts	-	14,093	-	14,093
Accrued interest income	274	33	-	307
Financial assets designated at fair value through profit or loss				
Debt instruments	10,182	773	-	10,955
Accrued interest income	170	7	-	177
Available-for-sale financial assets				
Debt securities	83,204	16,555	-	99,759
Equity securities	755	-	136	891
Accrued interest income	1,723	148	-	1,871
Derivatives used for hedging	-	9,437	-	9,437
Financial liabilities				
Financial liabilities held for trading				
Short positions	5,457	-	-	5,457
Derivative contracts	-	15,639	-	15,639
Financial liabilities designated at fair value through profit or loss				
Term deposits	-	35,667	-	35,667
Repo transactions	-	81,553	-	81,553
Promissory notes	-	7	-	7
Bonds issued	-	469	-	469
Accrued interest expense	-	78	-	78
Derivatives used for hedging	-	5,567	-	5,567

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

In the financial year ended 31 December 2009 the Group 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 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.

In the financial year ended 31 December 2010, the Group changed the yield curves applied for estimated future cash flows of mortgage bonds with variable coupon designated as at fair value through profit or loss and to available-for-sale mortgage bonds. The change was introduced in reaction to requested congruence in Group and KBC Group valuation principles.

The pricing of mortgage bonds is based on CZK bonds and interest rates of IRS. Yield curves for estimated future cash flows of mortgage bonds with variable coupon were derived from IRS rates quoted on Reuters till December 2010, since December 2010 are used the yield curves provided by KBC Bank, based on observable market inputs.

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 2008	**170**	**11,606**	**11,776**
Revaluation gains or (losses) recorded in Net gains 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)
Sales	-	(12,522)	(12,522)
Settlements	(170)	-	(170)
At 31 December 2009	**1,185**	**139**	**1,324**
Interest income	34	-	34
Revaluation losses recorded in Net gains from financial instruments at fair value through profit or loss	(23)	-	(23)
Revaluation losses recorded in Net gains on available-for-sale securities in Other comprehensive income	-	(3)	(3)
Sales	(1,196)	-	(1,196)
At 31 December 2010	**-**	**136**	**136**

The whole balance of Debt securities owned by ČSOB was sold in 2010. Included within Net gains from financial instruments at fair value through profit or loss as reported in the statement of income for the year ended 31 December 2009 are gains of CZK 1,185 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 Nil m in 2010 (2009: CZK 37 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.

During 2009, the market for the CDOs was illiquid, as well as for similar structured securities, as there was no active market for them in which quoted prices or (limit) orders could be observed. As a result, the Indicative Valuation was based on parameters which the Group considered as benchmarks for calculating an indicative value of the CDOs.

The GM Model was 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 was derived from the credit default swap spreads in the market. The correlations between the default times were modelled through Gaussian Copulas and as such could be simulated. By discounting the cash flows resulting from the default time curves on the underlying assets, a value for a specific CDO tranche was reached.

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

The objective of the model was 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 were paid (coupon leg) were determined by scenario and by CDO tranche. Both legs were dependent on recovery rate assumptions and default/survival probability curves, the latter determined in line with present CDS market spreads. Correlation between default times was taken into account. By scenario and by CDO tranche, a value was calculated by discounting back both the default leg and the coupon leg. The result of the valuation of a CDO tranche was 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 assumed that the valuation rule remained unchanged, being the lower of the GM model value and the fundamental value. Furthermore, the analysis also assumed that the fundamental value and all other variables remained unchanged, and therefore showed 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 in basis points	Favourable	(Unfavourable)
+ 10	-	(71)
+ 20	-	(143)
+ 50	-	(338)
- 10	77	-
- 20	153	-
- 50	389	-

2010 valuation of CDOs

In the year ended 31 December 2010, the Group used for CDO valuation Gaussian Copula Mixture Model (GM Model) consistently with 2009. Due to no active market for CDOs in which quoted prices or orders may be observed, the indicative valuation is still based on parameters which the Group considers as a benchmark for calculation of indicative value of CDOs.

In June 2010, the Group sold CDOs for CZK 1,196 m. This value was within the range of the expert valuation, which used the GM model and actual market conditions and assumptions to set up the fair value of sold CDOs portfolio to value between CZK 1,032 m and CZK 1,296 m. Remaining CDOs portfolio held by the Group of the notional amount of CZK 226 m as at 31 December 2010 is revaluated to zero fair value.

Movements in credit spread of the underlying corporate and asset-based securities in the reference portfolios of the CDO have no impact on valuation of CDOs which are revaluated to zero carrying value.

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:

	Transfers from Level 1 to Level 2		Transfers from Level 2 to Level 1	
(CZKm)	2010	2009	2010	2009
Financial assets				
Financial assets held for trading				
Debt instruments	-	260	450	580
Financial assets designated at fair value through profit or loss				
Debt instruments	297	-	2,904	316
Available-for-sale financial assets				
Debt securities	7	393	9,838	63

Transfers of debt instruments from level 2 to level 1 in 2010 relate to debt securities which became quoted on active market in 2010.

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.

	2010		2009	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	21,164	21,164	23,050	23,050
Loans and receivables	399,741	415,613	395,774	411,755
Held-to-maturity investments	150,240	155,918	132,761	137,582
Other assets	1,914	1,914	3,912	3,912
Financial liabilities				
Financial liabilities at amortised cost	663,418	665,379	644,982	646,369
Other liabilities	8,215	8,215	6,770	6,770

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 including respective credit spread. 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 including respective credit spread. 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)	2010	2009
Cash and balances with central banks	11,561	13,042
Loans and receivables to credit institutions	24,032	25,633
Financial liabilities at amortised cost to credit institutions	(9,733)	(9,103)
Cash and cash equivalents	**25,860**	**29,572**

Change in operating assets

(CZKm)	2010	2009
Net change in financial assets held for trading	(13,931)	(42,959)
Net change in financial assets designated at fair value through profit or loss	5,855	6,027
Net change in available-for-sale financial assets	6,624	(26,115)
Net change in loans and receivables	(8,353)	3,694
Net change in derivatives used for hedging	(896)	(2,248)
Net change in other assets	2,232	3,412
	(8,469)	**(58,189)**

Change in operating liabilities

(CZKm)	2010	2009
Net change in financial liabilities held for trading	(1,940)	(12,028)
Net change in financial liabilities designated at fair value through profit or loss	12,717	42,261
Net change in financial liabilities at amortised cost	25,594	15,989
Net change in derivatives used for hedging	409	2,665
Net change in other liabilities	32	(7,594)
	36,812	**41,293**

Non-cash items included in profit before tax

(CZKm)	2010	2009
Allowances and provisions for credit losses	3,489	5,363
Amortisation of discounts and premiums	1,326	388
Depreciation and amortisation	1,084	1,443
Depreciation related to operating leases assets	287	293
Impairment on investment property	35	156
Impairment on property	25	8
Impairment on financial investment	13	262
Impairment on goodwill	-	622
Provisions	(168)	(112)
Impairment on other assets	(176)	98
Share of profit of associate	(226)	(360)
Other	1,429	(55)
	7,118	**8,106**

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 2010:

(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	6,971	5,602	1,520	-	**14,093**
Other than financial derivatives	137,816	15,848	6,053	-	**159,717**
Financial assets designated at fair value through profit or loss	665	7,945	2,522	-	**11,132**
Available-for-sale financial assets	20,167	40,924	40,539	891	**102,521**
Loans and receivables	91,524	118,974	189,243	-	**399,741**
Held-to-maturity investments	17,728	29,221	103,291	-	**150,240**
Derivatives used for hedging	4,033	4,740	664	-	**9,437**
Other assets (Note: 26)	1,913	1	-	-	**1,914**
Total carrying value	**280,817**	**223,255**	**343,832**	**891**	**848,795**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,227	6,631	1,781	-	**15,639**
Other than financial derivatives	5,457	-	-	-	**5,457**
Financial liabilities designated at fair value through profit or loss	116,851	863	60	-	**117,774**
Financial liabilities at amortised cost	154,167	243,450	265,801	-	**663,418**
Derivatives used for hedging	2,084	2,530	953	-	**5,567**
Other liabilities	7,993	-	222	-	**8,215**
Total carrying value	**293,779**	**253,474**	**268,817**	**-**	**816,070**

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**

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.

Similarly based on a court ruling in another case, the Group recovered CZK 672 m relating to partially impaired loan in 2010. Relevant carrying amount of the loan amounting to CZK 304 m is recognised in statement of financial position. Similarly to above stated case, due to uncertainty regarding the outcome of appeal by the counterparty against the ruling the Group will not recognise this amount as decrease in receivables in the statement of financial position and as income 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)	2010	2009
Loan commitments – irrevocable (Note: 40.2)	75,184	76,643
Loan commitments – revocable	16,910	24,635
Financial guarantees (Note: 40.2)	23,186	22,880
Other commitments (Note: 40.2)	1,515	799
	116,795	**124,957**
Provisions for loan commitments and guarantees (Note: 30)	430	374

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). On 20 December 2010 the ICC Tribunal issued a final award ordering the MF CZ to pay the principal amount of CZK 1,654 m and interest accruing at a rate of 3M PRIBOR plus 0.27% from 11 April 2005 until payment by the MF CZ. Additionally, the MF CZ was ordered to pay CZK 111 m as a contribution to ČSOB's arbitration proceeding costs. The amounts were received on 31 December 2010.

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)	2010	2009
Not later than 1 year	597	571
Later than 1 year and not later than 5 years	1,504	1,535
Later than 5 years	434	372
	2,535	**2,478**

Future minimum sublease payments amounted to CZK 61 m as at 31 December 2010 (31 December 2009: Nil).

These operating leases can be technically cancelled under the 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 (including sublease payments) under operating leases related to land and buildings and movables are as follows:

(CZKm)	2010	2009
Not later than 1 year	608	634
Later than 1 year and not later than 5 years	820	907
Later than 5 years	163	212
	1,591	**1,753**

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 lines of the statement of financial position in which they are included:

(CZKm)	2010	2009
Financial assets		
Cash and balances with central banks	-	4,001
Financial assets held for trading	107,797	88,468
Loans and receivables	4,607	3,711
	112,404	**96,180**

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 2010 was CZK 122,996 m, of which CZK 86,178 m has been either sold or repledged (31 December 2009: CZK 133,656 m and CZK 86,350 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)	2010	2009
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	81,602	76,398
Financial liabilities at amortised cost	12,686	14,854
	94,288	**91,252**

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 is executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2010 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	-	-	-	-	-	-
KBC Bank	16,205	-	-	7,497	5,269	-
Entities under common control						
ČSOB SK	16	-	789	1,011	-	9
KBC Asset Management NV	-	-	-	-	-	19
KBC Asset Management SA	-	-	-	-	-	7
KBC Global Services NV	-	-	-	-	-	89
KBC Internationale Financieringsmij NV	355	892	139	-	-	-
Novaservis	-	-	-	166	-	-
Patria Finance a.s.	238	-	-	-	-	-
Other	13	-	-	9	-	2
Associates	3	-	1	-	-	16
Joint ventures	-	-	-	-	-	134

The outstanding balances of liabilities from related party transactions as at 31 December 2010 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	-	-	363	-	-
KBC Bank	4,053	15,001	13,162	2,486	1
Entities under common control					
ČSOB SK	39	770	16	-	-
KB Lux	-	230	23	-	-
KBC Asset Management SA	-	-	-	-	7
KBC Global Services NV	-	-	621	-	-
Patria Direct	-	959	2,418	-	-
Patria Finance, a.s.	-	47	90	-	-
Other	13	-	102	-	21
Associates	15	502	2,263	-	16
Joint ventures	-	315	8,780	-	6

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 Group 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 Global Services NV	-	-	119	-	281
Other	9	-	112	-	5
Associates	36	554	1,710	-	26
Joint ventures	-	405	5,238	-	5

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)	2010 Interest income	2010 Interest expense	2009 Interest income	2009 Interest expense
KBC Bank	254	663	484	534
Entities under common control				
Baker Street Finance Limited	21	-	42	-
Clifton Finance Street Limited	16	-	30	-
ČSOB SK	23	1	38	7
Dorset Street Finance Ltd	22	-	42	-
Fulham Road Finance Limited	29	-	50	-
Oxford Street Finance Limited	14	-	27	-
Patria Direct	1	19	-	-
Pembridge Square Limited	5	-	13	-
Regent Street Limited	9	-	18	-
Sydney Street Finance Limited	15	-	28	-
Other	14	4	19	9
Associates	-	75	-	95
Joint ventures	-	151	10	190

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

(CZKm)	2010 Fee and commission income	2010 Fee and commission expense	2009 Fee and commission income	2009 Fee and commission expense
Entities under common control				
KBC Asset Management NV	69	-	54	-
KBC Asset Management SA	525	28	519	12
Other	12	-	10	-
Associates	226	62	228	50
Joint ventures	-	77	-	16

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).

In 2009 and 2010, the Group transferred a number of employees and ICT-related assets to KBC GS CZ. The sales price which represents net cash inflow to the Group in 2010 was determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague and amounted to CZK 966 m. The net profit of the sale of the enterprise reached the amount of CZK 344 m and has been recognised in Other net income.

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 2010, the Group received income of CZK 68 m (2009: CZK 41 m) from rental payments and related services, received CZK 49 m (2009: CZK 20 m) from the provision of administration services and paid expense of CZK 2,478 m (2009: 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 was included in Net realised gains on available-for-sale financial assets (Note: 2.5).

In 2010, the Group received income of CZK 185 m (2009: CZK 275 m) from ČSOB SK arising from providing services and support in the following areas such as: IT, electronic banking, cards, payment processing, financial management and risk management. The decrease in 2010 is related to the transfer of the Group's ICT activities to KBC GS CZ.

In June 2010, the Bank sold all the CDOs to KBC Credit Investments NV for CZK 1,196 m (Note: 17).

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

	2010		2009	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank	39	47	759	45
Entities under common control				
ČSOB SK	-	23	-	45
KBC Finance Ireland	-	-	367	-
Patria Finance, a.s.	-	20	-	20
Other	-	-	-	1
Associates	-	2	-	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

There were no significant events after the end of the reporting period.

40. RISK MANAGEMENT

40.1 Introduction

Risk is an inherent part of the Group's activities, and risk and capital management is critical to the results of operations and financial condition of the Group. The principal risks that the Group faces are credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading (trading portfolio) and non-trading (credit and investment portfolio) risks. The Group manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. The Group primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Group's risk and capital management system is based on a risk strategy determined by the ČSOB Board of Directors and is intended to be consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends. The ČSOB Group maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel II and, when implemented, Basel III, and the regulations of the CNB.

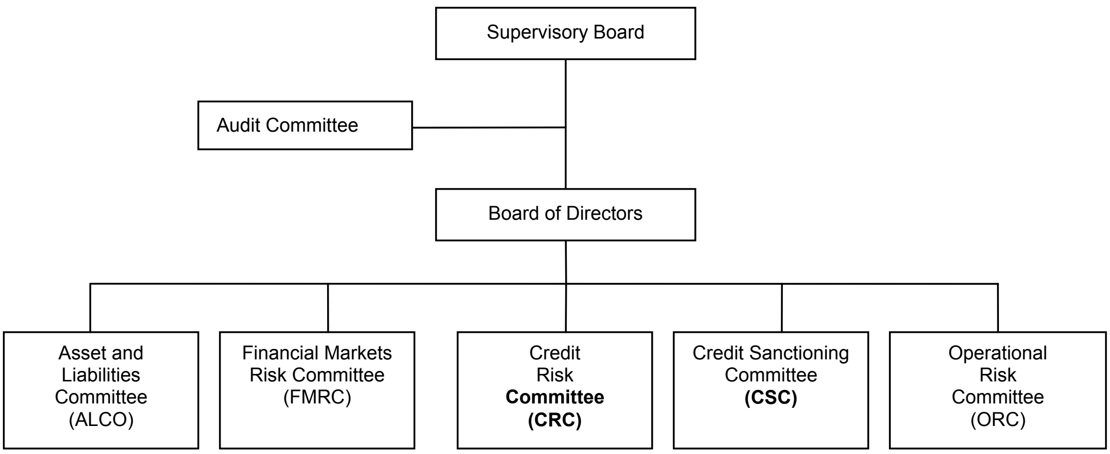
Risk management structure

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,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.

Changes in risk management process

Starting from 2010, the KBC Group has been implementing changes to the risk and capital management governance structure aimed at consolidating and streamlining the risk and capital management processes and enhancing the responsiveness of the KBC Group, including the ČSOB Group, to possible future financial and economic challenges.

In response to KBC Group actions, in November 2010 the management of ČSOB has taken decision to implement the new structure within ČSOB Group in 2011.

The introduction of the new risk and capital management governance structure at the ČSOB Group level involves, among others, the following changes:

- the role of the Senior Executive Officer, Finance and Risk Management, is being split into two positions: the Chief Risk Officer (CRO), who is responsible for performing risk and capital management functions, as described below, and the Chief Financial Officer (CFO);
- the establishment of the risk capital and oversight committee (RCOC), as described below;
- the establishment of the Risk Function, as described below; and
- the transfer of responsibilities of the Asset and Liability Committee (ALCO), Credit Risk Committee, Model Committee, Operational Risk Committee, Financial Markets Risk Committee and Capital Committee, to existing and certain newly established risk and capital management bodies, including the Board of Directors.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Group’s risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at the Group is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimizing risks.

Risk and capital management within the Group is centralized at the ČSOB level. Nevertheless, each subsidiary, associate and joint venture of ČSOB also has a risk control and management unit, the responsibilities and size of which are tailored to the requirements applicable to that subsidiary under the Group’s risk and capital management strategy and policies. Any decisions taken by the Group are considered by the ČSOB subsidiaries, associates and joint ventures as recommendations and require final approval by the appropriate decision bodies of these subsidiaries, associates and joint ventures, as applicable.

The risk and capital management governance model that is being implemented within the ČSOB Group in 2011 is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including the ČSOB Group, and management incentives should be linked to risk and capital adjusted measures, such as return on average equity (ROAE) and return on allocated capital (ROAC), and aligned consistently within the entire KBC Group, including the ČSOB Group;
- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within the ČSOB Group;
- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimizing risks;
- the Board of Directors should determine the risk appetite of the ČSOB Group within which the business has the right to take risks and beyond which the CRO can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The above-mentioned principles establish a governance structure, within which

(i) the Board of Directors is responsible for determining the risk appetite of the ČSOB Group, and capital allocation within the ČSOB Group, by establishing measurable risk and capital parameters, which must be followed in all business activities,

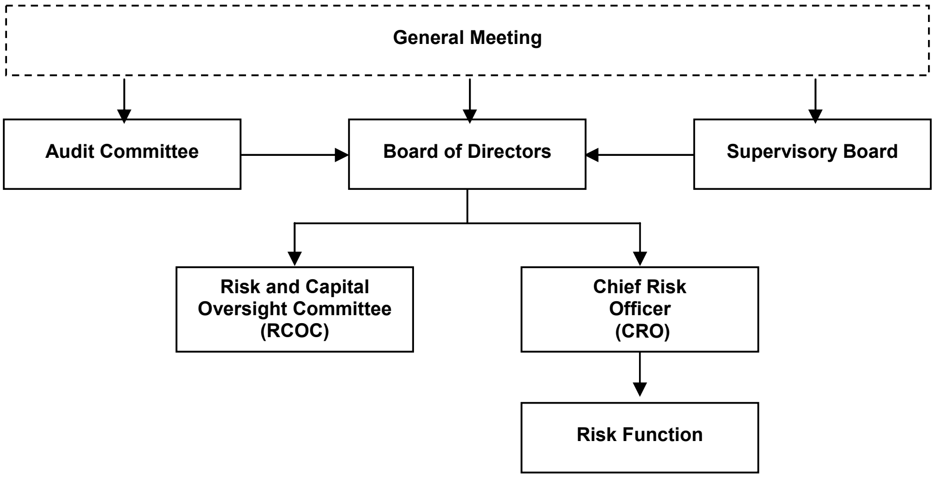
(ii) the RCOC is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place, and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

The following chart sets forth an overview of the newly established principal risk and capital management bodies and departments involved in the ČSOB Group's risk and capital management and control governance and responsibility structure.



Supervisory Board

The Supervisory Board is responsible for supervising the Board of Directors and ČSOB's business activities. The Supervisory Board regularly receives integrated risk and capital management reports prepared by the Integrated Risk Management Department (IRMD), as described below.

Audit Committee

The risk and capital management function of the Audit Committee is to supervise the risk appetite and capital allocation process, and ensure that appropriate risk controls have been put into place. In addition, the Audit Committee is responsible for ensuring that the ČSOB Group's risk and capital management policies are in compliance with legal and regulatory requirements. The Audit Committee regularly receives integrated risk management reports prepared by the IRMD.

Board of Directors

The Board of Directors is the sole integrated risk decision body responsible for establishing the risk appetite and capital allocation within the ČSOB Group on an annual basis. This process involves

(i) the approval of the ČSOB Group's risk appetite statement,

(ii) the approval of the ČSOB Group's risk and capital strategy,

(iii) the approval of risk limits for the ČSOB Group that are consistent with the ČSOB Group's risk appetite statement and risk and capital management strategy,

(iv) the allocation of regulatory and economic capital to the subsidiaries and business units within the ČSOB Group with the aim of achieving an acceptable balance between return and risk and

(v) the approval of the ČSOB Group's risk and capital management governance structure and ensuring that it conforms with both internal guidelines and regulatory requirements.

