ANNUAL REPORT 2012

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Československá obchodní banka, a. s.

MMXII

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(for VAT) CZ00001350 (for other taxes)
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 224 111 111
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz
Data box:	8qvdk3s
Supervisory body:	Czech National Bank (CNB), Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic

Year-on-year percentage changes are computed on mathematical basis from non-rounded figures.

KEY FIGURES

Consolidated, EU IFRS	2012	2011	2010
Financial Statements Figures			
Balance sheet at the year end (CZKm)			
Total assets	937,174	936,593	885,055
Loans and receivables	479,516	449,291	399,741
Deposits received from other than credit institutions	629,622	612,160	596,079
Debt securities in issue	30,330	23,295	24,105
Shareholders' equity [1)]	73,930	60,303	65,031
Statement of income (CZKm)			
Operating income	35,015	33,586	33,014
Operating expenses	16,087	15,699	14,516
Impairment of loans and receivables	1,631	1,822	3,429
Profit before tax	17,539	12,970	15,338
Profit for the year [1)]	15,291	11,172	13,471
Underlying profit for the year [1), 2)]	14,189	11,222	13,019
Ratios (%)			
Underlying return on average equity (ROAE) [3)]	21.2	18.0	19.6
Underlying return on average assets (ROAA) [3)]	1.51	1.24	1.50
Underlying cost / income ratio [3)]	47.4	45.6	44.7
Capital adequacy ratio – Bank [4)]	14.4	13.6	16.5
Capital adequacy ratio – ČSOB group [4)]	15.2	15.5	18.0
Leverage ratio [5)]	4.87	3.96	4.50
Net stable funding ratio [5)]	133.2	133.6	137.7
Loan-to-deposit ratio [3)]	75.2	72.7	68.5
General Information (as at the year end)			
Number of employees – ČSOB group [6)]	7,801	7,769	7,641
Number of clients – Bank (thousands)	3,054	3,096	3,078
Number of branches – Bank [7)]	322	314	301
Number of ATMs [8)]	914	831	782
Financial Market Rates [9)]			
CZK/EUR exchange rate (average)	25.1	24.6	25.3
Interest rate (three month PRIBOR; average; in %)	1.00	1.19	1.31

Credit Rating [10)] (as at 31 December 2012)	Long-term Rating Effective since	Long-term	Short-term	Financial Strength	Viability Rating	Support
Moody's	20 June 2012	A2	Prime-1	C-		
Fitch	3 February 2012	BBB+	F2		bbb+	2

Some 2011 items were reclassified to allow for year-on-year comparison.

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 CNB 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) According to Basel III. For definitions, please refer to the Report of the Board of Directors
6) Full-time equivalent employees.
7) Includes ČSOB branches and Era Financial Centers, i.e. without approximately 3,200 post offices.
8) Includes the Bank's ATMs, i.e. without 5,303 cash desks of Albert and COOP stores and ČEPRO EuroOil petrol stations.
9) Source: CNB.
10) Credit ratings as of the date of this Annual Report are part of the Report of the Board of Directors.

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OPENING STATEMENT BY THE CEO

Ladies and gentlemen,

it is a great joy to introduce the excellent results of the ČSOB group for 2012 – and I'll add information which I hold worth commenting.

Our group is closely intertwined with the Czech economy. In my opinion, the most important message of 2012 is that our loan portfolio not only doesn't mirror the development of the economy but grew 8% over 2012 in an environment shaped by a decline in GDP and record-low interest rates.

We don't change the basic principle of our business which has been tested by many years of being part of the Czech financial sector as well as by the financial crisis of the recent years: we always heed the duty of a good steward of the funds entrusted to us and lend responsibly to our clients in good times or worse, in a boom or a recession. And there will be no change in 2013.

I am happy to see the growth pace for mortgages and corporate loans which grew by 13% and 12% year on year. If we as a financial group can do anything to get the economy going again, it's financing the housing needs and support to companies. On a very tough market for deposits, we managed to grow the group deposits by 3%. We also remain the number one in mutual funds. Our clients embrace the interesting combination of yield and security which we are able to provide.

Our responsibility in granting loans hasn't eased off in any way. The cost of risk (the absolute amount) dropped 10%. The non-performing loan ratio decreased to 3.5%, which is significantly below the market standard. I appreciate that we have the opportunity to provide services to our clients with which we are able to find space for mutually responsible and benefiting transactions.

Thanks to these trends, we could report a net profit of CZK 15.3 bn. One-off influences aside, our day-to-day business activities generated an underlying profit of CZK 14.2 bn. This result is a solid proof of success and high quality work of the ČSOB group's team, comprising some 7,800 employees.

To remain a provider of excellent services in 2013, we continue to launch new products and enhance the distribution. Clients welcome and adopted the innovations introduced in 2012, including smartphone applications, mortgage with a bonus or the new car insurance product, to name just three examples.