On the basis of monthly integrated risk management reports prepared by the IRMD, the Board of Directors is also responsible for monitoring whether the ČSOB Group's risk exposure is in conformity with the ČSOB Group's risk limits system and making decisions on risk and capital management issues that may be escalated to its attention by the CRO or the RCOC, as described below.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors in monitoring the ČSOB Group's risk and capital management exposures against the limits set by the Board of Directors. The key responsibilities of the RCOC are to

(i) propose to the Board of Directors the risk appetite statement, risk and capital management strategy and risk limits for the ČSOB Group,

(ii) review risk limits at regular intervals and propose changes to the same to the Board of Directors,

(iii) monitor risk exposure against risk limits,

(iv) take corrective actions, if needed, including bringing any material issues or concerns to the Board of Directors, and

(v) monitor capital adequacy and the usage of regulatory and economic capital.

As such, the RCOC assumes to a large extent, the limit setting and monitoring functions of the former ALCO. The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Audit Committee and the Supervisory Board. These reports form the basis for the risk monitoring process. Further ad hoc reports may be prepared and submitted for specific risk situations. The CRO is the chairman and the CFO is the vice-chairman of the RCOC.

Chief Risk Officer (CRO)

The CRO is responsible for ensuring that

(i) proper risk management frameworks are in place and

(ii) the ČSOB Group's risk and capital management strategy is properly implemented through risk management frameworks and policies.

The key responsibilities of the CRO are to

(i) provide input for the determination of the risk appetite statement, risk and capital management strategy and risk limits for the ČSOB Group,

(ii) monitor whether risk management frameworks are implemented, maintained and enhanced to manage risk and capital within the risk appetite and capital allocation determined by the Board of Directors,

(iii) determine the design of the Risk Function, as described below,

(iv) determine the risk and capital management measurement techniques and tools, including models, to be used by the ČSOB Group.

The CRO is a member of the Board of Directors, and regularly prepares reports to be provided by the Board of Directors to the Audit Committee and the Supervisory Board.

The CRO may suspend any decisions of any department or committee, or any business unit or sub-unit, affecting the risk or capital position of the ČSOB Group by escalating it to the RCOC or the Board of Directors.

Risk Function

The Risk Function is a functional unit consisting of the following departments:

Integrated Risk Management Department (IRMD)

The IRMD is responsible for managing the process of measuring and monitoring risk on an integrated basis within the ČSOB Group. In particular, the IRMD performs the ICAAP process (see ICAAP Process below), including the management of economic capital, and is responsible for integrated risk reporting (see Risk Monitoring and Reporting below). The IRMD also regularly provides reports to the supervisory section of the ČNB.

Risk Specific Management Department (RSMD)

The RSMD is responsible for managing credit risk, liquidity risk, operational risk and market risk. In particular, the RSMD is responsible for

(i) ensuring that the risk frameworks specific to these types of risks are in place and properly implemented and

(ii) monitoring the risk limits and proposing changes to these risk limits or corrective actions to be taken in response to breaches of these risk limits.

Within the RSMD, the information security officer is responsible for determining the risk frameworks for informational risk, including cyber risk, and the monitoring of these risks.

Risk Shared Services Department (RSSD)

The RSSD is responsible for supporting all the other departments forming the Risk Function in data management and reporting. In particular, the RSSD

(i) maintains all ICT applications needed for the performance of risk and capital management,

(ii) designs the technical ICT architecture in cooperation with the ICT and

(iii) performs activities aimed at ensuring the correct flow of data needed for proper risk and capital monitoring.

The RSSD is responsible for risk data governance and also forms the link between the requirements of the IRMD and RSMD departments and the ICT.

Validation Department

The Validation Department is responsible for the validation of all risk measurement tools and methodologies used within the ČSOB Group, which are used to calculate the value of credit, ALM, market and other instruments for risk and capital management purposes, including the risk measurement models developed at the KBC Group level.

The Board of Directors has delegated responsibilities to each of the RCOC and the CRO. Such delegated authority includes the following:

- the RCOC may authorize transactions and approve risk limit exceptions

  (i) where the decision impacts 5% or more of the ČSOB Group's regulatory capital by risk type or a derivation thereof and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the decision impacts 2% of the ČSOB Group's estimated underlying profit for the current year.

  In addition, in instances where figures cannot be calculated or for which there is uncertainty over the exact risk exposure, the CRO may decide to submit the transaction to the RCOC.

- an authorization of the CRO is required for decisions on risk frameworks and policies

  (i) where the risk frameworks or policies impact 5% or more of the ČSOB Group's regulatory capital by risk type or a derivation thereof and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the risk framework or policy impacts 2% of the ČSOB Group's estimated underlying profit for the current year.

- to the CRO, the authority to decide on matters falling below the above-mentioned thresholds. The CRO may sub-delegate this authority further to one of the departments forming the Risk Function.

Additionally, the CRO may submit to the Board of Directors, the Supervisory Board and/or the Audit Committee issues and concerns related to the entire ČSOB Group which the CRO considers to have an actual or potential material impact on the ČSOB Group's risk parameters.

In addition to the risk and capital management activities performed at the ČSOB Group level, each subsidiary of ČSOB also has a risk control and management unit, the responsibilities of which are tailored to the requirements applicable to the subsidiary, under the ČSOB Group's risk and capital management policies.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the ČSOB Group level:

Credit Departments

The Credit Departments are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors. The ČSOB Group has six Credit Departments, one for each of

(i) corporates, SMEs and banks,

(ii) consumer finance,

(iii) ČSOB Leasing,

(iv) ČMSS,

(v) Hypoteční banka and

(vi) ČSOB Factoring.

These departments report either to a Credit Risk Manager or the CFO. The key responsibilities of the Credits Departments are to

(i) approve individual credit applications,

(ii) approve contractual documentation concerning individual credits,

(iii) monitor credit behavior of individual credits during their lifetime and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALMD)

The ALMD is responsible for managing the assets and liabilities of the ČSOB Group's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALMD is also primarily responsible for managing the funding and liquidity position of the ČSOB Group. The ALMD reports to the CFO.

Internal Audit Department

The Internal Audit Department annually audits risk and capital management processes throughout the ČSOB Group examining both the adequacy of its risk and capital management procedures and the ČSOB Group's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Committees (NAPCs)

NAPCs are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPCs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department, Compliance Department and Internal Audit Department) seeks to ensure that no product may be offered to the ČSOB Group's customers unless all significant risks have been analyzed and mitigated and residual risks have been accepted. The ČSOB Group pays special attention to protecting the ČSOB Group against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPC.

Credit Sanctioning Committee (CSC)

The CSC is a committee with 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 as the highest decision-making committee for the ČSOB Group with respect to credit risk. The members of the CSC are the CFO, who is the CSC's chairman, the CRO, and the head of the ČSOB corporate credit department, corporate advice and underwriting department, corporate banking department and specialized and institutional banking department. The CSC reports to the Board of Directors.

Business Risk Meetings (BRMs)

In order to facilitate the performance of day-to-day risk and capital management in close cooperation with the business, the business and the Risk Function conduct BRMs. The BRMs take place on a monthly or bi-monthly basis, and typically discuss issues concerning the monitoring of risk and implementation of risk frameworks. The BRMs are not decision bodies, they only apply the policies adopted by the Board of Directors or the CRO.

ICAAP Process

The internal capital adequacy assessment process (ICAAP) stems from the Basel II Second Pillar regulatory requirements, and the Committee of European Banking Supervisors (CEBS) has defined it as a process aimed at ensuring that management bodies, while exercising both their supervisory and management functions, which

(i) adequately identify, measure, aggregate and monitor the institution's risks,

(ii) hold adequate internal capital in relation to the institution's risk profile and

(iii) use and develop sound risk and capital management systems.

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 RCOC, and the CRO. 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. 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 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, non-retail 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).

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.

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.

PD 11 and 12 represent customers, who have been overdue for 90 days or more, subject to bankruptcy proceeding or Group credit decision authority has judged the exposure to be 'partly or fully lost' without recourse to credit protection;

PD 10 contains (i) customers where the relevant Group credit decision authority has judged the exposure to be 'unlikely to pay' and none of the obligations are more than 90 days overdue, and (ii) restructured loans irrespective of whether or not they are overdue (after six months of performance, the restructured loan may be requalified); and

PD 1 to PD 9 represent the remaining exposures.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, amongst other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Group's risk categories, including the Group's PD ratings, for non-retail exposure, and their comparison to the CNB's risk categories:

ČSOB risk categories for Non-retail exposure				ČSOB and CNB	CNB risk
PD Scale	PD Rating	Performance	Impairment	risk categories	categories
Normal	1-7	Performing customers	Unimpaired	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	Performing customers	Collectively impaired	Non-defaulted	Watched
Uncertain – performing	10	Performing customers	Individually impaired	Defaulted	Substandard
Uncertain – non-performing	11	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	Non-performing customers	Individually impaired	Defaulted	Loss

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the RSMD and/or the CRO but developed, maintained and implemented by the Credit Departments in the Group. These Credit Departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credit Department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC) or one of its sub-committees consisting of business line employees and employees in the Credit Department. All members of the CSC and its sub-committees must agree in order to approve a credit.

Within the delegation framework set by the RCOC, based on proposals of the Risk Function, the Credit Department can delegate the credit decision to the regional manager or senior relationship manager of a branch. Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the "four eye principle", i.e. at least 2 persons need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to all non-retail exposures. Credit exposures with a rating between PD 1 – 8 (PD 1 – 7 for SMEs) are reviewed by the distribution. Credit exposures with a rating between PD 9 – 12 (PD 8 – 12 for SMEs) are reviewed by the Bad Debt Department, which is a sub-department of the Credit Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority within the Group for review at least once a year in accordance with the same application process as for new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as 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 such as a sudden unexpected change in management that could lead to a deterioration of the customer's financial situation. For higher risk cases, the CSC and its sub-committees are allowed to set review dates substantially shorter than one year. Generally, reviews take place more frequently for customers with higher PD ratings than for customers with lower PD ratings.

The Risk Function and/or the Credit Department may require an immediate review of certain exposures to a certain economic sector or exposure showing a risk of deterioration.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subjected to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file. Within the framework of the relevant contractual documentation, immediate actions can consist of a refusal to provide further draw downs, a requirement to increase equity or a requirement to provide additional collateral.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers, which is tested on a quarterly basis against internal thresholds and covenants specified in the relevant financing documentation. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process described above.

Bad Debts Treatment

Both for corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt Department. The credit customer relationship is transferred to the Bad Debt Department when an exposure reaches a PD rating of 8 in the case of non-retail SME customers, or a PD rating of 9, in the case of corporate customers. For corporate customers, a PD rating of 8 triggers a requirement for a written advice from the Bad Debt Department.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Group's risk categories for retail exposure and their comparison to the CNB's risk categories:

ČSOB risk categories for Retail exposure				ČSOB and CNB risk categories	CNB risk categories
PD Scale	Days overdue	Performance	Impairment		
Normal	0 - 30	Performing	Unimpaired	Non-defaulted	Standard
Asset Quality review (AQR)	31 - 90	Performing	Collectively impaired	Non-defaulted	Watched
Uncertain	91 - 180	Non-performing	Individually impaired	Defaulted	Substandard
Uncertain	181 - 360	Non-performing	Individually impaired	Defaulted	Doubtful
Irrecoverable	360 and more	Non-performing	Individually impaired	Defaulted	Loss

In addition, all restructured loans fall initially within the non-performing category irrespective of whether or not they are overdue. After six months of performance under the restructured loan, it may be requalified as performing.

Application Process

The application process in retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are in vast majority 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 credit bureau databases that include both positive as well as negative information.

Monitoring Process

The monitoring process in the retail segment is performed by the relevant Credit Departments and the RSMD and is based on aggregated data, does not involve individual reviews and looks at the development of defaults within different sub-portfolios. Typically, different product portfolios are reviewed monthly based on so-called vintages (in terms of origination date and number of months on the Group's books) and the development of Credit Cost Ratios in the different sub-portfolios. Additionally, the development of the retail portfolio is monitored on the basis of pool migration (i.e. migration between different risk pools).

All retail exposures are subject to a monthly review of the risk development on a portfolio level by the relevant Credit Departments and the RSMD, which makes proposals to the CRO, the RCOC or the Board of Directors for mitigating certain risks if needed.

Collection Process

The collection process in retail consumer finance consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is three days overdue and may involve the restructuring of the loan. Late collection starts when any payment is 90 days overdue, and is focused on legal proceedings and the recovery of collateral. All collection units within the Group are managed by the relevant Credit Departments and monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Group, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Group provides guarantees and letters of credit on behalf of its customers, as a result of which the Group may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to the ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Group to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Group:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Group has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. In many cases, the commitment is conditional upon the fulfilment of so-called drawing conditions. This type of exposure comprises to a large extent of short-term exposure (consisting predominantly of working capital facilities), where the Bank's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. The Group provides guarantees and letters of credit on behalf of its customers to persons that may require the Group to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to the Group by the relevant customer based on the terms of the underlying credit documentation. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Group to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Group manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government – E-Toll), where risk is limited as counterparties are either highly rated banks (rating AA and better), government institutions or entities with guarantees by highly rated banks (E-Toll).

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2010. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 16)	-	13,390	-	-	13,390
Financial assets held for trading	-	1,887	171,923	-	173,810
Financial assets designated at fair value through profit or loss	175	10,957	-	-	11,132
Available-for-sale financial assets	10	102,511	-	-	102,521
Loans and receivables	388,508	9,135	-	2,098	399,741
Held-to-maturity investments	1,346	148,894	-	-	150,240
Derivatives used for hedging	-	9,437	-	-	9,437
Other assets (Note: 26)	-	-	-	1,914	1,914
Total	390,039	296,211	171,923	4,012	862,185
Contingent liabilities (Note: 36)	24,701	-	-	-	24,701
Commitments – irrevocable (Note: 36)	74,754	-	-	-	74,754
Total	99,455	-	-	-	99,455
Total credit risk exposure	**489,494**	**296,211**	**171,923**	**4,012**	**961,640**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2009. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 16)	-	15,657	-	-	15,657
Financial assets held for trading	-	2,642	157,475	-	160,117
Financial assets designated at fair value through profit or loss	185	16,802	-	-	16,987
Available-for-sale financial assets	10	101,557	-	-	101,567
Loans and receivables	391,888	1,568	-	2,318	395,774
Held-to-maturity investments	1,277	131,484	-	-	132,761
Derivatives used for hedging	-	8,040	-	-	8,040
Other assets (Note: 26)	-	-	-	3,912	3,912
Total	393,360	277,750	157,475	6,230	834,815
Contingent liabilities (Note: 36)	23,679	-	-	-	23,679
Commitments – irrevocable (Note: 36)	76,269	-	-	-	76,269
Total	99,948	-	-	-	99,948
Total credit risk exposure	**493,308**	**277,750**	**157,475**	**6,230**	**934,763**

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.

Credit portfolio is structured according to the type of the business, the Group enters into:

2010 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Allowances	Provisions	**Net Exposure**
Mortgage loans	144,880	-	7,317	**152,197**	247	(1,858)	-	**150,586**
Building savings loans	71,946	-	3,926	**75,872**	13	(642)	-	**75,243**
Consumer loans	18,205	4	9,870	**28,079**	62	(1,002)	(5)	**27,134**
SME	62,936	1,317	18,567	**82,820**	106	(3,912)	(76)	**78,938**
Leasing	23,325	-	-	**23,325**	-	(1,394)	-	**21,931**
Corporate	76,501	22,067	34,882	**133,450**	177	(3,142)	(161)	**130,324**
Factoring	3,560	-	-	**3,560**	-	(266)	-	**3,294**
Other	547	1,313	622	**2,482**	-	(250)	(188)	**2,044**
Total credits	**401,900**	**24,701**	**75,184**	**501,785**	**605**	**(12,466)**	**(430)**	**489,494**

2009 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Allowances	Provisions	**Net Exposure**
Mortgage loans	135,580	-	7,375	**142,955**	232	(843)	-	**142,344**
Building savings loans	65,802	-	4,408	**70,210**	13	(433)	-	**69,790**
Consumer loans	17,447	4	9,040	**26,491**	59	(923)	(2)	**25,625**
SME	66,925	690	20,780	**88,395**	109	(3,428)	(24)	**85,052**
Leasing	29,195	-	-	**29,195**	-	(1,908)	-	**27,287**
Corporate	84,160	21,111	33,683	**138,954**	245	(2,691)	(196)	**136,312**
Factoring	3,716	-	-	**3,716**	-	(201)	-	**3,515**
Other	556	1,874	1,357	**3,787**	41	(293)	(152)	**3,383**
Total credits	**403,381**	**23,679**	**76,643**	**503,703**	**699**	**(10,720)**	**(374)**	**493,308**

An industry sector analysis of the Group's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2010		2009	
Sector	Granted Exposure (CZKm)	Percentage of Total Exposure	Granted Exposure (CZKm)	Percentage of Total Exposure
Private persons	252,058	50.1	238,565	47.4
Services	60,929	12.1	66,466	13.2
Distribution	30,389	6.1	30,313	6.0
Building and Construction	26,566	5.3	23,055	4.6
Commercial Real Estate	18,141	3.6	20,999	4.2
Automotive	11,575	2.3	13,477	2.7
Electricity	10,331	2.1	6,978	1.4
Authorities	9,940	2.0	8,829	1.8
Machinery and Heavy Equipment	9,320	1.9	9,742	1.9
Oil, Gas and other Fuels	7,286	1.5	7,419	1.5
Other sectors	65,250	13.0	77,860	15.3
Total	**501,785**	**100.0**	**503,703**	**100.0**

Investment portfolio is structured according to type of the instrument.

2010 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	255,984	-	-	**255,984**	5,623	(136)	**261,471**
Equity securities	984	-	-	**984**	-	(93)	**891**
Loans and receivables within investment portfolio	9,069	-	-	**9,069**	66	-	**9,135**
Derivatives used for hedging	8,205	-	-	**8,205**	1,232	-	**9,437**
Derivatives held for trading	1,887	-	-	**1,887**	-	-	**1,887**
Cash and balances with central banks	13,390	-	-	**13,390**	-	-	**13,390**
Total investment	**289,519**	**-**	**-**	**289,519**	**6,921**	**(229)**	**296,211**

2009 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	243,563	-	-	**243,563**	5,292	(136)	**248,719**
Equity securities	1,217	-	-	**1,217**	-	(93)	**1,124**
Loans and receivables within investment portfolio	1,562	-	-	**1,562**	6	-	**1,568**
Derivatives used for hedging	6,929	-	-	**6,929**	1,111	-	**8,040**
Derivatives held for trading	2,642	-	-	**2,642**	-	-	**2,642**
Cash and balances with central banks	15,656	-	-	**15,656**	1	-	**15,657**
Total investment	**271,569**	**-**	**-**	**271,569**	**6,410**	**(229)**	**277,750**

Investment portfolio is monitored from counterparty sector point of view:

	2010		2009	
Sector	Granted Exposure (CZKm)	Percentage of Total Exposure	Granted Exposure (CZKm)	Percentage of Total Exposure
Central government	228,689	79.0	214,451	79.0
Credit institutions	57,072	19.7	51,646	19.0
Corporate	2,727	0.9	4,026	1.5
Non-credit institutions	1,031	0.4	1,446	0.5
Total investment	**289,519**	**100.0**	**271,569**	**100.0**

Trading portfolio is structured according to type of the instrument.

2010 (CZKm)	Outstanding Gross	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	37,831	-	-	**37,831**	287	-	**38,118**
Loans and advances	121,579	-	-	**121,579**	20	-	**121,599**
Derivatives held for trading	12,206	-	-	**12,206**	-	-	**12,206**
Total trading portfolio	**171,616**	**-**	**-**	**171,616**	**307**	**-**	**171,923**

2009 (CZKm)	Outstanding Gross	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	39,341	-	-	**39,341**	442	-	**39,783**
Loans and advances	102,704	-	-	**102,704**	123	-	**102,827**
Derivatives held for trading	14,865	-	-	**14,865**	-	-	**14,865**
Total trading portfolio	**156,910**	**-**	**-**	**156,910**	**565**	**-**	**157,475**

Trading portfolio is monitored from counterparty sector point of view:

	2010		2009	
Sector	Granted Exposure (CZKm)	Percentage of Total Exposure	Granted Exposure (CZKm)	Percentage of Total Exposure
Central government	129,142	75.2	111,208	70.9
Credit institutions	38,300	22.3	39,784	25.3
Corporate	4,072	2.4	5,811	3.7
Non-credit institutions	102	0.1	107	0.1
Total trading portfolio	**171,616**	**100.0**	**156,910**	**100.0**

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by geographical region and by client/counterparty. 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)	2010	2009
Czech Republic	872,645	829,651
Slovak Republic	5,479	7,350
Other Europe	79,157	91,216
Other	4,359	6,546
Total	**961,640**	**934,763**

Client concentration is monitored on the level of individual portfolios. In credit portfolio the exposure towards groups of economically connected subjects are monitored:

	2010		2009	
Client	Granted Exposure (CZKm)	Percentage of Total Exposure	Granted Exposure (CZKm)	Percentage of Total Exposure
1 largest client	3,422	0.7	5,177	1.0
10 largest clients	19,437	3.9	26,924	5.3
25 largest clients	38,853	7.7	47,379	9.4

Largest exposure (excluding accrued interest income) to a single client as of 31 December 2010 was CZK 209,705 m in investment portfolio (31 December 2009: CZK 186,082 m) to the Czech Government and CZK 127,215 m (31 December 2009: CZK 110,260 m) to the Czech Government in trading portfolio.

Collateral and other credit enhancements

The amount and type of collateral required depends 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 Group continuously monitors the market value of all collaterals, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed carrying amount of the receivable.

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, worsening of their credibility reflected by 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 contain probably 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, the availability of other financial support liquidation 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 and 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 2010 and 2009, 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

The Group sorts exposures into 4 categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Group's credit rating system at 31 December 2010 and 2009 per individual portfolios:

Credit portfolio

	2010				
	Unimpaired	Impaired assets			Total
	assets	Collectively	Individually		
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-Performing) Irrecoverable	
Mortgage loans	135,973	3,330	537	5,040	144,880
Building savings loans	69,205	1,132	-	1,609	71,946
Consumer loans	16,984	142	14	1,065	18,205
SME	55,223	1,533	1,994	4,186	62,936
Leasing	20,701	1,069	-	1,555	23,325
Corporate	66,410	3,749	4,221	2,121	76,501
Factoring	2,849	173	403	135	3,560
Other	-	1	-	546	547
Accrued interest income	580	25	-	-	605
Total	**367,925**	**11,154**	**7,169**	**16,257**	**402,505**

	2009				
	Unimpaired	Impaired assets			Total
	assets	Collectively	Individually		
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-Performing) Irrecoverable	
Mortgage loans	129,106	2,774	492	3,208	135,580
Building savings loans	63,656	1,038	-	1,108	65,802
Consumer loans	16,333	174	-	940	17,447
SME	60,135	2,071	1,240	3,479	66,925
Leasing	25,231	1,668	-	2,296	29,195
Corporate	73,394	5,607	3,384	1,775	84,160
Factoring	2,810	226	509	171	3,716
Other	-	-	-	556	556
Accrued interest income	687	12	-	-	699
Total	**371,352**	**13,570**	**5,625**	**13,533**	**404,080**

Investment portfolio

(CZKm)	2010 Unimpaired assets Normal	2010 Individually Impaired assets Uncertain (Non-performing) Irrecoverable	2010 Total
Debt securities	255,841	143	255,984
Equity securities	887	97	984
Loans and receivables within investment portfolio	9,069	-	9,069
Derivatives used for hedging	8,205	-	8,205
Derivative contracts held for trading	1,887	-	1,887
Cash and balances with central banks	13,390	-	13,390
Accrued interest income	6,921	-	6,921
Total	**296,200**	**240**	**296,440**

(CZKm)	2009 Unimpaired assets Normal	2009 Individually Impaired assets Uncertain (Non-performing) Irrecoverable	2009 Total
Debt securities	243,420	143	243,563
Equity securities	1,120	97	1,217
Loans and receivables within investment portfolio	1,562	-	1,562
Derivatives used for hedging	6,929	-	6,929
Derivative contracts held for trading	2,642	-	2,642
Cash and balances with central banks	15,656	-	15,656
Accrued interest income	6,410	-	6,410
Total	**277,739**	**240**	**277,979**

Trading portfolio

	2010		
	Unimpaired assets	Individually Impaired assets	Total
(CZKm)	Normal	Uncertain (Non-performing) Irrecoverable	
Debt securities	37,831	-	37,831
Loans and advances	121,579	-	121,579
Derivative contracts held for trading	12,206	-	12,206
Accrued interest income	307	-	307
Total	**171,923**	**-**	**171,923**

	2009		
	Unimpaired assets	Individually Impaired assets	Total
(CZKm)	Normal	Uncertain (Non-performing) Irrecoverable	
Debt securities	39,341	-	39,341
Loans and and advances	102,704	-	102,704
Derivative contracts held for trading	14,865	-	14,865
Accrued interest income	565	-	565
Total	**157,475**	**-**	**157,475**

The table below shows an ageing analysis of gross past due but not impaired financial assets in Credit portfolio:

	2010	2009
(CZKm)	Less than 30 days	Less than 30 days
Mortgage loans	7,956	7,898
Building savings loans	602	574
Consumer loans	886	849
SME	1,127	2,160
Leasing	208	188
Corporate	-	-
Factoring	-	-
Other	-	-
Total	**10,779**	**11,669**

There were no past due but not impaired assets in Investment and Trading portfolios.

Individually impaired financial assets and the related impairment are as follows:

(CZKm)	2010 Gross amount	2010 Impairment	2009 Gross amount	2009 Impairment
Credit portfolio				
Mortgage loans	5,577	(1,571)	3,700	(678)
Building savings loans	1,609	(528)	1,108	(350)
Consumer loans	1,079	(888)	940	(792)
SME	6,180	(3,661)	4,719	(3,322)
Leasing	1,555	(1,223)	2,296	(1,697)
Corporate	6,342	(3,066)	5,159	(2,569)
Factoring	538	(263)	680	(197)
Other	546	(236)	556	(285)
Total	**23,426**	**(11,437)**	**19,158**	**(9,891)**
Investment portfolio				
Debt securities	143	(136)	143	(136)
Equity securities	97	(93)	97	(93)
Total	**240**	**(229)**	**240**	**(229)**

The carrying amount of the financial assets that would otherwise be past due or impaired whose terms have been renegotiated was CZK 3,747 m at 31 December 2010 (31 December 2009: CZK 2,669 m) (Note: 2.4 (6)(ii)).

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 CNB 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 excluding repo transactions with credit institutions and pension funds clients deposits (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 the Group.

The LTD during the year was as follows:

(%)	2010	2009
31 March	70.4	74.1
30 June	69.0	72.0
30 September	70.0	73.8
31 December	68.5	71.1

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.

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 2010:

(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	-	7,227	7,064	2,224	**16,515**
Other than financial derivatives	-	5,457	-	-	**5,457**
Financial liabilities designated at fair value through profit or loss	-	116,852	932	69	**117,853**
Financial liabilities at amortised cost	430,288	157,168	45,188	54,402	**687,046**
Derivatives used for hedging	-	2,083	2,679	1,257	**6,019**
Other liabilities	-	7,993	-	259	**8,252**
Total carrying value	**430,288**	**296,780**	**55,863**	**58,211**	**841,142**

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 maturity of contingent liabilities and commitments of CZK 116,796 m (2009: CZK 124,957 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 2009 and they were one time higher in 2010.

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 potential gains or losses analysed using VaR model in 2010 and 2009:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2010	83	4	(4)	83
Average during the period	108	8	2	118
Highest	161	42	(20)	183
Lowest	67	2	5	74

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2009	111	4	(1)	114
Average during the period	137	12	(9)	140
Highest	534	42	(76)	500
Lowest	75	1	(1)	75

Market risk – Non-trading

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 Financial assets designated at fair value through profit or loss 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 2010:

		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	(13.5)	(1.8)	7.5	(413.7)	(421.5)
EUR	+ 10	0.7	(1.4)	20.2	58.6	78.1
USD	+ 10	0.0	0.0	(3.3)	(11.6)	(14.9)
CZK	- 10	13.5	1.8	(7.5)	413.7	421.5
EUR	- 10	(0.7)	1.4	(20.2)	(58.6)	(78.1)
USD	- 10	0.0	0.0	3.3	11.6	14.9

		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	(5.2)	3.8	4.2	(21.9)	(19.1)
EUR	+ 10	(0.2)	0.7	(2.4)	0.0	(1.9)
USD	+ 10	0.0	0.0	(2.6)	(0.3)	(2.9)
CZK	- 10	5.2	(3.8)	(4.2)	21.9	19.1
EUR	- 10	0.2	(0.7)	2.4	0.0	1.9
USD	- 10	0.0	0.0	2.6	0.3	2.9

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	(12.4)	1.4	(30.3)	(334.8)	(376.1)
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	12.4	(1.4)	30.3	334.8	376.1
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

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.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December:

	2010			2009		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	78	3	(3)	397	15	(15)

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 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 included in Available-for-sale financial assets at 31 December 2010) 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	(75)
	+ 10	75

The effect on equity (as a result of a change in the fair value of equity instruments included in Available-for-sale financial assets at 31 December 2009) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, was as follows:

(CZKm)	Change in equity price (%)	Effect on equity
PX index	- 10	(96)
	+ 10	96

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. Operational risk management governance is supported by the CRO and the Risk Function. Regular meetings focusing on operational risk management take place at ČSOB subsidiaries and at distribution entities and departments responsible for creating new products within the Group. Minutes of these meetings are provided to the CRO.

Risk Specific Management Department (RSMD)

The RSMD 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 RSMD also coordinates business continuity management area. Other risks related to operational risk are coordinated by special units, including the Compliance 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. Meetings of LORMs are organised by the RSMD and are held every quarter for training and exchange of information.

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.

Detailed Risk Scan

The Detailed Risk Scan aims to identify, assess and quantify operational risks in all material products, activities, processes and systems. This activity is forward-looking and allows future developments, e.g. an improvement in the control framework, to be taken into account. It 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 line senior manager and reported to the CRO.

Global Risk Scan

The Global Risk Scan is a structured risk self assessment organised as an interview based on uniform questionnaires. The goal of the excercise 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 detailed risk scan involving business experts closer to the working floor.

Within the ICAAP process, the RSMD regularly organises a top-down operational and business risk scan involving the top management in the selection of the scenarios, the quantification of these scenarios and the drawing up of remedial actions. Some of the risk scenarios were obligatorily imposed by the RSMD, others were drafted together with the business units involved. In 2010, 94 scenarios were considered for individual business segments units. All scenarios with a possible impact on the statement of income of over EUR 1 m were submitted to the Board of Directors for consideration.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. They form a basis for estimating the likelihood of risk events and indicate changes in the risk profile of the Group processes. 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 thereof.

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 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 (effective as from 1 July 2007).

During the past year, the Group complied with its regulatory imposed capital requirements. The Group also analysed impact of proposed Basel III regulation and plans to incorporate major changes / ratios from 2011 into regular management of the risk and capital positions.

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)	2010	2009
Tier 1 capital	45,583	44,582
Tier 2 capital	12,564	11,970
Deductible items of Tier 1 and Tier 2	(625)	(1,390)
Total capital	**57,522**	**55,162**
Capital requirements	25,530	29,452
Risk weighted assets	**319,124**	**368,150**
Capital adequacy ratio	18.03 %	14.98 %

INDEPENDENT AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Československá obchodní banka, a. s.:

We have audited the accompanying financial statements of Československá obchodní banka, a. s., which comprise the statement of financial position as at 31 December 2010 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of Československá obchodní banka, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Československá obchodní banka, a. s. as at 31 December 2010, and its financial performance and its cash flow 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 Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, License No. 2009

24 February 2011
Prague, Czech Republic

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

(CZKm)	Note	2010	Reclassified 2009
Interest income	4	22,700	24,375
Interest expense	5	(6,220)	(8,261)
Net interest income		**16,480**	**16,114**
Fee and commission income	6	7,164	7,104
Fee and commission expense	6	(2,826)	(2,691)
Net fee and commission income		**4,338**	**4,413**
Dividend income		3,451	7,801
Net gains from financial instruments at fair value through profit or loss and foreign exchange	7	1,674	2,555
Net realised (losses) / gains on available-for-sale financial assets	2.5	(85)	6,678
Other net income	8	865	666
Operating income		**26,723**	**38,227**
Staff expenses	9	(5,075)	(4,931)
General administrative expenses	10	(6,322)	(5,320)
Depreciation and amortisation	20, 21	(693)	(1,073)
Operating expenses		**(12,090)**	**(11,324)**
Impairment losses	11	(1,061)	(3,747)
Profit before tax		**13,572**	**23,156**
Income tax expense	12	(775)	(1,554)
Profit for the year		**12,797**	**21,602**

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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

(CZKm)	Note	2010	2009
Profit for the year		**12,797**	**21,602**
Exchange differences on translating foreign operation	29	-	196
Net gain / (loss) on cash flow hedges	29	429	(1,403)
Net gain / (loss) on available-for-sale financial assets	29	1,901	(3,205)
Reorganisation reserve	29	-	(2,055)
Income tax (expense) / benefit relating to components of other comprehensive income	29	(439)	289
Other comprehensive income for the year, net of tax		**1,891**	**(6,178)**
Total comprehensive income for the year, net of tax		**14,688**	**15,424**

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

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

(CZKm)	Note	2010	2009
ASSETS			
Cash and balances with central banks	14	19,552	21,589
Financial assets held for trading	15	179,639	166,975
Financial assets designated at fair value through profit or loss	15	10,164	19,649
Available-for-sale financial assets	16	167,695	167,355
Held-to-maturity investments	16	140,571	119,049
Loans and receivables	17	209,172	203,026
Investments in subsidiaries, associates and joint ventures	18	35,029	35,463
Derivatives used for hedging	19	9,438	8,044
Property and equipment	20	3,635	3,780
Goodwill and other intangible assets	21	3,057	3,368
Non-current assets held-for-sale	22	-	625
Other assets	23	1,709	3,858
Total assets		**779,661**	**752,781**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	21,386	23,202
Financial liabilities designated at fair value through profit or loss	24	118,159	106,032
Financial liabilities at amortised cost	25	568,199	549,551
Derivatives used for hedging	19	5,567	5,158
Current tax liabilities		1,068	652
Deferred tax liabilities	12	321	99
Other liabilities	26	6,034	6,389
Provisions	27	636	706
Total liabilities		**721,370**	**691,789**
Share capital	28	5,855	5,855
Share premium		6,673	6,673
Statutory reserve		18,687	18,687
Retained earnings		23,156	27,748
Available-for-sale reserve	28	3,981	2,437
Cash flow hedge reserve	28	(61)	(408)
Total equity		**58,291**	**60,992**
Total liabilities and equity		**779,661**	**752,781**

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 24 February 2011 and signed on its behalf by:

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

Bartel Puelinckx
Member of the Board of Directors
and Chief Finance Officer

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

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 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**
At 1 January 2010	**5,855**	**6,673**	**18,687**	**27,748**	**2,029**	**60,992**
Total comprehensive income for the year	-	-	-	12,797	1,891	14,688
Dividends paid (Note: 13)	-	-	-	(17,389)	-	(17,389)
At 31 December 2010	**5,855**	**6,673**	**18,687**	**23,156**	**3,920**	**58,291**

(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 2010

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

(CZKm)	Note	2010	2009
OPERATING ACTIVITIES			
Profit before tax		13,572	23,156
Adjustments for:			
Change in operating assets	31	(1,438)	(68,809)
Change in operating liabilities	31	28,333	47,467
Non-cash items included in profit before tax	31	4,399	5,149
Sale of ČSOB SK	2.5	-	11,744
Net (gains) / losses from investing activities		(329)	61
Income tax (paid) / received		(575)	1,064
Net cash flows from operating activities		**43,962**	**19,832**
INVESTING ACTIVITIES			
Purchase of investment securities		(39,839)	(26,065)
Acquisition of subsidiary, associate and joint venture companies		434	(1,113)
Maturity / disposal of investment securities		7,612	7,253
Purchase of property, equipment and intangible assets		(258)	(1,010)
Disposal of ICT business	2.5	951	-
Disposal of property, equipment, intangible assets and assets held-for-sale		21	2,468
Net cash flows used in investing activities		**(31,079)**	**(18,467)**
FINANCING ACTIVITIES			
Dividends paid		(17,389)	(679)
Net cash flows used in financing activities		**(17,389)**	**(679)**
Net (decrease) / increase in cash and cash equivalents		**(4,506)**	**686**
Cash and cash equivalents at the beginning of the year	31	28,866	28,180
Net (decrease) / increase in cash and cash equivalents		(4,506)	686
Cash and cash equivalents at the end of the year	31	**24,360**	**28,866**
Additional information			
Interest paid		(6,704)	(9,726)
Interest received		23,533	23,543
Dividends received		3,451	7,801

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 International Financial Reporting Standards as adopted by the European Union (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 from 1 January 2010

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.

IFRS 1 First-time Adoption of IFRS (Amendments) is effective for periods beginning on or after 1 January 2010. The amendments relate to oil and gas assets and determining whether an arrangement contains a lease.

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, amends the definition of business combinations, changes the valuation of non-controlling interest and the accounting for transaction costs.

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.

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. It requires that a change in the ownership interest in a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Such transactions will not give rise to goodwill or gain or loss.

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. An entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

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 18 Transfers of Assets from Customers is effective for periods beginning on or after 1 July 2009. The Interpretation deals with transfers of property, plant and equipment, which must be used for connecting a customer to a network in utilities industry.

Improvements to IFRSs, issued in April 2009 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard.

Effective after 1 January 2010

The following standards, amendments and interpretations have been issued and are effective after 1 January 2010. 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 Bank financial statements.

IFRS 1 First-time Adoption of IFRS (Amendments) is effective for periods beginning on or after 1 July 2010. The amendment describes limited exemption from comparative IFRS 7 disclosures for first-time adopters.

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 instruments.

The new standard has reduced the number of asset 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 both conditions are met:

- 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 asset categories are required when the entity changes its business model. IFRS 9 retains a fair value option. At initial recognition entities can elect to measure financial assets 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.

All equity instruments are measured at fair value either through Other Comprehensive Income or profit or loss.

Financial liabilities are classified and measured either at amortised cost or at fair value through profit or loss. A financial liability can be designated as measured at fair value through profit or loss if doing so results in more relevant information, because either:

- It eliminates or reduces a measurement or recognition inconsistency
- A group of financial liabilities is managed and its performance is evaluated on a fair value basis

Original requirements related to derecognition of financial assets and financial liabilities are carried forward unchanged from IAS 39 to IFRS 9.

The standard will have a significant impact on the Bank financial statements, however 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 and the third phase on hedge accounting is still ongoing and the completion of the entire project is expected in 2011.

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

IFRIC 14 Prepayment of a Minimum Funding Requirement (Amendments) is effective for periods beginning on or after 1 January 2011. The amendment applies in limited circumstances when an entity is subject to minimum funding requirement and makes an early payment of contributions to cover those requirements. The early payment can be treated as an asset.

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.

Improvements to IFRSs, issued in May 2010 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard.

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) 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 consist of derivatives held for trading and financial instruments other than derivatives held for trading.

- *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 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.

- *Financial instruments held for trading other than derivatives*

Financial assets or financial liabilities 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.

(ii) 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 or reclassify 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.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market 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.

(iv) 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.

(v) 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.

(vi) '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 or Cash and balances with central banks. 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 instruments 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 at inception 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. The hedge 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. Related interest income from hedging instrument is recorded in Interest income, revaluation of hedging instrument is recognised 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.

(i) 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.

(ii) Bank as a lessor

Leases, in which the Bank does not transfer substantially all the risks and benefits of ownership of the asset, are classified as operating leases. The Bank 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 is included in Other net income.

(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 receivables to credit institutions and financial liabilities at amortised cost to 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 as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in profit or loss on the acquisition date.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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.

Impairment losses relating to goodwill cannot be reversed in future periods.

(16) Intangible assets

Intangible assets include software, licences 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

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

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.

2.5 Comparative balances

Reclassifications

Since the Bank is a part of the consolidation scope of the KBC Bank NV, which prepares financial statements according to EU IFRS, the Bank has decided to use the same structure for its financial statements and presentation of items within this structure consistent with KBC Bank NV and to be further aligned with the requirements of the EU IFRS. Therefore certain items are presented differently in the financial statements at 31 December 2010 from the presentation applied in the financial statements at 31 December 2009. To conform to the changes in presentation in the current year, certain balances have been reclassified.

A reconciliation of the selected items of the statement of income for the period ended 31 December 2009 is provided below:

	2009	Reclassification			2009
(CZKm)	As reported	A	B	C	Reclassified
Interest expense	(8,759)	498			(8,261)
Fee and commission expense	(1,720)		(971)		(2,691)
Net gains from financial instruments at fair value through profit or loss and foreign exchange	3,053	(498)			2,555
Other net income	687			(21)	666
Staff expenses	(5,062)			131	(4,931)
General administrative expenses	(6,315)		971	24	(5,320)
Provisions	134			(134)	-

The explanation for the reclassifications is as follows:

A/ **New hedging construction**

In 2009, the Bank developed a new hedging construction to hedge the interest rate risk arising from changes in external interest rates on a group of client term deposits. Net interest expense accrued on interest rate swaps held for trading up to date, when the swaps became hedging instruments, was reclassified from Net gains from financial instruments at fair value through profit or loss into Interest expense;

B/ **Retail service fees**

Until the end of 2009, the Bank presented the whole amount of fees paid for retail services as General administrative expenses. At 1 January 2010, the fee has been divided into a fixed portion and a variable portion. From the date, only the fixed portion of the fee is included in General administrative expenses hereafter. The performance related variable portion of the fee, has been reclassified into Fee and commission expense;

C/ **Provisions**

Until the end of 2009, the Bank presented movements of provisions other than credit related under the separate caption of Provisions included in operating expenses. From 2010, the provisions were reclassified into the appropriate captions of operating income and expenses.