The year of 2012 also brought the new strategy of the KBC group which is of course being implemented also in the Czech Republic. The strategy is built on values which are ČSOB's own and will be a useful compass to navigate in the waters of ever-changing financial and economic environment. One of many implications of this strategy was the creation of new retail divisions in ČSOB, focused on relationship banking and on convenience services. Not the change in the organization, but rather the new view of clients and services we provide to them is of tremendous importance. We are organized by the client preference, we want to get to know our clients more precisely and offer them appropriate services through distribution channels they prefer. All this is also interconnected with the specialized banking and insurance division.

I'd like to thank sincerely to all colleagues across the entire group. For 2013, when many interesting things will come to pass, I wish them a good deal of success and client trust!

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

General Economic and Market Indicators

The ČSOB group's business is exclusively conducted in the Czech Republic and is, therefore, influenced by macroeconomic trends in the country.

In 2012, the Czech economy went through its second recession in the course of the past four years. Poor domestic demand (both for consumer goods and investments) was the principle reason for the economic downturn, negatively affecting performance in construction as well as manufacturing. Household consumption declined at a record-breaking rate due, in particular, to a drop in households' disposable income in real terms, triggered by curbed wage growth and against the backdrop of rising unemployment. Contribution of foreign trade, by contrast, remained positive, notwithstanding recessions raging in many EU countries – large clients for Czech exports. In 2012 as a whole, the economy fell by 1.2%.

While rising unemployment has been an increasingly painful problem of the Czech economy, inflation does not pose any problem, either at the moment or in the medium run. The year-on-year rise in the consumer price index decelerated to 1.7% in February 2013 and slid below the Czech National Bank's target level. The positive inflation developments allowed the CNB to deliver three cuts of its base interest rate during 2012, up to the current all-time low at 0.05%.

In spite of the economic recession and the related public budget deficits, the Czech Republic's position in the domestic and foreign markets continues to be fairly decent. The 10Y government bond yields fell below 2% at the end of 2012. In spite of declining foreign demand, Czech Republic's foreign trade surplus rose to another record-breaking level last year (CZK 309.5 bn). Owing to large export surpluses, the Czech current account deficit dropped to -2.4% of gross domestic product (GDP).

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

Indicator 1)	Measurement Unit	2012	2011	2010	2009	2008
Nominal GDP	CZKbn	3,844	3,841	3,800	3,759	3,848
Real GDP growth	% change, Y / Y	(1.2)	1.9	2.3	(4.4)	2.9
Real GDP per capita	CZKths	340.3	345.4	338.3	330.9	348.6
Real GDP growth per capita	% change, Y / Y	(1.5)	2.1	2.2	(5.1)	2.0
Inflation rate (CPI)	%, year end	2.4	2.4	2.3	1.0	3.6
Unemployment rate	%, average	7.0	6.7	7.3	6.7	4.4
General government budget balance / Nominal GDP	%	(4.4)	(3.3)	(4.8)	(5.8)	(2.2)
General government debt	CZKbn	1,758.9	1,569.0	1,437.0	1,285.6	1,104.9
General government debt / Nominal GDP	%	45.8	40.8	37.8	34.2	28.7
Exports of goods and services 2)	% change, Y / Y	6.8	9.5	14.8	(9.9)	(0.6)
Imports of goods and services 2)	% change, Y / Y	5.4	9.2	17.5	(12.9)	(0.3)
Trade balance / Nominal GDP 2)	%	3.8	2.4	1.4	2.3	0.7
Interest rate (three month PRIBOR) 2)	%, average	1.0	1.2	1.3	2.2	4.0
CZK / EUR exchange rate 2)	average	25.1	24.6	25.3	26.4	24.9

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

Highlights and Main Events

The terms used in this section are defined and further discussed below.

Key developments of the ČSOB group in 2012 included:

- In 2012, the ČSOB group's **reported net profit** under EU IFRS came in at **CZK 15.3 bn** (+37% year on year) and **underlying net profit** at **CZK 14.2 bn** (+26% year on year), both items attributable to the owners of the parent. The reported net profit was affected by the sale of a stake in ČSOB Pojišťovna. The year-on-year increase of both the net profits was partly due to a lower comparison base in 2011 influenced by an impairment on Greek bonds.
- **Credit portfolio** further grew and reached **CZK 476.1 bn** (+8% year on year), especially thanks to mortgages and corporate loans. **Group deposits** increased to **CZK 629.6 bn** (+3% year on year).

In 2012, the ČSOB group continued to closely manage the credit risk and maintained strong capital and liquidity positions:

- **Credit costs** further dropped both in absolute and relative terms. The credit cost ratio (CCR) stood at **31 bps**.
- The **loan to deposit** ratio increased to **75.2%** and **Tier 1** ratio stands at **13.0%**.
- In 2012, ČSOB sold the remaining Greek, Spanish and Italian sovereign exposures. As a result, ČSOB has **no exposure to peripheral Europe**.
- On 18 July 2012, **dividend** per share of CZK 22.53 was distributed from the non-consolidated net profit for the year 2011; the total amount was CZK 6.6 bn.