Transformation of business in Slovakia

In 2007, KBC Bank established a new legal entity in the Slovak Republic, Československá obchodná banka, a.s. (ČSOB SK), for the purpose of separating the organisation and management of the KBC Group's banking business in the Czech and Slovak Republics with each management team reporting directly to KBC Group. ČSOB SK's foundation agreement was signed on 14 August 2007 and it became effective on 1 January 2008. Pursuant to the voting rights agreement dated 14 August 2007, ČSOB, ČSOB Leasing and ČSOB Factoring transferred their respective voting rights in ČSOB SK to KBC Bank effective from 1 January 2008.

In the separate financial statements of the Bank as of and for the year ended 31 December 2008, the shares in ČSOB SK owned by the Bank were classified as an available-for-sale financial asset. The assets and liabilities that the Bank contributed to ČSOB SK had a net book value of CZK 4,230 m and a fair value of CZK 9,032 m. The difference between the net book value and the fair value of assets was recognised as a Reorganisation reserve of CZK 2,055 m and an Available-for-sale reserve of CZK 2,747 m. The reorganisation reserve represented the dilution of the Bank's interest in the assets of the Slovak branch of ČSOB and its subsidiaries in exchange for an interest in ČSOB SK into which KBC Bank had contributed cash.

On 15 December 2009, as part of the KBC Group's internal reorganisation to improve efficiency, KBC Bank completed the purchase of the remaining 46.68% stake in ČSOB SK from the Bank for the total consideration of CZK 11,744 m, as a result of which the Bank no longer holds any shareholding interest in ČSOB SK. The Bank reported a net profit before tax of CZK 6,530 m as a result of the transaction recorded under net realised gains on available-for-sale financial assets in the income statement.

Additionally, in July 2009, the Bank received a dividend from ČSOB SK of CZK 230 m from the 2008 profit. No such dividend was received in 2010.

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. Such a transfer represents a sale of business to a newly created enterprise.

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 of 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 and KBC Global Services NV 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).

In 2010, the value of the newly created part of the enterprise of KBC Global Services NV was assessed. The sales price which represents net cash inflow was determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague and amounted to CZK 951 m. The net profit of the sale of the enterprise reached the amount of CZK 329 m and has been recognised in Other net income.

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 allocated to operating segments, but is managed on a Bank basis.

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 fund management activities 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. In 2010, net gain on disposal of ICT business is included.

Segment reporting information by customer segments for 2010

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Group Centre	Total
Statement of income					
Net interest income	11,300	2,168	1,405	1,607	16,480
Net fee and commission income	3,158	922	30	228	4,338
Dividend income	-	-	-	3,451	3,451
Net gains / (losses) from financial instruments at fair value through profit or loss	998	727	28	(79)	1,674
Net realised gains / (losses) on available-for-sale financial assets	-	-	(279)	194	(85)
Other net income	164	10	113	578	865
Operating income	**15,620**	**3,827**	**1,297**	**5,979**	**26,723**
of which:					
External operating income	*6,326*	*3,497*	*12,800*	*4,100*	*26,723*
Internal operating income	*9,294*	*330*	*(11,503)*	*1,879*	*-*
Depreciation and amortisation	(150)	(3)	(1)	(539)	(693)
Other operating expenses	(8,929)	(1,219)	(380)	(869)	(11,397)
Operating expenses	**(9,079)**	**(1,222)**	**(381)**	**(1,408)**	**(12,090)**
Impairment losses - additions	(1,972)	(1,076)	(8)	322	(2,734)
Impairment losses - reversals	1,024	498	-	151	1,673
Profit before tax	**5,593**	**2,027**	**908**	**5,044**	**13,572**
Income tax (expense) / benefit	(1,063)	(389)	(172)	849	(775)
Segment profit	**4,530**	**1,638**	**736**	**5,893**	**12,797**
Assets and liabilities					
Total assets	**80,756**	**77,384**	**534,473**	**87,048**	**779,661**
Total liabilities	**414,039**	**90,578**	**203,451**	**13,302**	**721,370**
Capital expenditures	**62**	**-**	**-**	**196**	**258**

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	2,261	1,386	1,674	16,114
Net fee and commission income	3,092	935	49	337	4,413
Dividend income	-	-	-	7,801	7,801
Net gains / (losses) from financial instruments at fair value through profit or loss	979	557	1,023	(4)	2,555
Net realised gains on available-for-sale financial assets	-	-	120	6,558	6,678
Other net income	80	25	(93)	654	666
Operating income	**14,944**	**3,778**	**2,485**	**17,020**	**38,227**
of which:					
External operating income	*8,222*	*4,112*	*10,082*	*15,811*	*38,227*
Internal operating income	*6,722*	*(334)*	*(7,597)*	*1,209*	*-*
Depreciation and amortisation	(103)	-	(2)	(968)	(1,073)
Other operating expenses	(8,166)	(1,148)	(397)	(540)	(10,251)
Operating expenses	**(8,269)**	**(1,148)**	**(399)**	**(1,508)**	**(11,324)**
Impairment losses - additions	(2,295)	(1,576)	(17)	(1,147)	(5,035)
Impairment losses - reversals	347	275	-	666	1,288
Profit before tax	**4,727**	**1,329**	**2,069**	**15,031**	**23,156**
Income tax (expense) / benefit	(945)	(266)	(414)	71	(1,554)
Segment profit	**3,782**	**1,063**	**1,655**	**15,102**	**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	**255**	**1**	**-**	**218**	**474**

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

The Bank operates only in the Czech Republic.

4. INTEREST INCOME

(CZKm)	2010	2009
Cash balances with central banks	180	429
Loans and receivables		
Credit institutions	1,240	966
Other than credit institutions	7,335	9,005
Available-for-sale financial assets	5,709	5,375
Held-to-maturity investments	5,841	4,752
Financial assets held for trading	1,749	2,613
Financial assets designated at fair value through profit or loss	563	1,183
Derivatives used for hedging	83	52
	22,700	**24,375**

5. INTEREST EXPENSE

(CZKm)	2010	2009
Financial liabilities at amortised cost		
Central banks	-	9
Credit institutions	1,130	1,197
Other than credit institutions	3,533	4,485
Debt instruments in issue	176	270
Subordinated liabilities	212	356
Discount amortisation on other provisions (Note: 27)	4	4
Financial liabilities designated at fair value through profit or loss	559	1,585
Derivatives used for hedging	606	355
	6,220	**8,261**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2010	2009
Fee and commission income		
Payment services	4,706	4,755
Administration of credits	1,152	1,044
Collective investments	484	405
Custody	148	160
Securities	75	103
Asset management	6	8
Other	593	629
	7,164	**7,104**
Fee and commission expense		
Retail service fees	928	971
Payment services	889	812
Contribution to Deposit Insurance Fund	585	424
Commissions to agents	49	60
Other	375	424
	2,826	**2,691**
Net fee and commission income	**4,338**	**4,413**

7. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains 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 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)	2010	2009
Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported	**1,674**	**2,555**
Net interest income (Notes: 4, 5)	1,753	2,211
	3,427	**4,766**
Financial instruments held for trading		
Interest rate contracts	1,695	2,923
Foreign exchange	4,347	1,411
Commodity contracts	10	29
	6,052	4,363
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	1,012	1,183
Financial liabilities designated at fair value through profit or loss	(561)	(1,025)
	451	158
Exchange differences revaluations	(3,076)	245
Financial instruments at fair value through profit or loss and foreign exchange	**3,427**	**4,766**

8. OTHER NET INCOME

(CZKm)	2010	2009
Net gain on disposal of ICT business (Note: 2.5)	329	-
Services provided to ČSOB SK	185	275
Operating leasing and rental income	149	125
Net decrease / (increase) in provisions for legal issues	115	(21)
Net gain on disposal of non-current assets held-for-sale	-	111
Gains on disposal of associates, joint ventures and subsidiaries	-	34
Other	87	142
	865	**666**

9. STAFF EXPENSES

(CZKm)	2010	2009
Wages and salaries	3,595	3,498
Salaries and other short-term benefits of senior management	73	77
Social security charges	1,143	1,091
Pension and similar expense	117	114
Other	147	151
	5,075	**4,931**

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 Ministry of Finance of the Czech Republic (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).

In case of contract termination, the members of the Board of Directors are entitled to receive amount of 6 to 24 monthly salaries as termination benefits (number of months depends on individual contracts). During 2010, no such compensation was paid out.

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2010	2009
Information technology	2,562	1,596
Rental expenses – minimum lease payments	730	733
Marketing	640	580
Other building expenses	450	434
Communication	387	538
Professional fees	303	322
Retail service fees	137	157
Administration	122	123
Travel and transportation	116	106
Car expenses	52	51
Insurance	33	36
Other	790	644
	6,322	**5,320**

An increase in Information technology expenses in 2010 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 2,417 m (2009: CZK 1,150 m). Simultaneously, the outsourcing of ICT yielded a reduction in other expense categories such as staff expenses and communication expenses.

11. IMPAIRMENT LOSSES

(CZKm)	2010	2009
Impairment of loans and receivables (Note: 17)	(1,427)	(2,931)
Provisions for loan commitments and guarantees (Note: 27)	(60)	114
Impairment of available-for-sale financial assets (Note: 16)	-	(37)
Impairment of held-to-maturity investments (Note: 16)	(8)	(17)
Impairment of investments in subsidiaries, associates and joint ventures	258	(770)
Impairment of non-current assets held-for-sale (Note: 22)	-	(8)
Impairment of other assets	176	(98)
	(1,061)	**(3,747)**

12. TAXATION

The components of income tax expense for the years ended 31 December 2010 and 2009 are as follows:

(CZKm)	2010	2009
Current tax expense	1,182	652
Previous year (over) / under accrual	(190)	35
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	(217)	867
	775	**1,554**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2010 and 2009 is as follows:

(CZKm)	2010	2009
Profit before taxation	13,572	23,156
Applicable tax rates	19%	20%
Taxation at applicable tax rates	2,579	4,631
Previous year (over) / under accrual	(190)	35
Tax effect of non-taxable income	(1,781)	(3,817)
Tax effect of non-deductible expenses	167	699
Other	-	6
	775	**1,554**

The applicable tax rate for 2010 was 19% (2009: 20%).

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)	2010	2009
At 1 January	**(99)**	**479**
Statement of income charge	217	(867)
Available-for-sale securities (Note: 29)		
Fair value remeasurement	(341)	-
Transfer to net profit	(16)	23
Cash-flow hedges (Note: 29)		
Fair value remeasurement	(10)	295
Transfer to net profit	(72)	(29)
At 31 December	**(321)**	**(99)**

Deferred tax liability is attributable to the following items:

(CZKm)	2010	2009
Deferred tax (liability) / asset		
Employee benefits	241	167
Accelerated tax depreciation	147	27
Legal claim	135	92
Provisions	120	103
Allowances for credit losses	86	71
Impairment losses on financial investments	39	39
Cash-flow hedges	14	96
Amortisation of goodwill	(265)	(210)
Available-for-sale securities	(908)	(537)
Other temporary differences	70	53
	(321)	**(99)**

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

(CZKm)	2010	2009
Accelerated tax depreciation	120	34
Employee benefits	74	167
Legal claim	43	-
Provisions	17	(68)
Allowances for credit losses	16	11
Impairment losses on financial investments	-	(76)
Impairment of occupied properties	-	(3)
Unused tax losses applicable in the next periods	-	(819)
Available-for-sale securities	(14)	(16)
Amortisation of goodwill	(56)	(72)
Other temporary differences	17	(25)
	217	**(867)**

The Bank’s management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank’s current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

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 decision of profit allocation for 2010 has not been taken before the date of issue of financial statements.

Based on a sole shareholder decision from 10 May 2010, a dividend of CZK 59.40 per share was paid for 2009, representing a total dividend of CZK 17,389 m.

In March 2010, the 1:50 split of the Bank shares came into force (Note: 28).

Based on a sole shareholder decision from 16 June 2009, a dividend of CZK 2.32 per share was paid for 2008, representing a total dividend of CZK 679 m.

14. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2010	2009
Cash	7,762	7,391
Mandatory minimum reserves (Note: 37.2)	8,435	8,559
Other balances with central banks (Note: 37.2)	3,355	5,638
	19,552	**21,588**
Accrued interest income (Note: 37.2)	-	1
	19,552	**21,589**

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)	2010	2009
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 34)	107,777	88,449
Money market placements	16,988	18,666
Debt instruments		
Central government	31,142	31,447
Non credit institutions	102	107
Credit institutions	7,702	8,616
Corporate	589	766
Derivative contracts (Note: 19)	14,910	18,207
	179,210	**166,258**
Accrued interest income	429	717
	179,639	**166,975**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Central government	826	6,519
Non credit institutions	381	377
Credit institutions	8,809	11,238
Corporate	-	1,185
	10,016	**19,319**
Accrued interest income	148	330
	10,164	**19,649**
Financial assets at fair value through profit or loss	**189,803**	**186,624**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 953 m (2009: CZK 4,288 m) pledged as collateral in repo transactions.

At 31 December 2009, the Bank had a position of structured notes (CDOs) included in the portfolio of Financial assets designated at fair value through profit or loss. Fair value of the notes was CZK 1,185 m as of 31 December 2009. On 15 June 2010, all the CDOs were sold for CZK 1,196 m.

16. FINANCIAL INVESTMENTS

(CZKm)	2010	2009
Available-for-sale financial assets		
Debt securities		
Central government	53,539	47,763
Non credit institutions	541	990
Credit institutions	109,895	110,633
Corporate	872	4,848
Equity securities	47	47
	164,894	**164,281**
Accrued interest income	2,801	3,074
	167,695	**167,355**
Held-to-maturity investments		
Debt securities		
Central government	131,876	111,147
Non credit institutions	871	900
Credit institutions	3,528	2,653
Corporate	814	1,156
	137,089	**115,856**
Accrued interest income	3,482	3,193
	140,571	**119,049**
Financial investments	**308,266**	**286,404**

Included within Financial investments are debt securities of CZK 18,697 m (2009: CZK 8,046 m) pledged as collateral in repo transactions.

Due to significant deterioration in the issuer's creditworthiness, the Bank decided in 2010 to gradually sell its entire remaining portfolio of bonds issued by the Greek government, which were originally classified as Held-to-maturity investments. Following the decision, the bonds in the amount of CZK 8,217 m were reclassified to Available-for-sale financial assets and are being sold based on the market conditions. Carrying amount of the Greek government bonds remaining in Available-for-sale debt securities was CZK 3,768 m as at 31 December 2010.

The following table shows a reconciliation of the impairment losses on financial investments for 2009 and 2010:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2009	**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**
Increase (Note: 11)	-	-	8	8
Utilisation	-	-	(8)	(8)
At 31 December 2010	**136**	**92**	**-**	**228**

17. LOANS AND RECEIVABLES

(CZKm)	2010	2009
Analysed by category of borrower		
Central government	161	29
Non credit institutions	4,333	4,143
Credit institutions	48,458	35,134
Other legal entities	131,366	139,083
Private individuals	32,128	31,130
Gross loans	216,446	209,519
Allowance for impairment losses	(8,304)	(7,335)
	208,142	**202,184**
Accrued interest income	1,030	842
	209,172	**203,026**

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2009 and 2010 by segments and by individual and collective impairment:

(CZKm)	Non credit institutions	Credit institutions	Other legal entities	Private individuals	Total
At 1 January 2009	**-**	**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**
Net increase in allowances for credit losses (Note: 11)	10	1	806	611	1,427
Write-offs	-	(2)	(20)	(407)	(429)
Foreign currency translation	-	(2)	(28)	1	(29)
At 31 December 2010	**10**	**213**	**6,563**	**1,518**	**8,304**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2009	**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**
Increase in allowances for credit losses (Note: 11)	2,651	291	2,942
Decrease in allowances for credit losses (Note: 11)	(1,310)	(205)	(1,515)
Write-offs	(429)	-	(429)
Foreign currency translation	(29)	-	(29)
At 31 December 2010	**7,851**	**453**	**8,304**

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

Name	Abbreviation	2010 (%)	2010 Carrying amount	2009 (%)	2009 Carrying amount
Subsidiaries					
Auxilium, a. s.	Auxilium	100.00	1,195	100.00	1,195
Bankovní informační technologie, s.r.o.	BANIT	100.00	30	100.00	30
Centrum Radlická a.s.	Centrum Radlická	100.00	969	100.00	969
ČSOB Asset Management, a.s., a member of the ČSOB group	ČSOB AM	20.59	85	20.59	85
ČSOB Factoring, a.s.	ČSOB Factoring	100.00	1,175	100.00	1,175
ČSOB Investiční společnost, a.s., a member of the ČSOB group	ČSOB IS	73.15	60	73.15	60
ČSOB Investment Banking Services, a.s., a member of the ČSOB group	ČSOB IBS	100.00	2,263	100.00	2,263
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	5,600	100.00	5,600
ČSOB Penzijní fond Progres, a.s., a member of the ČSOB group	ČSOB PF Progres	100.00	718	100.00	720
ČSOB Penzijní fond Stabilita, a.s., a member of the ČSOB Group	ČSOB PF Stabilita	100.00	829	100.00	955
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	59.76	434	59.81	740
Hypoteční banka, a.s.	Hypoteční banka	100.00	19,530	100.00	19,530
Joint venture					
Českomoravská stavební spořitelna, a.s.	ČMSS	55.00	1,540	55.00	1,540
Associate					
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	25.00	601	25.00	601
			35,029		**35,463**

All companies are incorporated in the Czech Republic.

In March 2009, the Bank sold all the participation certificates of the První speciální fond kvalifikovaných investorů pro finanční instituce, an open-ended equity fund AXA investiční společnost a.s.

In December 2009, a redemption of the share premium from Auxilium in the amount of CZK 4,180 m and ČSOB IS of CZK 284 m was processed.

In November 2009, based on the Sole shareholder decision, ČSOB IBS 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, 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 by CZK 900 m and Hypoteční banka, by CZK 6,000 m.

In 2009, the Bank increased its investment in ČSOB PF Progres by CZK 150 m and in ČSOB PF Stabilita by CZK 250 m through additional charge apart from the registered capital of the companies. In 2010 the Bank decreased its investment in ČSOB PF Progres by CZK 150 m and in ČSOB PF Stabilita by CZK 250 m through additional charge apart from the registered capital of the companies.

In December 2010, 49.18% of the voting rights in ČSOB Leasing previously held by the Bank, were transferred to the KBC Lease Holding NV. ČSOB is therefore entitled to exercise 50.82% of the voting rights in ČSOB Leasing.

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 52.94% of the voting rights in the ČSOB AM 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 in 2008, the Bank acquired a 60% share in the company. In December 2008, all voting rights in ČSOB Property fund previously held by ČSOB Pojišťovna were transferred to the Bank, whereby ČSOB is entitled to exercise 96.49% of voting rights in ČSOB Property fund. In 2009, the participation of the Bank in ČSOB Property fund decreased as a result of the Bank's decision to decrease the amount of the share capital of the entity. In 2010, the participation of the Bank in ČSOB Property fund decreased as a result of the Bank's decision to decrease the amount of the share capital of the entity and buyout of shares.

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

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 40% of the voting rights in the ČSOB Pojišťovna.

The Bank executes its control over ČSOB IS indirectly through Auxiliumand ČSOB AM, 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 and 2010, the Bank considered the value of interests in certain subsidiaries to be impaired.

In 2009, the value of interest in ČSOB Property fund 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. Additionally in December 2010 the value of interests in ČSOB Property fund was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 14 m respectively, has been recognised.

The value of interests in ČSOB PF Progres and ČSOB PF Stabilita 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.

In 2010 the impairment of value of interest in ČSOB PF Progres and ČSOB Stabilita subsidiaries was dissolved as a result of a increase in projected discounted cash flows. As a result, a provision for an impairment was reversed of CZK 148 m and CZK 124 m.

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 2010 and 2009 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.

	2010			2009		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	595,616	11,567	13,420	686,716	12,165	15,200
Forwards	36,426	3	2	52,240	14	23
Options	27,161	234	189	23,821	186	165
	659,203	**11,804**	**13,611**	**762,777**	**12,365**	**15,388**
Foreign exchange contracts						
Swaps/Forwards	143,253	688	1,238	72,776	1,562	808
Cross currency interest rate swaps	40,831	1,827	484	38,575	2,318	605
Options	28,242	408	407	59,268	1,633	1,635
	212,326	**2,923**	**2,129**	**170,619**	**5,513**	**3,048**
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps	3,787	183	169	6,238	329	317
Total derivatives held for trading (Notes: 15, 24)	**875,416**	**14,910**	**15,929**	**939,734**	**18,207**	**18,773**

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. Cross 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 2010, a gain of CZK 1 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2009: loss of CZK 31 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 2010 and 2009 are set out as follows:

	2010			2009		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	174,573	4,111	4,354	162,477	3,015	3,862
Cross currency interest rate swaps	43,183	5,327	344	44,944	5,029	590
Total hedging derivatives	**217,756**	**9,438**	**4,698**	**207,421**	**8,044**	**4,452**

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

(CZKm)	2010	2009
Interest expense (Note: 29)	(380)	(153)
Taxation	72	29
Net losses	**(308)**	**(124)**

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)	2010	2009
Less than 3 months	7,761	1,931
More than 3 months but not more than 6 months	4,422	13,027
More than 6 months but not more than 1 year	7,096	16,224
More than 1 year but not more than 2 years	41,125	28,839
More than 2 years but not more than 5 years	96,412	106,369
More than 5 years	60,940	41,031
	217,756	**207,421**

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 an 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 2010 and 2009 are set out as follows:

	2010			2009		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps	10,700	-	869	13,200	-	706
Cross currency interest rate swaps	-	-	-	-	-	-
Total hedging derivatives	**10,700**	**-**	**869**	**13,200**	**-**	**706**

In 2010, the total realised interest income in the amount of CZK 283 m (2009: 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.