Changes in ownership interests included:

- On 26 November 2012, ČSOB sold a 24.76% stake in **ČSOB Pojišťovna** to KBC Insurance with a CZK 1.2 bn profit. The transaction will improve capital utilization on the KBC group level. ČSOB remains committed to its bancassurance business model.
- **ČSOB IBS** changed its business name to ČSOB Advisory on 14 May 2012.
- The legal existence of **Auxilium** was terminated by the means of a **merger with ČSOB Advisory** which has assumed the net corporate assets of Auxilium. Auxilium was erased from the Commercial Register on 29 October 2012.

The ČSOB group decided to participate in the pension reform and offer new pension savings products in line with the legislation in effect at the beginning of 2012.

For personnel changes in the ČSOB's bodies please refer to the Corporate Governance section below.

Financial Ratios

	2012 (%)	2011 (%)	Y/Y Change (pp)
Underlying return on average equity (Underlying ROAE) 1)	21.2	18.0	3.2
Reported return on average equity (ROAE) 2)	22.8	17.9	5.0
Underlying return on average assets (Underlying ROAA) 3)	1.51	1.24	0.27
Reported return on average assets (ROAA) 4)	1.63	1.23	0.39
Net interest margin 5)	3.21	3.39	(0.18)
Underlying cost/income ratio 6)	47.4	46.9	0.5
Reported cost/income ratio 7)	45.9	46.7	(0.8)
Credit Cost Ratio 8)	0.31	0.36	(0.05)

	31. 12. 2012 (%)	31. 12. 2011 (%)	Y/Y Change (pp)
Loan-to-deposit ratio 9)	75.2	72.7	2.6
Capital adequacy ratio 10)	15.2	15.5	(0.3)
Leverage ratio 11)	4.87	3.96	0.91
Net stable funding ratio 12)	133.2	133.6	(0.4)

1) *Underlying ROAE is underlying net profit for the year as a percentage of the five point average of total shareholders' equity calculated based on the 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 ROAA 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 for the year 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 reported cost/income ratio represents operating expenses before net provisions as a percentage of operating income.*
8) *The 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. *loan portfolio: Loans and receivables to other than credit institutions plus loans and receivables to credit institutions minus exposure to banks from inter-bank transactions plus credit replacing bonds;*
    b. *primary deposits: ČSOB group deposits minus pension funds minus repo operations with non-banking financial institutions plus deposits to credit institutions (excl. repo operations with credit institutions).*
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.*
11) *Tier 1 capital / non-risk value of assets (According to Basel III)*
12) *Available amount of stable funding (equity and liability which are expected to be reliable sources of funds over a one year time horizon under extended stress) to stable funding required by an institution based on types of its assets, off-balance sheet exposures and activities pursued (according to Basel III)*

Note: pp = percentage point

Awards

Major awards won by the ČSOB group in 2012 included:

- The **Global Finance** magazine awarded ČSOB as the **Best Bank in the Czech Republic** for the year 2012. In addition, ČSOB was nominated to the Winners Circle as the most frequently awarded bank in the Czech Republic in the 25 years award program of the magazine.
- The **Banker Top 1000 World Banks 2012** database ranked ČSOB third among Czech banks according to the Tier 1 capital.
- ČSOB scored well in the *Hospodářské noviny* daily awards, **The Best Bank 2012**. PSB won the Most Client Friendly Bank category. ČSOB took silver in the Best Bank category.
- The ČSOB group also succeeded in the **Fincentrum Bank of the Year 2012 contest**: ČSOB won the title Bank without barriers for the second time in row. ČSOB ended second in the Private Bank of the Year. ČSOB was third in the Bank of the Year and The Most Trustworthy Bank, HB in the Mortgage of the Year category for Virtual branch and ČMSS in the Building Society of the Year.
- In the ***Zlatá koruna*** contest, ČSOB Leasing ranked second and third in the SME product category with electric car financing and ČSOB Autolease – iFlotila.

Specialized awards:

- The Global Finance magazine selected ČSOB as the **Best Foreign Exchange Provider 2012** and **Best Trade Finance Provider 2012**.
- In the **Mobile Application of the Year 2012** contest, the two smartbanking applications under the era and ČSOB brands ranked first and second, respectively, in the Money and shopping category.
- In the **Internet Effectiveness Awards 2012**, Hypoteční banka won the silver position in the Banking, Insurance and finance with its Virtual Branch.
- In the Employer of the Year 2012 contest, ČSOB ended third in **The Most Desired Company** category (a vote of university students), being the top bank in the rank.
- In the pan-European contest of communication and PR projects **European Excellence Awards**, ČSOB won the Finance category with its survey How infidelity threatens family budgets which was conducted under the Era brand.
- ČSOB AM/IS won two categories in the **Investment of the Year 2012**: the KBC Multi Interest Cash CSOB CZK fund won the Money Market Fund 2012 category and KBC Multi Interest CSOB CZK Medium the Conservative Bond Fund 2012 category.

Innovation Leadership in 2012

Enhancing the Product Offer:

- ČSOB launched a total of 33 **mutual funds** in 2012, in which 26 were capital protected funds. The average yield of open mutual funds and capital protected funds in 2012 was 9.7% and 7.8%, respectively.
- **Unit-linked life insurance**, the bancassurance flagship of the ČSOB group, also continued to bring investment opportunities to clients of the ČSOB group. Ten products were launched in 2012.
- To its **corporate** clients, ČSOB begun offering foreign payments in Renminbi in a pilot regime via cooperation with KBC's branch in Hong Kong and new deposit products, i.e. Smart, Synergy and Profil, were launched. Based on their preferences, corporate clients may choose from a variety of options, e.g. yield desired, risk mitigation and liquidity for Czech koruna or foreign currencies.
- ČSOB Pojišťovna launched a **new life insurance product *Bez obav*** (= worriless). It offers a fully separated risk coverage and unit-linked investment, with a possibility to have the risk coverage premium paid automatically from the yield on the investment. New risks were included in the coverage. This product will allow unit linked investment from CZK 50 a month.

- Hypoteční banka launched **Mortgage with bonus** which offers a 5% reduction in the mortgage amount if the client stays with the ČSOB group for the entire maturity of the mortgage. Altogether 1,386 contracts were concluded totaling CZK 2.4 bn. If clients meet the conditions, they will be entitled to a total mortgage reduction of CZK 120 m. In addition, a marketing campaign under the slogan **Australian mortgage** was carried out: it offered a reduction in the interest rate of as much as 0.4% with an increasing mortgage amount and a full or partial reduction of the initial fee for mortgages with a lower loan-to-value ratio.
- ČMSS launched two new building savings products, **Variant** and **Garant**. They offer higher interest rate on savings and guarantee lower interest rate on building savings loan, respectively.

Enhancing Distribution:

- The **smartbanking application** launched at the beginning of 2012 was very popular. In late 2012, new functionalities were added, incl. payments to mobile operators, concluding travel insurance or an overview of all payment cards issued to the account. Over 100,000 clients downloaded the application in 2012 and made transactions exceeding CZK 5 bn in total. The application for Windows 8 was in preparation (launched in February 2013).
- The number of **deposit ATMs** more than doubled over 2012 from 34 to 79. During the year, clients deposited CZK 7.9 bn.
- In all 73 Era Financial Centers, new service **Era eScribe** was launched in 2012. A transcription of the conversation between the client and the teller is shown on a screen so that the deaf or people with hearing difficulties can easily communicate with the staff.

The Board of Directors' Assessment of 2012 and Expectations for 2013

In 2012, the entire **Czech banking sector** continued to grow with both loans and deposits increasing, CNB data show. Levels of NPLs and credit costs remaining benign, notwithstanding the drop of the Czech Republic's real GDP by 1.2% year on year. Especially the market for company loans and mortgages expanded significantly. Building savings loans (as well as the savings) stagnated due to insecurity among clients on the building savings system.

The year of 2012 was successful **for the ČSOB group** which had met its 2012 business plans as a result of the trends detailed below. It is the general approach of ČSOB to build on good relations with its clients. ČSOB offers a unique combination of trustworthiness, one of the widest product portfolios, professional advice and unparalleled distribution reach. The ČSOB group saw **growth of deposits as well as loans**, the former in both corporate and retail and the latter especially in mortgages and in the corporate segment. The assets under management grew 5% in 2012, comprising capital protected and open mutual funds as well as other asset management.

In 2012, **credit costs** took an opposite path than the credit portfolio and remained below what the Board of Directors believes to be the over-the-cycle level. Potential impairment losses on the available for sale financial assets were largely reduced as bonds of European peripheral states were sold during 2012.

The credit cost ratio further contracted to 31 bps in comparison with 36 bps for 2011 due to a decrease in impairments on loans and receivables especially thanks to lower impairments in the corporate and SME sub-segments. A slight year-on-year decline was recorded in mortgages and leasing. Building savings loans were stable year on year, consumer finance showed a minuscule increase.

The NPL ratio decreased by 42 bps year on year to 3.45%. The NPL ratio is defined as a ratio of the amount of 90-day non-performing loans to credit portfolio and is in line with the methodology used in KBC. The NPL ratio was positively influenced by the growth of loans as well as decreasing NPLs. Year on year, the NPL ratio decreased in all segments except for consumer loans and factoring.

The provision coverage of NPLs stands at high 74.2%. Housing loans (mortgages and building savings loans), representing 53% of the group's credit portfolio, require less provisioning given the fact they are largely secured by collateral. The NPLs from the remaining part of the portfolio are covered by allowances, i.e. showing the coverage ratio around 100%.

In 2013, the Board of Directors doesn't expect the **macroeconomic environment** to be very supportive vis-à-vis GDP or unemployment. The planned measures outlined below include those related to the financial crisis and the ongoing recession in the Czech Republic. **Market trends** suggest that clients are hopping across channels, putting pressure on banks by demanding availability of services through a wide range of channels at a time and place convenient to them.

The ČSOB group is an integrated part of the economy and committed to the market in good times or worse. The ČSOB group will remain a **responsible lender** and continue to provide loans to the clients. As in the past, ČSOB's **main aim** will be to better serve the needs of its existing clients and further increase market share in selected parts of the market, inter alia by expansion of its client base. ČSOB will continue working on attractive value proposition for its clients.