There is no realised foreign exchange on the hedged item attributable to the hedged currency risk included in Net gains from financial instruments at fair value through profit or loss in 2010 (2009: foreign exchange loss in the amount of CZK 463 m).

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2009	4,793	2,287	544	2,132	404	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	**3,081**	**519**	**199**	**536**	**404**	**4,739**
Transfers	280	212	31	140	(663)	-
Additions	-	-	-	-	332	332
Disposals	(8)	(1)	(2)	(6)	-	(17)
Transfer to non-current assets held-for-sale	-	(420)	-	(165)	-	(585)
Depreciation	(224)	(265)	(32)	(168)	-	(689)
Net book value at 31 December 2009	**3,129**	**45**	**196**	**337**	**73**	**3,780**
of which						
Cost	5,042	153	545	1,204	73	7,017
Depreciation and impairment	(1,913)	(108)	(349)	(867)	-	(3,237)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2010	5,042	153	545	1,204	73	7,017
Depreciation and impairment at 1 January 2010	(1,913)	(108)	(349)	(867)	-	(3,237)
Net book value at 1 January 2010	**3,129**	**45**	**196**	**337**	**73**	**3,780**
Transfers	95	3	12	148	(258)	-
Additions	-	-	-	-	235	235
Disposals	(2)	-	-	-	-	(2)
Depreciation	(233)	(20)	(31)	(94)	-	(378)
Net book value at 31 December 2010	**2,989**	**28**	**177**	**391**	**50**	**3,635**
of which						
Cost	5,122	155	550	1,261	50	7,138
Depreciation and impairment	(2,133)	(127)	(373)	(870)	-	(3,503)

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2009	2,752	3,141	656	245	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**	**200**	**245**	**3,650**
Transfers	-	249	100	(349)	-
Additions	-	-	-	142	142
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**	**200**	**38**	**3,368**
of which					
Cost	2,752	3,141	702	38	6,633
Amortisation and impairment	(63)	(2,700)	(502)	-	(3,265)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2010	2,752	3,141	702	38	6,633
Amortisation and impairment at 1 January 2010	(63)	(2,700)	(502)	-	(3,265)
Net book value at 1 January 2010	**2,689**	**441**	**200**	**38**	**3,368**
Transfers	-	3	55	(58)	-
Additions	-	-	-	23	23
Disposals	-	-	(19)	-	(19)
Amortisation	-	(238)	(77)	-	(315)
Net book value at 31 December 2010	**2,689**	**206**	**159**	**3**	**3,057**
of which					
Cost	2,752	3,145	725	3	6,625
Amortisation and impairment	(63)	(2,939)	(566)	-	(3,568)

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 8.95% (2009: 10.50%) and a long term growth of 3.0% were used in both 2010 and 2009.

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 8.95% (2009: 10.50%) has been applied. This reflects a 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 2009	**127**	**-**	**-**	**-**	**127**
Transfer from property and equipment and from other intangible assets	-	420	22	183	625
Disposals	(143)	-	-	-	(143)
Impairment charge (Note 11)	(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	-	-	-	-	-

(CZKm)	Land and buildings	IT Equipment	Software	Other	Total
Net book value at 1 January 2010	**-**	**420**	**22**	**183**	**625**
Disposals	-	(420)	(22)	(183)	(625)
Net book value at 31 December 2010	**-**	**-**	**-**	**-**	**-**
of which					
Cost	-	-	-	-	-
Impairment	-	-	-	-	-

Movement of operating tangible and intangible assets disclosed in Disposals represents mainly ICT-related assets which were transferred to KBC GS CZ in January 2010 (Note: 2.5).

23. OTHER ASSETS

(CZKm)	2010	2009
Other debtors, net of provisions (Note: 32, 37.2)	949	2,705
Prepaid charges	340	458
Accrued income (Note: 32, 37.2)	317	622
VAT and other tax receivables	62	26
Receivables from securities clearing entities (Note: 32, 37.2)	32	39
Other	9	8
	1,709	**3,858**

As at 31 December 2009, included within Other debtors, net of provisions and Accrued income was 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. 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 believed that the receivable from the MF CZ existed and was fully recoverable and that the CNB's ruling was not correct. This assessment was 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 was subject to an arbitration before the ICC International Court of Arbitration (ICC), in the statement of financial position. The Bank continued 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 was recognised in the statement of income.

After more than 3 years of arbitration between the Bank and the MF CZ before the ICC on 20 December 2010 the ICC Tribunal issued a final award. The award required the MF CZ to pay the principal amount of CZK 1,654 m and interest accruing at a rate of 3M PRIBOR plus 0.27% p.a. from 11 April 2005 until payment by the MF CZ. Additionally, the MF CZ was ordered to pay CZK 111 m as a contribution to ČSOB's arbitration proceeding costs. The amounts were received on 31 December 2010.

In accordance with the Award and the fact that all relevant payments were received, as of 31 December 2010 ČSOB ceased to recognise the receivable from the CNB. The positive difference of CZK 292 m between the awarded amounts and the receivable from the CNB (including accrued interest income) has been recognised in the statement of income.

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2010	2009
Financial liabilities held for trading		
Short positions	5,457	4,429
Derivative contracts (Note: 19)	15,929	18,773
	21,386	**23,202**
Financial liabilities designated at fair value through profit or loss		
Term deposits	36,052	29,243
Repo transactions	81,553	76,329
Promissory notes	7	139
Bonds issued	469	215
	118,081	**105,926**
Accrued interest expense	78	106
	118,159	**106,032**
Financial liabilities at fair value through profit or loss	**139,545**	**129,234**

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 22 m less than the carrying amount at 31 December 2010 (31 December 2009: CZK 16 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)	2010	2009
Deposits received from credit institutions		
Current accounts	8,525	8,673
Term deposits	29,901	40,318
Repo transactions	18,667	7,829
	57,093	**56,820**
Deposits received from other than credit institutions		
Current accounts	258,615	258,431
Term deposits with agreed maturity	37,546	60,702
Savings deposits	180,549	134,939
Repo transactions	-	7,000
Other deposits	5,391	4,300
	482,101	**465,372**
Debt securities in issue		
Bonds issued	1,362	1,371
Promissory notes	15,019	13,323
Certificates of deposit	3	4
	16,384	**14,698**
Subordinated liabilities		
Subordinated debt	**11,974**	**11,970**
Accrued interest expense	647	691
Financial liabilities at amortised cost	**568,199**	**549,551**

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)	2010	2009
Other clearing accounts	2,209	2,139
Payables to employees including social security charges	1,630	1,446
Accrued charges	1,107	1,285
Payables to securities clearing entities	406	453
Other creditors	360	639
VAT and other tax payables	179	148
Income received in advance	80	52
Other debts to clients	29	32
Other	34	195
	6,034	**6,389**

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Contractual engagements	Loan commitments and guarantees (Note: 33)	Total
At 1 January 2010	**220**	**112**	**374**	**706**
Additions	10	-	218	228
Amounts utilised	(116)	(24)	-	(140)
Unused amounts reversed	(1)	-	(158)	(159)
Discount amortisation (Note: 5)	-	4	-	4
Foreign currency translation	2	-	(5)	(3)
At 31 December 2010	**115**	**92**	**429**	**636**

Pending legal issues and other losses

Provisions for legal issues and other losses represent 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 2010, the Bank had a provision in the total amount of CZK 115 m. It is expected that the majority of the costs will be probably incurred in the next 3 years.

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.

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 13 years.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2010, the total authorised share capital was CZK 5,855 m (31 December 2009: CZK 5,855 m) and comprised of 292,750,000 ordinary shares with a nominal value of CZK 20 each (31 December 2009: 5,855,000 ordinary shares with a nominal value of CZK 1,000 each) and is fully paid up.

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.

As at 14 September 2010, ČSOB's shares were converted back from bearer shares into registered shares in reaction to the new Czech legislation.

No Treasury shares were held by the Bank at 31 December 2010 and 2009.

On 31 December 2010, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2009: 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 2010 and 2009:

(CZKm)	Reorganisation reserve	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2009	**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**
Other comprehensive income (Note: 29)	-	1,544	347	-	1,891
At 31 December 2010	**-**	**3,981**	**(61)**	**-**	**3,920**

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2010	2009
Exchange differences on translating foreign operation	-	196
Cash flow hedges		
Net unrealised gains / (losses) on cash flow hedges	49	(1,556)
Net losses on cash flow hedges reclassified to the statement of income (Note: 19)	380	153
Tax effect relating to cash flow hedges (Note: 12)	(82)	267
	347	(1,136)
Available-for-sale financial assets		
Net unrealised gains on available-for-sale financial investments	1,816	1,614
Net realised losses / (gains) on available-for-sale financial investments reclassified to the statement of income on disposal	85	(148)
Sale of ČSOB SK (Note:2.5)	-	(4,671)
Tax effect relating to available-for-sale financial investments (Note: 12)	(357)	22
	1,544	(3,183)
Reorganisation reserve		
Sale of ČSOB SK (Note: 2.5)	-	(2,055)
Other comprehensive income for the year, net of tax	**1,891**	**(6,178)**

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 2010:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	124,765	-	124,765
Debt instruments	15,681	23,855	-	39,536
Derivative contracts	-	14,910	-	14,910
Accrued interest income	274	155	-	429
Financial assets designated at fair value through profit or loss				
Debt instruments	4,900	5,116	-	10,016
Accrued interest income	78	70	-	148
Available-for-sale financial assets				
Debt securities	65,860	98,987	-	164,847
Equity securities	-	-	47	47
Accrued interest income	1,446	1,355	-	2,801
Derivatives used for hedging	-	9,438	-	9,438
Financial liabilities				
Financial liabilities held for trading				
Short positions	5,457	-	-	5,457
Derivative contracts	-	15,930	-	15,930
Financial liabilities designated at fair value through profit or loss				
Term deposits	-	36,052	-	36,052
Repo transactions	-	81,553	-	81,553
Promissory notes	-	7	-	7
Bonds issued	-	469	-	469
Accrued interest expense	-	78	-	78
Derivatives used for hedging	-	5,567	-	5,567

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

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.

In the financial year ended 31 December 2010, the Bank changed the yield curves applied for estimated future cash flows of mortgage bonds with variable coupon designated as at fair value through profit or loss and to available-for-sale mortgage bonds. The change was introduced in reaction to requested congruence in Bank and KBC Group valuation principles.

The pricing of mortgage bonds is based on CZK bonds and interest rates of IRS. Yield curves for estimated future cash flows of mortgage bonds with variable coupon were derived from IRS rates quoted on Reuters till December 2010, from December 2010 are used the yield curves provided by KBC Bank, based on observable market inputs.

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 2008	**170**	**10,743**	**10,913**
Revaluation gains or (losses) recorded in Net gains 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)
Sales	-	(11,810)	(11,810)
Settlements	(170)	-	(170)
At 31 December 2009	**1,185**	**47**	**1,232**
Interest income	34	-	34
Revaluation losses recorded in Net gains from financial instruments at fair value through profit or loss	(23)	-	(23)
Sales	(1,196)	-	(1,196)
At 31 December 2010	**-**	**47**	**47**

The whole balance of Debt securities was sold in 2010. Included within Net gains from financial instruments at fair value through profit or loss as reported in the statement of income for the year ended 31 December 2009 were gains of CZK 1,185 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 Nil in 2010 (2009: CZK 37 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.

During 2009, the market for the CDOs was illiquid, as well as for similar structured securities, as there was no active market for them in which quoted prices or (limit) orders could be observed. As a result, the Indicative Valuation was based on parameters which the Bank considered as benchmarks for calculating an indicative value of the CDOs.

The GM Model was 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 was derived from the credit default swap spreads in the market. The correlations between the default times were modelled through Gaussian Copulas and as such could be simulated. By discounting the cash flows resulting from the default time curves on the underlying assets, a value for a specific CDO tranche was reached.

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

The objective of the model was 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 were paid (coupon leg) were determined by scenario and by CDO tranche. Both legs were dependent on recovery rate assumptions and default/survival probability curves, the latter determined in line with present CDS market spreads. Correlation between default times was taken into account. By scenario and by CDO tranche, a value was calculated by discounting back both the default leg and the coupon leg. The result of the valuation of a CDO tranche was 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 assumed that the valuation rule remained unchanged, being the lower of the GM model value and the fundamental value. Furthermore, the analysis also assumed that the fundamental value and all other variables remained unchanged, and therefore showed the impact of the 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	-

2010 valuation of CDOs

In the year ended 31 December 2010, the Bank used for CDO valuation Gaussian Copula Mixture Model (GM Model) consistently with 2009. Due to no active market for CDOs in which quoted prices or orders may be observed, the indicative valuation is still based on parameters which the Bank considers as a benchmark for calculation of indicative value of CDOs.

In June 2010, the Bank sold CDOs for CZK 1,196 m. This value was within the range of the expert valuation, which used the GM model and actual market conditions and assumptions to set up the fair value of sold CDOs portfolio to value between CZK 1,032 m and CZK 1,296 m.

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 2010	Transfers from Level 1 to Level 2 2009	Transfers from Level 2 to Level 1 2010	Transfers from Level 2 to Level 1 2009
Financial assets				
Financial assets held for trading				
Debt instruments	-	260	450	580
Financial assets designated at fair value through profit or loss				
Debt instruments	297	-	2,904	316
Available-for-sale financial assets				
Debt securities	7	393	9,837	63

Transfers of debt instruments from level 2 to level 1 in 2010 relate to debt securities which became quoted on active market in 2010.

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)	2010 Carrying value	2010 Fair value	2009 Carrying value	2009 Fair value
Financial assets				
Cash and balances with central banks	19,552	19,552	21,589	21,589
Loans and receivables	209,172	208,023	203,026	204,647
Held-to-maturity investments	140,571	146,098	119,049	123,588
Other assets	1,298	1,298	3,366	3,366
Financial liabilities				
Financial liabilities at amortised cost	568,199	572,018	549,551	552,083
Other liabilities	5,775	5,775	6,189	6,189

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 including respective credit spread. 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 including respective credit spread. 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)	2010	2009
Cash and balances with central banks	11,117	13,029
Loans and receivables to credit institutions	23,091	25,011
Financial liabilities at amortised cost to credit institutions	(9,848)	(9,174)
Cash and cash equivalents	**24,360**	**28,866**

Change in operating assets

(CZKm)	2010	2009
Net change in financial assets held for trading	(12,576)	(42,649)
Net change in financial assets designated at fair value through profit or loss	9,485	9,881
Net change in available-for-sale financial assets	10,036	(55,017)
Net change in loans and receivables	(9,455)	17,907
Net change in derivatives used for hedging	(965)	(2,266)
Net change in other assets	2,037	3,335
	(1,438)	**(68,809)**

Change in operating liabilities

(CZKm)	2010	2009
Net change in financial liabilities held for trading	(1,816)	(12,734)
Net change in financial liabilities designated at fair value through profit or loss	12,126	42,519
Net change in financial liabilities at amortised cost	17,969	21,896
Net change in derivatives used for hedging	409	3,513
Net change in other liabilities	(355)	(7,727)
	28,333	**47,467**

Non-cash items included in profit before tax

(CZKm)	2010	2009
Allowances and provisions for credit losses	1,487	2,702
Amortisation of discounts and premiums	1,258	293
Depreciation and amortisation	693	1,073
Provisions	(126)	(130)
Impairment on other assets	(176)	98
Impairment on investment securities	(250)	405
Other	1,513	708
	4,399	**5,149**

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 2010:

(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	7,164	6,023	1,723	-	14,910
Other than financial derivatives	140,376	16,934	7,419	-	164,729
Financial assets designated at fair value through profit or loss	1,055	5,313	3,796	-	10,164
Available-for-sale financial assets	20,153	28,232	119,263	47	167,695
Loans and receivables	91,650	84,661	32,861	-	209,172
Held-to-maturity investments	13,849	29,338	97,384	-	140,571
Derivatives used for hedging	4,033	4,740	665	-	9,438
Other assets (Note: 23)	1,298	-	-	-	1,298
Total carrying value	**279,578**	**175,241**	**263,111**	**47**	**717,977**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,385	6,745	1,799	-	15,929
Other than financial derivatives	5,457	-	-	-	5,457
Financial liabilities designated at fair value through profit or loss	117,237	863	59	-	118,159
Financial liabilities at amortised cost	139,815	196,576	231,808	-	568,199
Derivatives used for hedging	2,084	2,530	953	-	5,567
Other liabilities	5,775	-	-	-	5,775
Total carrying value	**277,753**	**206,714**	**234,619**	**-**	**719,086**

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**

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.

Similarly based on a court ruling in another case, the Bank recovered CZK 672 m relating to partially impaired loan in 2010. Relevant carrying amount of the loan amounting to CZK 304 m is recognised in statement of financial position. Similarly to above stated case, due to uncertainty regarding the outcome of appeal by the counterparty against the ruling the Bank will not recognise this amount as decrease in receivables in the statement of financial position and as income 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)	2010	2009
Loan commitments – irrevocable (Note: 37.2)	67,174	68,912
Loan commitments - revocable	30,558	24,033
Financial guarantees (Note: 37.2)	23,598	23,409
Other commitments (Note: 37.2)	1,611	799
	122,941	**117,153**
Provisions for loan commitments and guarantees (Notes: 27, 37.2)	429	374

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). On 20 December 2010 the ICC Tribunal issued a final award ordering the MF CZ to pay the principal amount of CZK 1,654 m and interest accruing at a rate of 3M PRIBOR plus 0.27% from 11 April 2005 until payment by the MF CZ. Additionally, the MF CZ was ordered to pay CZK 111 m as a contribution to ČSOB's arbitration proceeding costs. The amounts were received on 31 December 2010.

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 (Bank is the lessee)

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

(CZKm)	2010	2009
Not later than 1 year	807	781
Later than 1 year and not later than 5 years	1,504	1,745
Later than 5 years	435	372
	2,746	**2,898**

Future minimum sublease payments amounted to CZK 139 m as at 31 December 2010 (31 December 2009: Nil).

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.