The ČSOB group will endeavor to maintain high **profitability** while maintaining its focus on asset quality. Strong **capital** and **liquidity** positions of the ČSOB group allow it to grow the loan portfolio faster than its deposits without abandoning its independence of market funding. The Board of Directors assumes that the positive state of low **credit costs** as was the case in 2012 cannot be sustained in the coming years.

Strategy and the Business Model of the ČSOB Group

The ČSOB group is one of the three large financial services groups in the Czech Republic, among top three players in virtually all banking products and the market leader in housing finance (including mortgages and building savings loans) and asset management. The ČSOB group operates a portfolio of businesses that are in different stage of maturity and market position. The ČSOB group operates under multiple brands and distribution channels. The portfolio is reviewed regularly, comparing relative performance of individual businesses, and resources are allocated accordingly.

The ČSOB group has the ambition to deliver strong and sustainable performance. To reach this goal, the management continuously evaluates the strategic choices and manages the ČSOB group's business portfolio. Key resources (human capital, equity, liquidity and ICT create capacity) are allocated to areas of the **best fit with this ambition.**

The ČSOB group (i) cultivates its market positions, driven by value creation and through-the-cycle portfolio view; (ii) makes structural changes in its business to get closer to its clients and to make its operating model more effective and efficient; and (iii) builds capabilities which its management believes are critical for future success.

As a response to both external and internal challenges, the ČSOB group upgraded its business model to better serve the needs of clients and at the same time lift the core capabilities to sustainably differentiate the ČSOB group over long term. **Servicing the retail and SME segments is core to the business of the ČSOB group**. In addition, the ČSOB group manages for value its **corporate banking services**.

The strategy of the ČSOB group, new business model and improving capabilities within a completely new KBC group philosophy, symbolically called PEARL, are fully aligned with the KBC group's strategy to become the reference in bancassurance in its core markets. The newly created business unit Czech Republic has a direct representation at the KBC Group Executive Committee and stands at par to the Belgium and International Markets business units.

Financial Results

All financial figures hereinafter were drawn from ČSOB's 2012 audited, Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.

Consolidated Statement of Income

	2012 (CZKm)	2011 (CZKm)	Y/Y Change (%)
Interest income	32,697	33,318	(1.9)
Interest expense	(7,727)	(8,510)	(9.2)
Net interest income	**24,970**	**24,808**	**0.7**
Fee and commission income	8,747	9,095	(3.8)
Fee and commission expense	(3,242)	(2,845)	14.0
Net fee and commission income	**5,505**	**6,250**	**(11.9)**
Dividend income	26	41	(36.6)
Net gains from financial instruments at fair value through profit or loss	2,315	1,460	58.6
Net realized gains on available-for-sale financial assets	126	642	(80.4)
Other net income	2,073	385	438.4
Operating income	**35,015**	**33,586**	**4.3**
Staff expenses	(7,222)	(6,779)	6.5
General administrative expenses	(8,009)	(8,009)	0.0
Depreciation and amortization	(856)	(911)	(6.0)
Operating expenses	**(16,087)**	**(15,699)**	**2.5**
Impairment losses	(1,584)	(5,062)	(68.7)
In which Impairment on loans and receivables	(1,631)	(1,822)	(10.5)
Share of profit of associates	195	145	34.9
Profit before tax	**17,539**	**12,970**	**35.2**
Income tax expense	(2,258)	(1,764)	28.0
Profit for the year	**15,281**	**11,206**	**36.4**
Attributable to:			
Owners of the parent	15,291	11,172	36.9
Non-controlling interests	(10)	34	n.a.

Discussion of the Main Statement of Financial Position Items

With a 71% share, the **net interest income** (NII) was the largest part of the operating income. The ČSOB group generated 0.7% higher NII in 2012 compared to 2011, driven primarily by an increase in interest income on loans and receivables on the revenue side as well as a decrease in all categories on the expense side. The net interest margin dropped from 3.39% in 2011 to 3.21% in 2012 due to the generally decreasing interest rates in the economy.

Among the different reporting segments, the highest contribution came from Retail/SME which represents 75% of the consolidated NII; the segment's NII decreased 1.7% year on year. The corporate segment, making up 11% of the consolidated NII, grew 21.2% year on year thanks to higher volumes and resilient margins. Financial markets increased its NII by 11.0% and Group Center decreased by 2.6% year on year.

The **net fee and commission income** (NFCI) was 16% of operating profit. In 2012, NFCI decreased by 11.9% in 2012 vs. 2011 as the income decreased by 3.8% and the expense grew by 14.0%. The deconsolidation of ČSOB AM/IS (and the appropriate decrease in fee income) was the single largest influence, as collective investments and asset management are generally fee generating businesses.

Staff expenses represented 45% of the ČSOB group's operating expenses in 2012. The item includes wages and salaries, variable compensation and social security charges. The largest part (71%) were wages and salaries which increased by 5.7% year on year. Part of the increase of the staff expenses is due to the decision to reduce the headcount by 6% during first half of 2013, requiring ČSOB to create a severance payments reserve.

Adjusting for the impact of staff reduction, staff expenses grew by 4% year on year, driven by accruals for performance-related bonuses, an annual wage adjustment and an increase of the number of employees.

General administrative expenses (GAE) contributed 50% to the ČSOB group's operating expenses in 2012. The item includes IT rental and operating expenses, marketing, deposit insurance premium and contribution to the Securities Traders Guarantee Fund (included in GAE for the first time in 2012; 2011 restated) and other miscellaneous expenses. GAE remained exactly the same year on year at CZK 8.0 bn.

IT-related expenses represent the largest part of GAE (36%). This item showed an increase of 3.7% year on year. Other major items of GAE showed various development in 2012: buildings-related expenses decreased (13% of GAE; -1.3% year on year), deposit insurance grew approximately in line with group deposits (11% of GAE; +3.4% year on year) and marketing expenses dropped (10% of GAE; -13% year on year).

Impairment losses comprise 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. Total impairment losses dropped significantly by 68.7% year on year.

This trend was a result of a decrease in impairments on available-for-sale assets and to a lesser extent on loans and receivables (by -99.2% and 10.5% year on year, respectively). The former was due to impairments on Greek government bonds, booked in 2011. The latter was recorded thanks to lower impairments in the corporate and SME sub-segments and in leasing, while the retail segment as a whole remained flat year on year.

As a result of the above trends, the profit for the year 2012 attributable to owners of the parent equaled CZK 15,291 m, i.e. 36.9% higher than the comparable figure for 2011.

Consolidated Statement of Financial Position

(Condensed)

	2012 (CZKm)	2011 (CZKm)	Y/Y Change (%)
Financial assets held for trading	162,265	176,703	(8.2)
Available-for-sale financial assets	91,904	87,404	5.1
Held-to-maturity investments	138,437	139,423	(0.7)
Loans and receivables	479,516	449,291	6.7
Total assets	**937,174**	**936,593**	**0.1**
Financial liabilities held for trading	133,587	165,914	(19.5)
Deposits received from other than credit institutions*	629,622	612,160	2.9
Total liabilities	**863,033**	**875,410**	**(1.4)**
Total equity	74,141	61,183	21.2
Total liabilities and equity	**937,174**	**936,593**	**0.1**

** Elsewhere in this report referred to as group deposits.*

Discussion of the Statement of Financial Position Items

Total consolidated assets of ČSOB remained stable (+0.1% year on year). Loans and receivables, by far the largest item of total assets with a 51% share, increased by 6.7% year on year. Loans and receivables are discussed in detail in the Business Results section below.

The development of securities portfolios (43% of total assets in aggregate) was varied in 2012 with the year-on-year changes being as follows:

- Financial assets held for trading comprised 17% of total assets and dropped 8.2% year on year.
- Held-to-maturity investments (15% of total assets) decreased slightly by 0.7% year on year.
- Available-for-sale financial assets (10% of total assets) grew 5.1% year on year.
- Financial assets at fair value through profit or loss (1% of total assets) dropped by 33.3% year on year.

Further discussion of the portfolios can be found in the 2012 Consolidated Financial Statements, incl. the breakdown of exposure per type of borrower (Notes 16 and 17) or per country (Note 39).

No treasury shares were held by the ČSOB group at 31 December 2012 and 2011.

Regulatory Capital Adequacy

The primary objectives of ČSOB's capital management are to ensure that it complies with externally and internally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The ČSOB group manages its capital structure in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain the capital structure, ČSOB may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The ČSOB group analyzed the impact of proposed Basel III regulation and incorporated major changes and ratios into regular management of the risk and capital positions.

In 2012, the ČSOB group's **capital requirement slightly decreased** due to the **implementation of IRBA approach and an extensive capital efficiency improvements** implemented mainly in the corporate segment, which was partially offset by the **growth on the asset side**, mainly driven by the corporate segment and mortgage lending (Hypoteční banka), whereas the underlying risk profile (and hence risk weighing) did not change materially.

Consolidated Capitalization and Risk Weighted Assets of the ČSOB Group

(CZKm, unless indicated otherwise)	2012	2011	Y/Y Change (%)
Tier 1 capital = Core Tier 1 capital	44,975	41,264	9.0
Tier 2 capital	7,983	14,080	(43.3)
Deductible items of Tier 1 and Tier 2	(788)	(940)	(16.2)
Total capital	**52,170**	**54,404**	**(4.1)**
Capital requirement on credit and settlement risk	21,669	22,966	(5.7)
Capital requirement on market risk	1,204	1,382	(12.9)
Capital requirement on operational risk	4,516	3,660	23.4
Total capital requirement	**27,389**	**28,008**	**(2.2)**
Risk weighted assets	342,360	350,101	(2.2)
Tier 1 ratio = Core Tier 1 ratio (in %)	13.0	11.7	1.3pp
Capital adequacy ratio (in %)	15.2	15.5	(0.3)pp

Calculation is based on CNB rules.