Operating lease receivables (Bank is the lessor)

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

(CZKm)	2010	2009
Not later than 1 year	96	-
Later than 1 year and not later than 5 years	43	-
	139	**-**

These operating leases can be technically cancelled under the Czech law; however, the lessees are 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 lines of the statement of financial position in which they are included:

(CZKm)	2010	2009
Financial assets		
Cash and balances with central banks	-	4,001
Financial assets held for trading	107,797	88,468
	107,797	**92,469**

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 2010 was CZK 118,573 m, of which CZK 86,362 m has been either sold or repledged (31 December 2009: CZK 129,946 m and CZK 86,350 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)	2010	2009
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	81,602	76,398
Financial liabilities at amortised cost	18,688	14,854
	100,290	**91,252**

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 is executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2010 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 managementl	-	-	-	-	-	-
KBC Bank NV	16,205	-	-	7,497	5,269	-
Entities under common control						
ČSOB SK	16	-	789	1,011	-	9
KBC Global Services NV	-	-	-	-	-	89
KBC Internationale Financieringsmij NV	314	-	-	-	-	-
Novaservis	-	-	-	166	-	-
Patria Finance a.s.	238	-	-	-	-	-
Other	13	-	-	9	-	2
Subsidiaries						
Centrum Radlická	-	-	-	117	-	-
ČSOB Factoring	-	-	-	2,244	-	-
ČSOB IS	-	-	-	-	-	78
ČSOB Leasing	593	-	-	11,708	1	-
ČSOB PF Progres	131	-	-	-	-	-
ČSOB PF Stabilita	274	-	-	-	-	-
ČSOB Property Fund	75	-	-	-	-	-
Hypoteční banka	4,796	4,472	85,818	36,473	-	-
Associates						
ČSOB Pojišťovna	3	-	1	-	-	12
Joint ventures						
ČMSS	-	-	-	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2010 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	-	-	363	-	-
KBC Bank NV	4,053	15,001	13,162	2,486	1
Entities under common control					
ČSOB SK	39	770	16	-	-
KB Lux	-	230	23	-	-
KBC Global Services NV	-	-	621	-	-
Patria Direct	-	959	2,418	-	-
Patria Finance, a.s.	-	47	90	-	-
Other	13	-	102	-	20
Subsidiaries					
Auxilium	-	-	1,219	-	-
BANIT	-	-	55	-	-
ČSOB AM	-	-	549	-	-
ČSOB IS	-	-	474	-	-
ČSOB IBS	-	-	2,395	-	-
ČSOB Leasing	4	-	62	-	-
ČSOB PF Progres	51	-	-	-	-
ČSOB PF Stabilita	86	-	-	-	-
ČSOB Property Fund	64	-	19	-	-
Hypoteční banka	-	-	17,906	-	-
Other	-	-	7	-	-
Associates					
ČSOB Pojišťovna	15	502	1,348	-	-
Joint ventures					
ČMSS	-	700	16,614	-	9

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 NV	17,253	-	-	74	4,580	-
Entities under common control						
ČSOB SK	58	-	816	63	-	19
Fulham Road Finance Limited (spv)	-	1,185	-	-	-	-
KBC Group NV	262	-	-	-	-	-
KBC Internationale Financieringsmij NV	307	-	-	-	-	-
Novaservis	1	-	-	220	-	-
Other	135	-	-	2	-	2
Subsidiaries						
ČSOB Factoring	-	-	-	2,241	-	-
ČSOB IS	-	-	-	-	-	83
ČSOB IBS	-	-	-	-	-	-
ČSOB Leasing	532	-	4,085	9,221	4	-
ČSOB Property Fund	116	-	-	-	-	-
Centrum Radlická	-	-	-	205	-	-
Hypoteční banka	6,158	5,602	84,798	28,221	-	-
Other	86	-	-	-	-	-
Associates						
ČSOB Pojišťovna	8	-	1	-	-	11
Joint ventures						
ČMSS	-	-	-	-	-	-

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 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 Global Services NV	-	-	119	-	281
Nova Ljubljanska Banka d.d. (NLB)	-	-	10	-	-
Novaservis	-	-	15	-	-
Patria Direct	-	-	26	-	-
Patria Finance, a.s.	-	-	21	-	-
Other	9	-	30	-	-
Subsidiaries					
ČSOB AM	-	-	402	-	-
ČSOB IS	-	-	485	-	-
ČSOB IBS	-	-	5	-	-
ČSOB Leasing	1	-	71	-	-
ČSOB PF Progres	18	-	150	-	-
ČSOB PF Stabilita	28	-	250	-	-
ČSOB Property Fund	50	-	150	-	173
Centrum Radlická	-	-	5	-	-
BANIT	-	-	163	-	-
Hypoteční banka	-	480	26,470	-	52
Other	-	-	132	-	-
Associates					
ČSOB Pojišťovna	36	554	849	-	-
Joint ventures					
ČMSS	-	900	8,354	-	6

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:

	2010		2009	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
KBC Bank NV	254	663	484	534
Entities under common control				
Baker Street Finance Limited	21	-	42	-
Clifton Finance Street Limited (spv)	16	-	30	-
ČSOB SK	23	1	38	7
Dorset Street Finance Ltd	22	-	42	-
Fulham Road Finance Limited (spv)	29	-	50	-
KB Lux	-	-	1	5
Novaservis	6	-	12	-
Oxford Street Finance Limited (spv)	12	-	24	-
Patria Direct	1	19	-	-
Patria Finance, a.s.	2	1	-	-
Pembridge Square Limited	5	-	10	-
Regent Street Limited	8	-	16	-
Sydney Street Finance Limited	15	-	28	-
Other	4	2	6	4
Subsidiaries				
Auxilium	-	10	-	1
BANIT	-	-	-	2
Centrum Radlická	3	-	6	-
ČSOB AM	-	4	-	4
ČSOB Factoring	29	-	49	-
ČSOB IS	-	4	-	11
ČSOB IBS	-	18	-	1
ČSOB Leasing	226	-	487	2
ČSOB PF Stabilita	-	2	-	12
Hypoteční banka	4,288	891	3,525	755
Other	-	1	-	7
Associates				
ČSOB Pojišťovna	-	48	-	46
Joint ventures				
ČMSS	-	217	23	280

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

(CZKm)	2010 Fee and commission income	2010 Fee and commission expense	2009 Fee and commission income	2009 Fee and commission expense
Entities under common control				
KBC Securities NV	9	-	2	-
Patria Direct	3	-	8	-
Subsidiaries				
Auxilium	-	-	1	-
BANIT	-	80	-	86
ČSOB AM	6	-	8	-
ČSOB Factoring	-	-	2	-
ČSOB IS	318	-	329	-
ČSOB IBS	-	-	1	-
ČSOB Leasing	21	-	24	-
ČSOB PF Progres	1	-	-	-
ČSOB PF Stabilita	1	-	-	-
ČSOB Property Fund	-	-	1	-
Hypoteční banka	37	-	52	-
Associates				
ČSOB Pojišťovna	110	-	81	-
Joint ventures				
ČMSS	-	17	1	19

Dividend income received from subsidiaries, associates and joint ventures in 2010 amounted to CZK 3,436 m (2009: CZK 7,556 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2010 amounted to CZK 179 m (2009: CZK 177 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).

In 2009 and 2010 the Bank transferred a number of employees and ICT-related assets to KBC GS CZ. The sales price which represents net cash inflow to the Bank in 2010 was determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague and amounted to CZK 951 m. The net profit of the sale of the enterprise reached the amount of CZK 329 m and has been recognised in Other net income.

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 2010, the Bank received income of CZK 68 m (2009: CZK 41 m) from the rental payments and related services, received CZK 49 m (2009: CZK 20 m) from the provision of administration services and paid expense of CZK 2,417 m (2009: 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 was included in Net realised gains on available-for-sale financial assets (Note: 2.5).

In 2010, the Bank received income of CZK 185 m (2009: CZK 275 m) from ČSOB SK arising from providing services and support in the following areas such as: IT, electronic banking, cards, payment processing, financial management and risk management. The decrease in 2010 is related to the transfer of the Bank's ICT activities to KBC GS CZ.

In June 2010, the Bank sold all the CDOs to KBC Credit Investments NV for CZK 1,196 m (Note: 15).

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

(CZKm)	2010 Guarantees received	2010 Guarantees given	2009 Guarantees received	2009 Guarantees given
KBC Bank NV	39	47	759	45
Entities under common control				
KBC Finance Ireland	-	-	367	-
Kredyt Bank SA	-	-	-	1
Patria Finance, a.s.	-	20	-	20
ČSOB SK	-	23	-	45
Subsidiaries				
ČSOB Leasing	-	501	-	529
Associates				
ČSOB Pojišťovna	-	2	-	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

There were no significant events after the end of the reporting period.

37. RISK MANAGEMENT

37.1 Introduction

Risk is an inherent part of the ČSOB activities, and risk and capital management is critical to the results of operations and financial condition of the ČSOB. The principal risks that the ČSOB faces are credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading (trading portfolio) and non-trading (credit and investment portfolio) risks. The ČSOB manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. The ČSOB primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Bank's risk and capital management system is based on a risk strategy determined by the ČSOB Board of Directors and is intended to be consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends. The ČSOB maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel II and, when implemented, Basel III, and the regulations of the CNB.

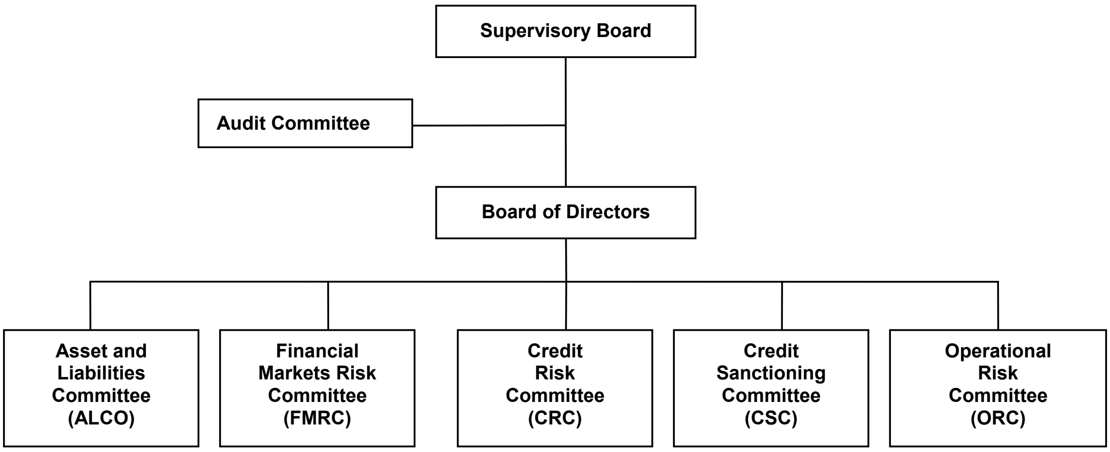
Risk management structure

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 ČSOB 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, 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.

Changes in risk management process

Starting from 2010, the KBC Group has been implementing changes to the risk and capital management governance structure aimed at consolidating and streamlining the risk and capital management processes and enhancing the responsiveness of the KBC Group, including the ČSOB, to possible future financial and economic challenges.

In response to KBC Group actions, in November 2010 management of ČSOB has taken decision to implement the new structure in 2011.

The introduction of the new risk and capital management governance structure at the ČSOB level involves, among others, the following changes:

- the role of the Senior Executive Officer, Finance and Risk Management, is being split into two positions: the Chief Risk Officer (CRO), who is responsible for performing risk and capital management functions, as described below, and the Chief Financial Officer (CFO);
- the establishment of the risk capital and oversight committee (RCOC), as described below;
- the establishment of the Risk Function, as described below; and
- the transfer of responsibilities of the Asset and Liability Committee (ALCO), Credit Risk Committee, Model Committee, Operational Risk Committee, Financial Markets Risk Committee and Capital Committee, to existing and certain newly established risk and capital management bodies, including the Board of Directors.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Bank’s risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at the ČSOB is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimising risks.

The risk and capital management governance model that is being implemented within the ČSOB in 2011 is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including the ČSOB, and management incentives should be linked to risk and capital adjusted measures, such as return on average equity (ROAE) and return on allocated capital (ROAC), and aligned consistently within the entire KBC Group, including the ČSOB;
- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within the ČSOB;
- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimising risks;
- the Board of Directors should determine the risk appetite of the ČSOB within which the business has the right to take risks and beyond which the CRO can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The above-mentioned principles establish a governance structure, within which

(i) the Board of Directors is responsible for determining the risk appetite of the ČSOB, and capital allocation within the ČSOB, by establishing measurable risk and capital parameters, which must be followed in all business activities,

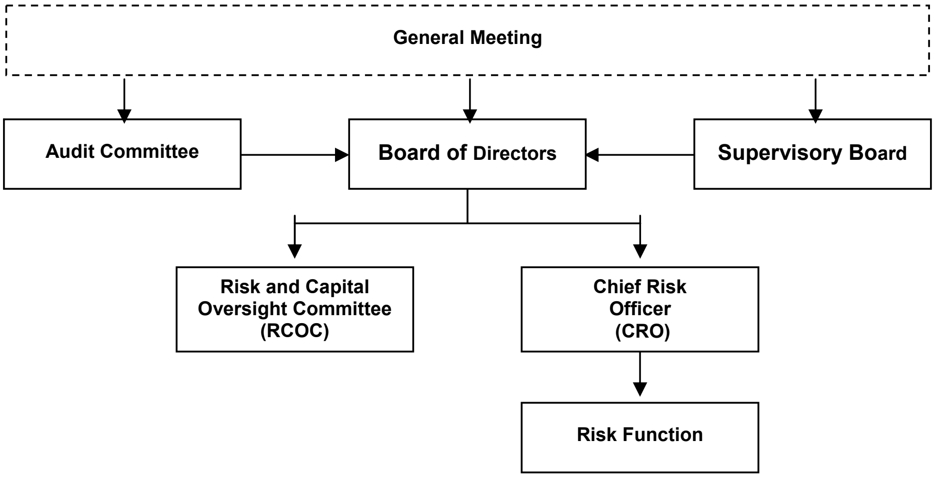
(ii) the RCOC is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place, and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

The following chart sets forth an overview of the newly established principal risk and capital management bodies and departments involved in the Bank's risk and capital management and control governance and responsibility structure.



Supervisory Board

The Supervisory Board is responsible for supervising the Board of Directors and ČSOB's business activities. The Supervisory Board regularly receives integrated risk and capital management reports prepared by the Integrated Risk Management Department (IRMD), as described below.

Audit Committee

The risk and capital management function of the Audit Committee is to supervise the risk appetite and capital allocation process, and ensure that appropriate risk controls have been put into place. In addition, the Audit Committee is responsible for ensuring that the ČSOB's risk and capital management policies are in compliance with legal and regulatory requirements. The Audit Committee regularly receives integrated risk management reports prepared by the IRMD.

Board of Directors

The Board of Directors is the sole integrated risk decision body responsible for establishing the risk appetite and capital allocation within the ČSOB on an annual basis. This process involves

(i) the approval of the ČSOB's risk appetite statement,

(ii) the approval of the ČSOB's risk and capital strategy,

(iii) the approval of risk limits for the ČSOB that are consistent with the ČSOB's risk appetite statement and risk and capital management strategy,

(iv) the allocation of regulatory and economic capital to the subsidiaries and business units within the ČSOB with the aim of achieving an acceptable balance between return and risk and

(v) the approval of the ČSOB's risk and capital management governance structure and ensuring that it conforms with both internal guidelines and regulatory requirements.

On the basis of monthly integrated risk management reports prepared by the IRMD, the Board of Directors is also responsible for monitoring whether the ČSOB's risk exposure is in conformity with the ČSOB's risk limits system and making decisions on risk and capital management issues that may be escalated to its attention by the CRO or the RCOC, as described below.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors in monitoring the ČSOB's risk and capital management exposures against the limits set by the Board of Directors. The key responsibilities of the RCOC are to

(i) propose to the Board of Directors the risk appetite statement, risk and capital management strategy and risk limits for the ČSOB,

(ii) review risk limits at regular intervals and propose changes to the same to the Board of Directors,

(iii) monitor risk exposure against risk limits,

(iv) take corrective actions, if needed, including bringing any material issues or concerns to the Board of Directors, and

(v) monitor capital adequacy and the usage of regulatory and economic capital.

As such, the RCOC assumes to a large extent, the limit setting and monitoring functions of the former ALCO. The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Audit Committee and the Supervisory Board. These reports form the basis for the risk monitoring process. Further ad hoc reports may be prepared and submitted for specific risk situations. The CRO is the chairman and the CFO is the vice-chairman of the RCOC.

Chief Risk Officer (CRO)

The CRO is responsible for ensuring that

(i) proper risk management frameworks are in place and

(ii) the ČSOB's risk and capital management strategy is properly implemented through risk management frameworks and policies.

The key responsibilities of the CRO are to

(i) provide input for the determination of the risk appetite statement, risk and capital management strategy and risk limits for the ČSOB,

(ii) monitor whether risk management frameworks are implemented, maintained and enhanced to manage risk and capital within the risk appetite and capital allocation determined by the Board of Directors,

(iii) determine the design of the Risk Function, as described below,

(iv) determine the risk and capital management measurement techniques and tools, including models, to be used by the ČSOB.

The CRO is a member of the Board of Directors, and regularly prepares reports to be provided by the Board of Directors to the Audit Committee and the Supervisory Board.

The CRO may suspend any decisions of any department or committee, or any business unit or sub-unit, affecting the risk or capital position of the ČSOB by escalating it to the RCOC or the Board of Directors.

Risk Function

The Risk Function is a functional unit consisting of the following departments:

Integrated Risk Management Department (IRMD)

The IRMD is responsible for managing the process of measuring and monitoring risk on an integrated basis within the ČSOB Group. In particular, the IRMD performs the ICAAP process (see ICAAP Process below), including the management of economic capital, and is responsible for integrated risk reporting (see Risk Monitoring and Reporting below). The IRMD also regularly provides reports to the supervisory section of the ČNB.

Risk Specific Management Department (RSMD)

The RSMD is responsible for managing credit risk, liquidity risk, operational risk and market risk. In particular, the RSMD is responsible for

(i) ensuring that the risk frameworks specific to these types of risks are in place and properly implemented and

(ii) monitoring the risk limits and proposing changes to these risk limits or corrective actions to be taken in response to breaches of these risk limits.

Within the RSMD, the information security officer is responsible for determining the risk frameworks for informational risk, including cyber risk, and the monitoring of these risks.

Risk Shared Services Department (RSSD)

The RSSD is responsible for supporting all the other departments forming the Risk Function in data management and reporting. In particular, the RSSD

(i) maintains all ICT applications needed for the performance of risk and capital management,

(ii) designs the technical ICT architecture in cooperation with the ICT and

(iii) performs activities aimed at ensuring the correct flow of data needed for proper risk and capital monitoring.

The RSSD is responsible for risk data governance and also forms the link between the requirements of the IRMD and RSMD departments and the ICT.

Validation Department

The Validation Department is responsible for the validation of all risk measurement tools and methodologies used within the ČSOB, which are used to calculate the value of credit, ALM, market and other instruments for risk and capital management purposes, including the risk measurement models developed at the KBC Group level.

The Board of Directors has delegated responsibilities to each of the RCOC and the CRO. Such delegated authority includes the following:

- the RCOC may authorize transactions and approve risk limit exceptions

  (i) where the decision impacts 5% or more of the ČSOB Group's regulatory capital by risk type or a derivation thereof and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the decision impacts 2% of the ČSOB Group's estimated underlying profit for the current year.

  In addition, in instances where figures cannot be calculated or for which there is uncertainty over the exact risk exposure, the CRO may decide to submit the transaction to the RCOC.

- an authorization of the CRO is required for decisions on risk frameworks and policies

  (i) where the risk frameworks or policies impact 5% or more of the ČSOB Group's regulatory capital by risk type or a derivation thereof and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the risk framework or policy impacts 2% of the ČSOB Group's estimated underlying profit for the current year.

- to the CRO, the authority to decide on matters falling below the above-mentioned thresholds. The CRO may sub-delegate this authority further to one of the departments forming the Risk Function.

Additionally, the CRO may submit to the Board of Directors, the Supervisory Board and/or the Audit Committee issues and concerns related to the entire ČSOB which the CRO considers to have an actual or potential material impact on the ČSOB's risk parameters.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the ČSOB level:

Credit Departments

The Credit Departments are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors. The ČSOB has two Credit Departments, one for each of

(i) corporates, SMEs and banks,

(ii) consumer finance,

These departments report either to a Credit Risk Manager or the CFO. The key responsibilities of the Credits Departments are to

(i) approve individual credit applications,

(ii) approve contractual documentation concerning individual credits,

(iii) monitor credit behavior of individual credits during their lifetime and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALMD)

The ALMD is responsible for managing the assets and liabilities of the ČSOB's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALMD is also primarily responsible for managing the funding and liquidity position of the ČSOB. The ALMD reports to the CFO.

Internal Audit Department

The Internal Audit Department annually audits risk and capital management processes throughout the ČSOB examining both the adequacy of its risk and capital management procedures and the Bank's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Committees (NAPCs)

NAPCs are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPCs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department, Compliance Department and Internal Audit Department) seeks to ensure that no product may be offered to the ČSOB's customers unless all significant risks have been analyzed and mitigated and residual risks have been accepted. The ČSOB pays special attention to protecting the ČSOB against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPC.

Credit Sanctioning Committee (CSC)

The CSC is a committee with 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 as the highest decision-making committee for the ČSOB Group with respect to credit risk. The members of the CSC are the CFO, who is the CSC's chairman, the CRO, and the head of the ČSOB corporate credit department, corporate advice and underwriting department, corporate banking department and specialized and institutional banking department. The CSC reports to the Board of Directors.

Business Risk Meetings (BRMs)

In order to facilitate the performance of day-to-day risk and capital management in close cooperation with the business, the business and the Risk Function conduct BRMs. The BRMs take place on a monthly or bi-monthly basis, and typically discuss issues concerning the monitoring of risk and implementation of risk frameworks. The BRMs are not decision bodies, they only apply the policies adopted by the Board of Directors or the CRO.

ICAAP Process

The internal capital adequacy assessment process (ICAAP) stems from the Basel II Second Pillar regulatory requirements, and the Committee of European Banking Supervisors (CEBS) has defined it as a process aimed at ensuring that management bodies, while exercising both their supervisory and management functions, which

(i) adequately identify, measure, aggregate and monitor the institution's risks,

(ii) hold adequate internal capital in relation to the institution's risk profile and

(iii) use and develop sound risk and capital management systems.

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 RCOC, and the CRO. 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. 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 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, non-retail 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).

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 ČSOB 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 ČSOB is more than 90 days past the due date.

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.