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

Consolidated Statement of Income – Underlying

Unless specifically stated that a figure is based on IFRS, the figures in this section are underlying, i.e. adjusted by ČSOB for non-recurring 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 Board of Directors 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. The Board of Directors 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 underlying net profit for 2012 attributable to equity holders of the parent reached CZK 14.2 bn (26.4% higher year on year) and was CZK 1.1 bn lower than the net profit under IFRS. The main differences were the sale of a stake in ČSOB Pojišťovna booked as an extraordinary item in 4Q 2012 and a negative revaluation of bonds in the FVPL portfolio and non-hedging derivatives.

Please note that the underlying net profit includes several one-off items: the sale of Greek bonds, creating the severance payment reserve, impairment of goodwill in ČSOB PF Stabilita, the sale of the stake in Českomoravská záruční a rozvojová banka, sale of ČSOB AM/IS and accounting for deferred acquisition costs of ČSOB PF Stabilita.

Consolidated Statement of Income – Underlying

	2012 (CZKm)	2011 (CZKm)	Y/Y Change (%)
Interest income	32,697	33,318	(1.9)
Interest expense	(7,727)	(8,510)	(9.2)
Net interest income	**24,970**	**24,808**	**0.7**
Net fee and commission income	5,505	6,250	(11.9)
Net gains from financial instruments at FVPL *	2,473	1,335	85.2
Other operating income *	995	1,068	(6.8)
Operating income *	**33,943**	**33,461**	**1.4**
Staff expenses	(7,222)	(6,779)	6.5
General administrative expenses	(8,009)	(8,009)	0.0
Depreciation and amortization	(856)	(911)	(6.0)
Operating expenses	**(16,087)**	**(15,699)**	**2.5**
Impairment losses *	(1,584)	(4,911)	(67.7)
in which Impairment on loans and receivables	(1,631)	(1,822)	(10.5)
in which Impairment on available-for-sale securities	(26)	(3,062)	(99.2)
Share of profit of associates	195	145	34.9
Profit before tax *	**16,467**	**12,996**	**26.7**
Income tax expense *	(2,288)	(1,740)	31.5
Profit for the period *	**14,179**	**11,256**	**26.0**
Attributable to:			
Equity holders of the parent *	14,189	11,222	26.4
Minority interest	(10)	34	n.a.

** For the lines designated by asterisk, the reported and the underlying balances differ.*

Credit Rating

In this section, the Board of Directors discusses events related to ČSOB's credit ratings between 1 January 2012 and the date of this Annual Report. ČSOB is using the service of two rating agencies, Fitch Ratings ("Fitch") and Moody's Investor Service Ltd ("Moody's"). Both rating agencies were registered according to Regulation (EC) No 1060/2009 on credit rating agencies of 16 September 2009. No bond issued by ČSOB had a credit rating assigned.

On 13 February 2012, nine European sovereigns had their ratings downgraded or their outlooks changed to negative by **Moody's**. This had lead to rating actions affecting 114 financial institutions in 16 European countries, including KBC which had its ratings put under review on 17 February 2012. On 21 February 2012, Moody's announced that all Czech major banks, incl. ČSOB, had their ratings under a review for possible downgrade.

On 15 June 2012, Moody's downgraded KBC Bank's long term debt and deposit ratings to A3 from A1, the outlook was stable. On 20 June 2012, Moody's downgraded the credit rating of ČSOB by one notch to A2 from A1, citing the pressures from the weakening of KBC Bank group's credit profile and the more difficult operating environment in the Czech Republic.

On 25 October 2012, Moody's published the **Banking System Outlook for the Czech Republic**. The outlook for the banking system was negative. Operating environment, asset quality and profitability and efficiency were assessed as negative, while capital, funding and liquidity and systemic support as stable. The outlook expresses the expectation of how bank creditworthiness will evolve in this system over the following 12-18 months.

Following a downgrade of Belgium to AA by **Fitch**, the agency downgraded KBC Bank's credit rating one notch to A- on 31 January 2012. On 3 February 2012, Fitch also downgraded ČSOB one notch to BBB+. ČSOB's rating was affirmed on 5 October 2012.

Business Results

Main Factors Influencing the Financial and Business Results of the ČSOB Group and the Market Position of the ČSOB Group

The ČSOB group's business and results of operations are affected by a range of economic, political and other external factors that affect business in the banking and financial sector in general, and the ČSOB group's operations in particular. In addition, its business is subject to general global economic conditions, the development of the international financial markets, international political events, interest rate levels and volatility, currency exchange rates and general competitive factors in the banking industry. These factors also include the outcome of the financial crisis as well as the ongoing recession in the Czech Republic.

The Board of Directors believes that the following factors have been or will be the principal drivers for the development of the ČSOB group's business and thus its results of operations and financial condition.

1. The global financial crisis led to a global economic downturn and a deterioration of economies in the EU, including the Czech Republic. The most important include:
   - **Real GDP growth** in the Czech Republic may have a positive impact on the ČSOB group; the impact is most notable in the SME and corporate sectors.
   - **Increases in the volumes of imports and exports** may have a positive impact on the ČSOB group.
   - An increase in **unemployment** may cause an increase in loan losses and thus have a negative impact on the ČSOB group.
   - An excessive increase in the **government budget deficit** could lead to a future decrease in government spending, which may have a negative impact on the ČSOB group.