PD 11 and 12 represent customers, who have been overdue for 90 days or more, subject to bankruptcy proceeding or Bank credit decision authority has judged the exposure to be “partly or fully lost” without recourse to credit protection;

PD 10 contains (i) customers where the relevant Bank credit decision authority has judged the exposure to be “unlikely to pay” and none of the obligations are more than 90 days overdue, and (ii) restructured loans irrespective of whether or not they are overdue (after six months of performance, the restructured loan may be requalified); and

PD 1 to PD 9 represent the remaining exposures.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, amongst other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Bank’s risk categories, including the Bank’s PD ratings, for non-retail exposure, and their comparison to the CNB’s risk categories:

ČSOB risk categories for Non-retail exposure				ČSOB and CNB risk categories	CNB risk categories
PD Scale	PD Rating	Performance	Impairment		
Normal	1-7	Performing customers	Unimpaired	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	Performing customers	Collectively impaired	Non-defaulted	Watched
Uncertain – performing	10	Performing customers	Individually impaired	Defaulted	Substandard
Uncertain – non-performing	11	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	Non-performing customers	Individually impaired	Defaulted	Loss

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the RSMD and/or the CRO but developed, maintained and implemented by the Credit Departments in the Bank. These Credit Departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credit Department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC) or one of its sub-committees consisting of business line employees and employees in the Credit Department. All members of the CSC and its sub-committees must agree in order to approve a credit.

Within the delegation framework set by the RCOC, based on proposals of the Risk Function, the Credit Department can delegate the credit decision to the regional manager or senior relationship manager of a branch. Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the “four eye principle”, i.e. at least 2 persons need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to all non-retail exposures. Credit exposures with a rating between PD 1 – 8 (PD 1 – 7 for non-retail SMEs) are reviewed by the distribution. Credit exposures with a rating between PD 9 – 12 (PD 8 – 12 for non-retail SMEs) are reviewed by the Bad Debt Department, which is a sub-department of the Credit Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority within the Bank for review at least once a year in accordance with the same application process as for new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as 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 such as a sudden unexpected change in management that could lead to a deterioration of the customer’s financial situation. For higher risk cases, the CSC and its sub-committees are allowed to set review dates substantially shorter than one year. Generally, reviews take place more frequently for customers with higher PD ratings than for customers with lower PD ratings.

The Risk Function and/or the Credit Department may require an immediate review of certain exposures to a certain economic sector or exposure showing a risk of deterioration.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subjected to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file. Within the framework of the relevant contractual documentation, immediate actions can consist of a refusal to provide further draw downs, a requirement to increase equity or a requirement to provide additional collateral.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers, which is tested on a quarterly basis against internal thresholds and covenants specified in the relevant financing documentation. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process described above.

Bad Debts Treatment

Both for corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt Department. The credit customer relationship is transferred to the Bad Debt Department when an exposure reaches a PD rating of 8 in the case of non-retail SME customers, or a PD rating of 9, in the case of corporate customers. For corporate customers, a PD rating of 8 triggers a requirement for a written advice from the Bad Debt Department.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Bank's risk categories for retail exposure and their comparison to the CNB's risk categories:

ČSOB risk categories for Retail exposure				ČSOB and CNB risk categories	CNB risk categories
PD Scale	Days	Performance	Impairment		
Normal	0 - 30	Performing	Unimpaired	Non-defaulted	Standard
Asset Quality review (AQR)	31 - 90	Performing	Collectively impaired	Non-defaulted	Watched
Uncertain	91 - 180	Non-performing	Individually impaired	Defaulted	Substandard
Uncertain	181 - 360	Non-performing	Individually impaired	Defaulted	Doubtful
Irrecoverable	360 and more	Non-performing	Individually impaired	Defaulted	Loss

In addition, all restructured loans fall initially within the non-performing category irrespective of whether or not they are overdue. After six months of performance under the restructured loan, it may be requalified as performing.

Application Process

The application process in retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are in vast majority 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 credit bureau databases that include both positive as well as negative information.

Monitoring Process

The monitoring process in the retail segment is performed by the relevant Credit Departments and the RSMD and is based on aggregated data, does not involve individual reviews and looks at the development of defaults within different sub-portfolios. Typically, different product portfolios are reviewed monthly based on so-called vintages (in terms of origination date and number of months on the Bank's books) and the development of Credit Cost Ratios in the different sub-portfolios. Additionally, the development of the retail portfolio is monitored on the basis of pool migration (i.e. migration between different risk pools).

All retail exposures are subject to a monthly review of the risk development on a portfolio level by the relevant Credit Departments and the RSMD, which makes proposals to the CRO, the RCOC or the Board of Directors for mitigating certain risks if needed.

Collection Process

The collection process in retail consumer finance consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is three days overdue and may involve the restructuring of the loan. Late collection starts when any payment is 90 days overdue, and is focused on legal proceedings and the recovery of collateral. All collection units within the Bank are managed by the relevant Credit Departments and monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Bank, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Bank provides guarantees and letters of credit on behalf of its customers, as a result of which the Bank may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to the ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Bank to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Bank:

(i) *Undrawn but Committed Exposure*. This exposure arises where the Bank has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. In many cases, the commitment is conditional upon the fulfilment of so-called drawing conditions. This type of exposure comprises to a large extent of short-term exposure (consisting predominantly of working capital facilities), where the Bank's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. The Bank provides guarantees and letters of credit on behalf of its customers to persons that may require the Bank to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to the Bank by the relevant customer based on the terms of the underlying credit documentation. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Bank to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Bank manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government – E-Toll), where risk is limited as counterparties are either highly rated banks (rating AA and better), government institutions or entities with guarantees by highly rated banks (E-Toll).

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2010. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 14)	-	11,790	-	-	11,790
Financial assets held for trading	-	2,263	177,376	-	179,639
Financial assets designated at fair value through profit or loss	175	9,989	-	-	10,164
Available-for-sale financial assets	10	167,685	-	-	167,695
Loans and receivables	149,061	57,808	-	2,303	209,172
Held-to-maturity investments	1,346	139,225	-	-	140,571
Derivatives used for hedging	-	9,438	-	-	9,438
Other assets (Note: 23)	-	-	-	1,298	1,298
Total	150,592	398,158	177,376	3,601	729,767
Contingent liabilities (Note: 33)	24,708	501	-	-	25,209
Commitments – irrevocable (Note: 33)	63,779	2,966	-	-	66,745
Total	88,487	3,467	-	-	91,954
Total credit risk exposure	**239,079**	**401,665**	**177,376**	**3,601**	**821,721**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2009. The maximum exposure is shown gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 14)	-	14,198	-	-	14,198
Financial assets held for trading	-	3,174	163,801	-	166,975
Financial assets designated at fair value through profit or loss	185	19,464	-	-	19,649
Available-for-sale financial assets	10	167,345	-	-	167,355
Loans and receivables	160,909	39,598	-	2,519	203,026
Held-to-maturity investments	1,277	117,772	-	-	119,049
Derivatives used for hedging	-	8,044	-	-	8,044
Other assets (Note: 23)	-	-	-	3,366	3,366
Total	162,381	369,595	163,801	5,885	701,662
Contingent liabilities (Note: 33)	23,679	529	-	-	24,208
Commitments – irrevocable (Note: 33)	64,485	4,427	-	-	68,912
Total	88,164	4,956	-	-	93,120
Total credit risk exposure	**250,545**	**374,551**	**163,801**	**5,885**	**794,782**

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.

The portfolios are further structured as follows:

Credit portfolio is structured according to the type of the business, the Bank enters into:

2010 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Allowances	Provisions	**Net Exposure**
Corporate	76,861	22,073	35,149	**134,083**	179	(3,143)	(160)	**130,959**
SME	62,936	1,317	18,567	**82,820**	106	(3,912)	(76)	**78,938**
Retail	18,205	4	9,870	**28,079**	61	(1,002)	(5)	**27,133**
Other	548	1,313	623	**2,484**	-	(247)	(188)	**2,049**
Total credits	**158,550**	**24,707**	**64,209**	**247,466**	**346**	**(8,304)**	**(429)**	**239,079**

2009 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Allowances	Provisions	**Net Exposure**
Corporate	84,335	21,111	33,682	**139,128**	245	(2,691)	(196)	**136,486**
SME	66,925	690	20,780	**88,395**	108	(3,428)	(24)	**85,051**
Retail	17,447	4	9,039	**26,490**	59	(923)	(3)	**25,623**
Other	556	1,874	1,358	**3,787**	42	(294)	(150)	**3,385**
Total credits	**169,263**	**23,679**	**64,859**	**257,800**	**454**	**(7,336)**	**(373)**	**250,545**

An industry sector analysis of the Bank's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2010		2009	
Sector	Granted Exposure (CZKm)	Percentage of Total Exposure	Granted Exposure (CZKm)	Percentage of Total Exposure
Services	40,000	16	40,689	16
Distribution	30,337	12	30,243	12
Private persons	26,138	11	25,456	10
Building and Construction	24,722	10	22,544	9
Commercial Real Estate	18,141	7	20,999	8
Finance and Insurance	11,261	5	17,730	7
Automotive	10,331	4	13,179	5
Machinery and Heavy Equipment	9,320	4	9,742	4
Authorities	8,938	4	7,636	3
Oil, Gas and Other Fuels	7,286	3	7,419	3
Other	60,992	25	62,163	24
Total	**247,466**	**100**	**257,800**	**100**

Investment portfolio is structured according to type of the instrument:

2010 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	310,604	-	-	**310,604**	6,384	(136)	**316,852**
Equity securities	140	-	-	**140**	-	(93)	**47**
Loans and receivables within investment portfolio	57,077	501	2,966	**60,544**	731	-	**61,275**
Derivatives used for hedging	8,205	-	-	**8,205**	1,233	-	**9,438**
Derivative contracts held for trading	2,263	-	-	**2,263**	-	-	**2,263**
Cash and balances with central banks	11,790	-	-	**11,790**	-	-	**11,790**
Total investment	**390,079**	**501**	**2,966**	**393,546**	**8,348**	**(229)**	**401,665**

2009 (CZKm)	Outstanding Gross Amount	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	298,123	-	-	**298,123**	6,547	(136)	**304,534**
Equity securities	140	-	-	**140**		(93)	**47**
Loans and receivables within investment portfolio	39,160	529	4,427	**44,116**	438		**44,554**
Derivatives used for hedging	6,932	-	-	**6,932**	1,112		**8,044**
Derivative contracts held for trading	3,174	-	-	**3,174**			**3,174**
Cash and balances with central banks	14,197	-	-	**14,197**	1		**14,198**
Total investment	**361,726**	**529**	**4,427**	**366,682**	**8,097**	**(229)**	**374,551**

Investment portfolio is monitored from counterparty sector point of view:

	2010		2009	
Sector	Granted Exposure (CZKm)	Percentage of Total Exposure	Granted Exposure (CZKm)	Percentage of Total Exposure
Central government	196,985	50	178,908	49
Credit institutions	179,760	46	167,185	46
Corporate	15,795	4	19,147	5
Non-credit institutions	1,006	-	1,442	-
Total investments	**393,546**	**100**	**366,682**	**100**

Trading portfolio is structured according to type of the instrument:

2010 (CZKm)	Outstanding Gross	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	39,535	-	-	**39,535**	305	-	**39,840**
Loans and advances	124,765	-	-	**124,765**	124	-	**124,889**
Derivative contracts held for trading	12,647	-	-	**12,647**	-	-	**12,647**
Total trading portfolio	**176,947**	**-**	**-**	**176,947**	**429**	**-**	**177,376**

2009 (CZKm)	Outstanding Gross	Contingent Liabilities Gross	Credit Commitments Gross	**Granted Exposure**	Accrued Interest Income	Impairment	**Net Exposure**
Debt securities	40,936	-	-	**40,936**	467	-	**41,403**
Loans and advances	107,115	-	-	**107,115**	250	-	**107,365**
Derivative contracts held for trading	15,033	-	-	**15,033**	-	-	**15,033**
Total trading portfolio	**163,084**	**-**	**-**	**163,084**	**717**	**-**	**163,801**

Trading portfolio is monitored from counterparty sector point of view:

	2010		2009	
Sector	Granted Exposure (CZKm)	Percentage of Total Exposure	Granted Exposure (CZKm)	Percentage of Total Exposure
Central government	129,066	73	111,207	68
Credit institutions	43,360	24	46,492	28
Corporates	4,419	3	5,279	4
Non-credit institutions	102	-	106	-
Total investments	**176,947**	**100**	**163,084**	**100**

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by geographical region and by client/counterparty.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)	2010	2009
Czech Republic	739,260	696,478
Slovak Republic	5,219	7,140
Other Europe	73,176	84,891
Other	4,066	6,273
Total	**821,721**	**794,782**

Client concentration is monitored on the level of individual portfolios. In credit portfolio the exposure towards groups of economically connected subjects are monitored:

	2010		2009	
Client	Granted Exposure (CZK m)	% of Total Credit Portfolio	Granted Exposure (CZK m)	% of Total Credit Portfolio
1 largest client	3,344	1.4	5,177	2.0
10 largest clients	19,115	7.7	26,810	10.4
25 largest clients	38,204	15.4	47,172	18.1

Largest exposure (excluding accrued interest income) to a single client as of 31 December.2010 was CZK 178,104 m in investment portfolio (CZK 150,785 m in 2009) to Czech Government and CZK 127,215 m (CZK 110,260 m in 2009) to Czech Government in trading portfolio.

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 Bank continuously monitors the market value of all collaterals, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed carrying amount of the receivable.

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, worsening of their credibility reflected by 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 contain probably 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, the availability of other financial support, liquidation 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:

(iii) historical losses in the portfolio,

(iv) current economic conditions,

(v) 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

(vi) the expected receipts and recoveries once impaired.

The local management is responsible for deciding the length of emergence period. In both 2010 and 2009, 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

The Bank sorts exposures into 4 categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Bank's credit rating system at 31 December 2010 and 2009 per individual portfolios:

Credit portfolio	2010				
	Unimpaired assets	Impaired assets			Total
		Collectively	Individually		
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-performing), Irrecoverable	
Corporate	66,770	3,749	4,221	2,122	76,861
SME	55,222	1,533	1,994	4,186	62,936
Retail	16,984	142	14	1,065	18,205
Other	-	1	-	546	548
Accrued interest income	327	19	-	-	346
Total	**139,304**	**5,444**	**6,230**	**7,918**	**158,896**

Credit portfolio	2009				
	Unimpaired assets	Impaired assets			Total
		Collectively	Individually		
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-performing), Irrecoverable	
Corporate	73,569	5,607	3,384	1,175	84,335
SME	60,135	2,071	1,240	3,479	66,925
Retail	16,334	174	-	940	17,448
Other	-	-	-	555	555
Accrued interest income	447	7	-	-	454
Total	**150,484**	**7,859**	**4,624**	**6,749**	**169,717**

Investment portfolio

(CZKm)	2010 Unimpaired assets Normal	2010 Individually Impaired assets Uncertain (Non-performing), Irrecoverable	2010 Total
Debt securities	310,461	143	310,604
Equity securities	43	97	140
Loans and receivables within investment portfolio	57,077	-	57,077
Derivatives used for hedging	8,205	-	8,205
Derivative contracts held for trading	2,263	-	2,263
Cash and balances with central banks	11,790	-	11,790
Accrued interest income	8,348	-	8,348
Total	**398,187**	**240**	**398,423**

Investment portfolio

(CZKm)	2009 Unimpaired assets Normal	2009 Individually Impaired assets Uncertain (Non-performing), Irrecoverable	2009 Total
Debt securities	298,051	143	298,194
Equity securities	43	97	140
Loans and receivables within investment portfolio	39,160	-	39,160
Derivatives used for hedging	6,932	-	6,932
Derivative contracts held for trading	3,174	-	3,174
Cash and balances with central banks	14,197	-	14,197
Accrued interest income	8,098	-	8,098
Total	**369,655**	**240**	**369,895**

Trading portfolio

(CZKm)	2010 Unimpaired assets Normal	2010 Individually Impaired assets Uncertain (Non-performing), Irrecoverable	2010 Total
Debt securities	39,535	-	39,535
Loans and and advances	124,765	-	124,765
Derivative contracts held for trading	12,647	-	12,647
Accrued interest income	429	-	429
Total	**177,376**	**-**	**177,376**

Trading portfolio	2009		
	Unimpaired assets	Individually Impaired assets	Total
(CZKm)	Normal	Uncertain (Non-performing), Irrecoverable	
Debt securities	40,936	-	40,936
Loans and and advances	107,115	-	107,115
Derivative contracts held for trading	15,033	-	15,033
Accrued interest income	717	-	717
Total	**163,801**	**-**	**163,801**

The table below shows an ageing analysis of gross past due but not impaired financial assets in Credit portfolio:

	2010	2009
(CZKm)	Less than 30 days	Less than 30 days
SME	1,127	2,160
Retail	886	849
Total	**2,013**	**3,009**

There were no past due but not impaired assets in Investment and Trading portfolios.

Individually impaired financial assets and the related impairment are as follows:

	2010		2009	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Credit portfolio				
Corporate	6,343	(3,066)	5,159	(2,569)
SME	6,180	(3,661)	4,719	(3,322)
Retail	1,079	(888)	940	(792)
Other	546	(236)	556	(285)
	14,148	(7,851)	11,374	(6,968)
Investment portfolio				
Equity securities	97	(92)	97	(92)
Debt securities	143	(136)	143	(136)
	240	(228)	240	(228)
Total	**14,388**	**(8,079)**	**11,655**	**(7,196)**

The carrying amount of the financial assets that would otherwise be past due or impaired whose terms have been renegotiated was CZK 534 m at 31 December 2010 (31 December 2009: CZK 790 m) (Note: 2.4 (7) (iii)).

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 CNB 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 excluding repo transactions with 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 2010 and 2009 was as follows:

(%)	2010	2009
31 March	35.1	42.5
30 June	35.9	39.4
30 September	36.3	39.1
31 December	35.6	35.1

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.

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 2010:

(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	-	7,385	7,186	2,250	16,821
Other than financial derivatives	-	5,457	-	-	5,457
Financial liabilities designated at fair value through profit or loss	-	117,237	932	69	118,238
Financial liabilities at amortised cost	437,677	85,003	21,252	36,478	580,410
Derivatives used for hedging	-	2,084	2,679	1,266	6,029
Other liabilities	-	5,775	-	-	5,775
Total carrying value	**437,677**	**222,941**	**32,049**	**40,063**	**732,730**

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 maturity for contingent liabilities and commitments of CZK 122,845 m (2009: CZK 117,153 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 2009 and they were one time higher in 2010.

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 potential gains or losses analysed using VaR model in 2010 and 2009:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2010	83	4	(4)	83
Average during the period	108	8	2	118
Highest	161	42	(20)	183
Lowest	67	2	5	74

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2009	111	4	(1)	114
Average during the period	137	12	(9)	140
Highest	534	42	(76)	500
Lowest	75	1	(1)	75

Market risk – Non-trading

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 Financial assets designated at fair value through profit or loss 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 2010:

		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	(3.2)	1.7	(13.1)	(7.9)	(22.5)
EUR	+ 10	0.4	0.4	(3.1)	(5.6)	(7.9)
USD	+ 10	-	-	(0.4)	(0.3)	(0.7)
CZK	- 10	3.2	(1.7)	13.1	7.9	22.5
EUR	- 10	(0.4)	(0.4)	3.1	5.6	7.9
USD	- 10	-	-	0.4	0.3	0.7

		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	(13.9)	(8.2)	(110.9)	(510.5)	(643.5)
EUR	+ 10	0.7	(1.4)	20.2	58.6	78.1
USD	+ 10	-	-	(3.3)	(11.6)	(14.9)
CZK	- 10	13.9	8.2	110.9	510.5	643.5
EUR	- 10	(0.7)	1.4	(20.2)	(58.6)	(78.1)
USD	- 10	-	-	3.3	11.6	14.9

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

		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	(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)

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.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December:

	2010			2009		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	78	3	(3)	397	15	(15)

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 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. Operational risk management governance is supported by the CRO and the Risk Function. Regular meetings focusing on operational risk management take place at ČSOB subsidiaries and at distribution entities and departments responsible for creating new products within the ČSOB Group. Minutes of these meetings are provided to the CRO.

Risk Specific Management Department (RSMD)

RSMD 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 RSMD also coordinates business continuity management area. Other risks related to operational risk are coordinated by special units, including the Compliance 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. Meetings of LORMs are organised by the RSMD and are held every quarter for training and exchange of information.

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.

Detailed Risk Scan

The Detailed Risk Scan aims to identify, assess and quantify operational risks in all material products, activities, processes and systems. This activity is forward-looking and allows future developments, e.g. an improvement in the control framework, to be taken into account. It 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 line senior manager and reported to the CRO.

Global Risk Scan

The Global Risk Scan is a structured risk self assessment organised as an interview based on uniform questionnaires. The goal of the exercise 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 detailed risk scan involving business experts closer to the working floor.

Within the ICAAP process, the RSMD regularly organises a top-down operational and business risk scan involving the top management in the selection of the scenarios, the quantification of these scenarios and the drawing up of remedial actions. Some of the risk scenarios were obligatorily imposed by the RSMD, others were drafted together with the business units involved. In 2010, 94 scenarios were considered for individual business segments units. All scenarios with a possible impact on the statement of income of over EUR 1 m were submitted to the Board of Directors for consideration.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. They form a basis for estimating the likelihood of risk events and indicate changes in the risk profile of the Bank processes. 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 ČSOB as a whole, or only certain parts thereof.

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 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 (effective as from 1 July 2007).

During the past year, the Bank complied with its regulatory imposed capital requirements. The Bank also analysed impact of proposed Basel III regulation and plans to incorporate major changes / ratios from 2011 into regular management of the risk and capital positions.

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)	2010	2009
Tier 1 capital	38,516	33,953
Tier 2 capital	12,492	11,970
Deductible items of Tier 1 and Tier 2	(636)	(957)
Total capital	**50,372**	**44,966**
Capital requirements	24,410	29,423
Risk weighted assets	**305,122**	**367,784**
Capital adequacy ratio	16.51 %	12.23 %

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, paragraph 9 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, paragraph 9 of the Commercial Code, for the accounting period from 1 January 2010 to 31 December 2010 (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 2010 (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 2010 (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, maintenance 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 IT Services

In the accounting period, ČSOB continued in cooperation with KBC Global Services Czech branch, organization unit (hereinafter referred to as the "KBC GS CZ") in accordance with the concluded agreements on 1 June 2009 and on 1 December 2009 its sub-agreement on providing IT services. 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. Shareholder Agreements – Agreements on Exercise of Voting Rights

Agreement on Exercise of Voting Rights in ČSOB Leasing

The Agreement on the Exercise of voting rights between ČSOB and KBC Lease dated 9 December 2010 entitles KBC Lease to exercise 49.18% of the voting rights in ČSOB Leasing. The agreement has been entered into for a definite period and can be terminated by ČSOB at any time by a prior notice.

Agreement on Exercise of Voting Rights in ČSOB Asset Management

The Agreement on the Exercise of voting rights between ČSOB and KBC Renta Conseil Holding (since 1 July 2010 KBC Participations Renta) dated 27 January 2010, entitles ČSOB to exercise 52.94% of the voting rights in ČSOB Asset Management. The agreement has been entered into for 20 years and can be terminated by ČSOB at any time by a prior notice.

Agreement on the Exercise of Voting Rights in ČSOB Investiční společnost

The Agreement on the Exercise of voting rights between ČSOB and ČSOB Asset Management dated 27 March 2005, entitles ČSOB Asset Management to exercise 84.72% of the voting rights in ČSOB Investiční společnost. The agreement has been entered into for an indefinite period and can be terminated by ČSOB at any time by a prior notice.

Agreement on Exercise of Voting Rights in ČSOB Property fund

The Agreement on the Exercise of voting rights between ČSOB and ČSOB Pojišťovna dated 18 December 2008, entitles ČSOB to exercise 95.59% of the voting rights in ČSOB Property fund. The agreement has been entered into for 20 years and can be terminated by ČSOB at any time by a prior notice.

Agreement on the Exercise of Voting Rights in ČSOB Pojišťovna

The Agreement on the Exercise of voting rights between ČSOB and KBC Insurance (a company in the KBC Group) dated 2 October 2008, entitles ČSOB to exercise 40.00% of the voting rights in ČSOB Pojišťovna. The agreement has been entered into for 20 years and can be terminated by ČSOB at any time by a prior notice.

Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

k. Other Contracts and Agreements

The Sale of CDO Portfolio

On 15 June 2010, ČSOB sold its entire CDO portfolio to KBC Credit Investments for a total of EUR 46,598,422. The price was set up in accordance with the valuation of a court-appointed expert, as required by Czech law.

The Sale of ICT Business to KBC GS

At the beginning of January 2010, an asset purchase agreement between ČSOB and KBC GS became effective, pursuant to which ČSOB sold to KBC GS the ICT assets. The sales price for the ICT assets was determined on the basis of an expert opinion prepared by a court-appointed expert. The Bank incurred no damage from the fulfilment of the contract.

Other contracts and agreements concluded in the accounting period:

Name of Contract	Consideration	Party of the Contract	Damage Incurred
General agreement on intragroup services (internal audit)	Contractual price	ČSOB and all subsidiaries	None
General agreement on the cooperation – observance of tax obligation	Observance of tax obligation	ČSOB and ČMSS, ČSOB AM, ČSOB IS, ČSOB PF Progres, ČSOB PF Stabilita, ČSOB Pojišťovna, Hypoteční banka, KBC GS	None
Multiparty Frame Agreement – business policy of mutuals relations, application of OECD rules	None	ČSOB and ČSOB AM, ČSOB IS, ČSOB PF Progres, ČSOB PF Stabilita, ČSOB Factoring, Hypoteční banka, ČSOB Leasing, KBC group	None

4.2.2 Dividends

In the accounting period the following related entities paid dividends to ČSOB: Auxilium, BANIT, ČMSS, ČSOB Factoring , Hypoteční banka, ČSOB IBS, ČSOB IS, ČSOB PF Progres, ČSOB PF Stabilita and ČSOB Property fund.

ČSOB paid out dividend to KBC Bank.

4.2.3 Other Measures

In the accounting period, ČSOB further 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,
– Decreased of the participation in ČSOB Property fund, Merrion Properties, Property LM and Property Skalica as a result of the Bank's decision to decrease the amount of the share capital of the entity and buyout of shares.

Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

5. Conclusion

The Board of Directors notes that this Report was treated in the statute of limitation.

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.

This Report was submited to review of the Supervisory Board of ČSOB.

In Prague on 23 March 2011

Československá obchodní banka, a. s.

On behalf of the Board of Directors

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

Bartel Puelinckx
Member of the Board of Directors
and Chief Finance Officer

ČSOB Securities

Shares

Shares and Share Capital of ČSOB

	as at 31 December 2010	as at 14 March 2011
ISIN	CZ0008000288	CZ0008000288
Class	Ordinary shares	Ordinary shares
Type	Registered shares	Bearer shares
Edition	Book-entered	Book-entered
Number of shares	292,750,000	292,750,000
Nominal value	CZK 20	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 2010, 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 regulated market in either an EU member state, or an EEC member state.

ČSOB shares – changes in type and nominal value

– 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.

– In adopting the resolution of the sole shareholder dated **10 September 2010**, 292,750,000 ČSOB ordinary bearer shares with a nominal value of CZK 20 per share were converted into registered shares (evidenced by an entry in the Register of Companies dated 14 September 2010).

– In adopting the resolution of the sole shareholder dated **11 March 2011**, 292,750,000 ČSOB ordinary registered shares with a nominal value of CZK 20 per share were converted into bearer shares (evidenced by an entry in the Register of Companies dated 14 March 2011).

– Resolution of the sole shareholder of 10 September 2010 and 11 March 2011, reflected changes in the Czech legislation.

Rights Attached to ČSOB Shares

Shareholder rights 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)

In the Czech Republic, ČSOB is an issuer of bonds and mortgage bonds issued under the **ČSOB's bond issuance program**. The program was approved by the former Securities Commission in November 2003 (including joint issue terms and conditions common for an unspecified number of future bond issues) with a maximum amount of CZK 30 bn of outstanding bonds and 10-year tenure.

By 31 December 2010, ČSOB issued the following bond issues under the bond issuance program in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Bonds Issued (Nominal Value)	
Mortgage bond ČSOB 4.60%/2015	CZ0002000706	15. 11. 2005	CZKm	1,300
Bond ČSOB VAR/2018	**CZ0003701799**	**22. 12. 2008**	**CZKm**	**10**
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 (Tranche no. 1)	CZ0003702060	24.11. 2009	CZKm	130
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
Bond ČSOB Inflace I/2015 (Tranche no. 1)	CZ0003702292	10. 3. 2010	CZKm	170
Bond ČSOB ZERO CZK XIV/2013	CZ0003702417	14. 7. 2010	CZKm	500
Bond ČSOB Komodity II/2013 (Tranche no. 1)	CZ0003702425	15. 9. 2010	CZKm	22.5
Bond ČSOB koš akcií/2015 (Tranche no. 1)	CZ0003702441	27. 10. 2010	CZKm	121.7
Bond ČSOB likvidní/2015 (2 Tranches)	CZ0003702490	3. 12. 2010	CZKm	2,000

** Redeemed.*

The Bond ČSOB VAR/2018 is listed on 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 2011, ČSOB issued the following unlisted bond issues under the bond issuance program in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Bonds Issued (Nominal Value)	
Bond ČSOB ZERO USD III/2014	CZ0003702524	13. 1. 2011	USDm	10
Bond ČSOB likvidní/2015 (Tranche no. 3)*	CZ0003702490	3. 12. 2010	CZKm	1,000
Bond ČSOB likvidní/2016 (5 Tranches)	CZ0003702532	2. 2. 2011	CZKm	5,000
Bond ČSOB 3M PRIBOR/2016 (Tranche no. 1)	CZ0003702540	2. 3. 2011	CZKm	149
Bond ČSOB Inflace II/2016 (2 Tranches)	CZ0003702789	17. 3. 2011	CZKm	630

** Tranche no. 3 issued on 27 January 2011.*

The purpose of the issuance of bonds by ČSOB is mainly to enlarge the offer of investment products for the Bank's clients.

The bond issuance program's prospectus, amendments thereto and pricing supplements as well as the prospectus of the Bond ČSOB VAR/2018 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 **outsourced ICT services** provided by KBC Global Services Czech Branch, organizační složka (KBC GS CZ) since 1 June 2009. Since 1 January 2010, ČSOB Leasing has also been using outsourced ICT services provided by KBC GS CZ.

KBC GS CZ, Company Reg. No. 285 16 869, registered seat at Radlická 333/150, 150 57 Prague 5, is 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.

Information on outsourcing of ICT services
– available in Note no. 2.5 of the Notes to the Separate Financial Statements for 2010 according to EU IFRS and in Note no. 2.5 of the Notes to the Consolidated Financial Statements for 2010.

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.

On 1 September 2005, ČSOB and Česká pošta, s.p. (the "Czech Post Office") entered into the Agreement on the Provision of Services, which governs the cooperation between ČSOB and the Czech Post Office with respect to the distribution of ČSOB products in the network of post offices in the Czech Republic under the PSB brand. The Agreement on the Provision of Services is concluded for a fixed period until the end of 2017.

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 products licenses, to support ČSOB's business activities.

ČSOB is not a **patent** applicant/owner.

Governmental, Legal or Arbitration Proceedings in 2010

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

– available in Notes no. 27 and 33 of the Notes to the Separate Financial Statements for 2010 according to EU IFRS and in Notes no. 30 and 36 of the Notes to the Consolidated Financial Statements for 2010 according to EU IFRS.

The most significant ČSOB's court disputes as at 31 December 2010 are shown in the following tables including the dispute amount (without accessions).

I. Litigation Initiated by ČSOB *(the Plaintiff)*

	Counterparty of the Dispute	Receivable (CZKm)
1.	Nomura International PLC and Nomura Principal Investment PLC	24,008
2.	Czech National Bank	1,374

II. Litigation Against ČSOB *(the Defendant)*

	Counterparty of the Dispute	Liability (CZKm)
1.	imAGe Alpha, a.s., Weinberger Holding Inc.	17, 647
2.	ICEC-HOLDING, a.s.	11, 893
3.	JUDr. Věslav Németh	1,682
4.	Bankruptcy Trustee of Chemapol Group, a.s.	1,450
5.	ZPS, a.s.	1,000

Legal disputes indicated in list I. represent no risk even in case of a potential defeat.

According to the Bank, legal disputes in list II. do not constitute any risk, given their absolute unreasonableness. In addition, legal disputes with numbers 2 and 3 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 enterprise, according to the Bank.

Significant Changes in 2010

An arbitral award issued on 26 July 2010, dismissed in full the claims of General factoring, a.s. against ČSOB in an amount of CZK 39,999 m and awarded ČSOB all costs of arbitration. The award became final and binding on 30 July 2010. The three-month period for challenging the award before the Austrian courts expired on 1 November 2010.

An arbitral award issued on 20 December 2010, acknowledged the claim of ČSOB against the Czech Ministry of Finance for the payment of a guarantee granted in relation to IPB in an amount of CZK 1,655 m (the J. Ring receivable) and accrued interest. The same arbitral award dismissed in full the Ministry of Finance's claim against ČSOB in an amount CZK 33,252 m and awarded ČSOB the costs of arbitration. On 31 December 2010, ČSOB received the amount of CZK 2,035 m from the Ministry of Finance, which was equal to the principal amount in dispute together with accrued interest and the contribution to costs awarded in the arbitration. The award became final and binding on 29 November 2010. The Ministry of Finance was entitled to challenge the award before the courts in Austria until 30 March 2011. The Ministry of Finance challenged the part of the award acknowledging the ČSOB's claim in the amount of CZK 1,655 m, but did not challenge the part of the award dismissing the counterclaim against ČSOB.

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 2010	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 2010	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 2010	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 2010 according to EU IFRS (unless stated otherwise).
2) The content refers to a note in Notes to the Consolidated Financial Statements for 2010 according to EU IFRS.
3) Together with this Annual Report, ČSOB also publishes the ČSOB Group Sustainability Report 2010.

Remuneration Charged by Auditors for 2010

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 (CZKths)	ČSOB	Consolidated ČSOB Unit
Auditor services	8,590	18,493
Advisory	1,016	1,016
Total	**9,606**	**19,509**

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.

(CZKths)	ČSOB	Consolidated ČSOB Unit
Basis for calculation of the contribution to the Securities Brokers Guarantee Fund for 2010	708,435	1,003,641
The contribution	14,169	20,073

Expected Economic and Financial Situation of ČSOB in 2011

In 2011, the ČSOB group will continue to focus on providing high quality services to the clients. It is further our aim to better serve the needs of our existing clients and to further increase our market share in specific areas, also by expanding our client base.

In 2010 the Czech economy returned to growth after a decline in the previous year. The real gross domestic product in 2010 increased by 2.3% and, according to the CNB's most recent macroeconomic outlooks, it is expected to grow further in 2011, though by a lower pace, and accelerate during 2012. Such a development of the Czech economy provides favorable conditions for increasing demand of Czech households and companies for banking products and services as well as improving risk profile of clients on the Czech market in general. During the year of 2011, the ČSOB group intends to maintain solid profitability together with continuing emphasis on asset quality. Comfortable capital and liquidity position allows ČSOB group to grow in its loan portfolio faster than in deposits, while keeping its independence on external financing.

Events after the Reporting Period

Chapter	Part
Corporate Governance	Managing and Supervisory Bodies
Additional Information	ČSOB Securities

Information on the Publication of the ČSOB Annual Report

ČSOB will publish its Annual Report 2010 on its Internet website at www.csob.cz.

The Czech National Bank will add the ČSOB Annual Report 2010 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 2010 equals CZK 5,855 m and was composed of 292,750,000 ordinary shares with a nominal value of CZK 20 each. Share premium was CZK 7,509 m in aggregate.

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.

During the year 2010 the growth of the regulatory consolidated capital amounted to CZK 2,360 m. The reasons were the increase of CZK 732 m due to the allocation and distribution of Retained profit from previous periods and reaching the surplus in coverage of expected credit losses in IRB (Internal Rating-based) approach. Increase in coverage of expected credit losses raised the regulatory consolidated capital by CZK 1,354 m.

Information on Capital of the Regulated Consolidated Unit

Information on Capital (CZKths)		31. 12. 2010	31. 12. 2009
1.	**Original capital** (Tier 1)	**45,583,002**	**44,581,618**
	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	18,686,651	18,686,645
	Retained profit from previous periods	16,373,667	15,641,207
	Minority interests	853,933	879,343
	Goodwill from consolidation	(263,073)	(263,073)
	Resulting exch. rate differences from consolidation	0	0
	Goodwill other than from consolidation	(2,688,910)	(2,688,910)
	Intangible assets other than goodwill	(672,561)	(970,211)
	Negative valuation difference from real value changes in AFS shares	(70,258)	(66,935)
2.	**Total supplementary capital** (Tier 2)	**12,564,359**	**11,970,269**
3.	**Total capital to cover market risk** (Tier 3)	**0**	**0**
4.	**Items deductible from original and supplementary capital** (from Tier 1 + Tier 2)	**(625,156)**	**(1,389,520)**
	in which: IRB Provision shortfall and IRB equity expected loss amount	0	(764,364)
Total regulatory capital		**57,522,205**	**55,162,366**

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. 2010	31. 12. 2009
1.	**Credit risk total**	**21, 543,689**	**25,268,108**
1.1	Total capital requirements for credit risks with standardized approach (STA)	***2,506,954***	***2,951,914***
	Exposures to central governments and central banks	0	0
	Exposures to institutions	91,233	82,825
	Exposures to enterprises	1,418,034	1,585,296
	Retail exposures	494,469	700,743
	Share exposures	72,429	88,877
	Other exposures	430,789	494,172
	Securitized exposures	0	0
1.2	Total capital requirement to credit risk subject to IRB approach	***19,036,735***	***22,316,195***
	Exposures to central governments and central banks	477,769	451,617
	Exposures to institutions	1,850,446	1,889,652
	Exposures to enterprises	9,892,993	12,510,856
	Retail exposures	5,840,210	5,088,292
	Share exposures	0	0
	Securitized exposures	0	1,255,987
	Other exposures	975,317	1,119,791
2.	Capital requirement **to settlement risk**	**20,000**	**20,000**
3.	Capital requirement **to position, currency and commodity risk**	**612,651**	**1,176,423**
4.	Capital requirement **to operational risk**	**3,353,555**	**2,987,450**
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		**25,529,895**	**29,451,982**

3. ČSOB's Ratios (Unconsolidated)

Ratio		31. 12. 2010	31. 12. 2009
Capital adequacy	%	16.51	12.33
Return on average assets (ROAA)	%	1.72	2.90
Return on average equity (ROAE)	%	34.84	63.91
Assets per employee	CZKths	121,161	120,163
Administrative expenses per employee *	CZKths	1,728	1,603
Profit after income tax per employee *	CZKths	1,978	3,429

** 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 European Union.

The separate financial statements were audited by Ernst & Young Audit, s.r.o. The auditors have opined that the separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, and its financial performance and its cash flow 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 present fairly, in all material respects, the financial position of the ČSOB group as at 31 December 2010, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Supervisory Board has reviewed the 2010 separate annual financial statements and has accepted the results of the audit of the 2010 separate annual financial statements and has recommended to the General Meeting to approve them.

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2010

hereby declare that, to their best knowledge, the ČSOB Annual Report 2010 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, 22 April 2011

Československá obchodní banka, a. s.

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

Bartel Puelinckx
Member of the Board of Directors
and Chief Finance Officer

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT AND ON THE RELATED PARTIES REPORT

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Československá obchodní banka, a. s.:

I. We have audited the consolidated financial statements of Československá obchodní banka, a. s., and its subsidiaries (or "the Bank") as at 31 December 2010 presented in the annual report of the Bank on pages 52–145 and our audit report dated 24 February 2011, which is presented in the annual report of the Bank on pages 50–51. We have also audited the separate financial statements of Československá obchodní banka, a. s. (or "the Bank") as at 31 December 2010 presented in the annual report of the Bank on pages 150–242 and our audit report dated 24 February 2011, which is presented in the annual report of the Bank on pages 148–149 (both referred to further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of 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 that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1–48 and 244–263 is consistent with that contained in the audited financial statements as at 31 December 2010. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.

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

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2010 presented in the annual report of the Bank on pages 244–249. The management of Československá obchodní banka, a. s. is responsible for the preparation and accuracy of the report on related parties. Our responsibility is to issue a report based on our review.

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

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2010 is materially misstated.

Ernst & Young

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

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, License No. 2009

22 April 2011
Prague, Czech Republic

ABBREVIATIONS

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
PSB	Poštovní spořitelna (Postal Savings Bank; part of ČSOB)

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.
Bausparkasse Schwäbisch Hall	Bausparkasse Schwäbisch Hall AG
CBCB	CBCB - Czech Banking Credit Bureau, a.s.
Centrum Radlická	Centrum Radlická a.s.
ČMSS	Českomoravská stavební spořitelna, a.s.
CNB	Czech National Bank
CZSO	Czech Statistical Office
ČSOB AM/ČSOB Asset Management	ČSOB Asset Management, a.s., a member of the ČSOB group
ČSOB Factoring	ČSOB Factoring, a.s.
ČSOB IBS	ČSOB Investment Banking Services, a.s., a member of the ČSOB group
ČSOB IS/ČSOB Investiční společnost	ČSOB Investiční společnost, a.s., a member of the ČSOB group
ČSOB Leasing	ČSOB Leasing, a.s.
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 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 SK	Československá obchodná banka, a. s. (Slovak Republic)
Hypoteční banka	Hypoteční banka, a.s.
IPB	Investiční a Poštovní banka, 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 Czech Branch, organizational unit
KBC Insurance	KBC Insurance NV (i.e. KBC Verzekeringen NV)
KBC Lease Holding	KBC Lease Holding NV
KBC Participations Renta	KBC Participations Renta SA (till 30 June 2010 business name KBC Renta Conseil Holding SA)
KBC Renta Conseil Holding	KBC Renta Conseil Holding SA
KBC Securities	KBC Securities 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.

FINANCIAL CALENDAR FOR 2011

ČSOB Group Unaudited Financial Results Releases

(EU IFRS, consolidated)

Financial Results		Date of Release
as at 31 December 2010	4Q / FY 2010	10 February 2011
as at 31 March 2011	1Q 2011	12 May 2011
as at 30 June 2011	2Q / 1H 2011	9 August 2011
as at 30 September 2011	3Q / 9M 2011	10 November 2011
as at 31 December 2011	4Q / FY 2011	9 February 2012

CONTACT DETAILS

Investor Relations

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The 2010 ČSOB Annual Report was released in electronic version at www.csob.cz on 29 April 2011.