2. The **interest rate** environment has an impact on the ČSOB group's business, particularly on the ČSOB group's level of net interest income and net interest margin. With ČNB's repo rates at historical lows, the net interest margin is coming under increasing pressure.

3. A deterioration of **credit quality of loans and receivables**, both on-balance sheet and off-balance sheet, a decrease in recovery ratios or a deterioration of the value of available collateral would result in an increase in required provisioning ratios.

4. ČSOB holds significant amounts in **securities portfolio** which may have to be revalued or impaired, e.g. due to the lack of liquidity, increase in volatility, the absence of reliable pricing information, adverse changes in the business climate, credit rating downgrades, adverse regulatory actions or unanticipated changes in the competitive environment. This also covers any sovereign bonds held; for detail please refer to the Note 39 to the Consolidated Financial Statements.

5. ČSOB, as any bank, is influenced by the **regulatory environment** in force and in making. On a regular basis, ČSOB uses major ratios under Basel III into regular management of the risk and capital positions. The pension and building savings systems are presently undergoing significant changes which may affect both volumes and earnings in the two areas.

6. **Competition:** A total of 43 banks had a banking license as of 2012 year end. In recent years, some foreign banks decided to leave the market and concurrently new banks began entering the market, focusing particularly on the retail sector. In addition, the EU legislation allows banks from other EU member states to easily enter the Czech banking market, thus further intensifying the competitive environment.

ČSOB Group Market Position

Rank	Product	Market share	Change
1	Building Savings Loans [1]	44.1%	↗
1	Building Savings Deposits [1]	35.8%	↘
1	Mortgages [1]	30.7%	↗
1	Housing Loans [1), 4)]	35.6%	↗
1	Mutual Funds [1]	29.3%	↘
1	Leasing [2]	12.0%	↘
2	Total Loans and Leases [1]	19.2%	↗
2	Deposits [1]	20.7%	↘
2	Factoring [2]	27.2%	↗
3	Pension Funds [3]	14.2%	↘
3	Corporate / SME Loans [1]	14.7%	↗
3	Other Retail Loans [1), 5)]	16.0%	↗

Insurance	Market share		Rank
Life [2), 6)]	6.8%	↘	5
Non-life [2]	7.3%	↗	5
Total [2), 6)]	**6.4%**	↗	**6**

Arrows show year-on-year change. Market shares as at 31 December 2012.

1) Outstanding at the given date.
2) New business in the year; for insurance gross written premium.
3) Number of clients at the given date.
4) Comprise mortgages and building savings loans.
5) Retail loans excluding mortgages and building savings loans.
6) The decrease of market shares due to methodology change of Czech Insurance Association (ČAP): Only 10% of single life written premium is now included. Without this effect, the insurance market share would have increased.

Retail and SME

The retail and SME segment is **the largest segment of the ČSOB group's operations: it represents 42.7% of ČSOB's assets and 65.8% of ČSOB's liabilities.**

The segment focuses on deposits, lending, mutual and pension funds, leasing, asset management and certain ancillary services for retail and SME customers. Retail customers comprise private individuals and entrepreneurs. The former include affluent (with financial assets up to CZK 10 m) and private banking clients (above CZK 10 m), as well as all categories of mass customers targeted primarily through PSB. SME customers include small and medium-sized enterprises with an annual turnover of up to CZK 300 m, housing cooperatives and municipalities. As at 31 December 2012, the ČSOB group had more than four million unique retail and SME customers in the Czech Republic.

Most notable events and trends in the sector included:

- Stable real estate prices, interest rates at a record lows and refinancing building savings loans contributed to the 3% growth year on year of mortgage market (measured by the total outstanding volume). The **ČSOB group's credit portfolio of mortgage increased by 13%** in the same period. The leading position of the ČSOB group was supported by providing CZK 36.6 bn of new mortgages in 2012, the highest amount on the market.
- The ČSOB group is therefore the **largest provider of mortgage loans** to individuals in the Czech Republic. All mortgages provided via various distribution channels are booked in Hypoteční banka. During 2012, more than 22,800 mortgages were granted and the average size of a new mortgage was CZK 1.7 m and the interest rate is most frequently fixed for 5 years.
- The portfolio of **building savings loans** decreased year on year as clients in general preferred mortgages to building savings loans in the low interest rate environment. As a result, the whole **market of building savings loans slightly declined in 2012**. Although its volumes and new sales decreased, ČMSS managed to defend its leading market position in 2012.
- ČSOB managed to increase volume of **consumer finance** despite a stagnating market. The best result was achieved in the area of loan consolidation where a new product, ČSOB Consolidation, was launched.
- **SME** volumes **ended up 7%** above the 2011 year end level. This led to an **increase** of the ČSOB group's **market share**.
- Despite the year-on-year decline, **ČSOB Leasing confirmed its leading position**, outperforming a very competitive market. The outstanding volumes of the whole leasing market are still below the pre-crisis level.

ČSOB updated its business model and made following changes in the management structure from 1 January 2013:

- Marek Ditz, the former head of Corporate & institutional banking, became a new member of ČSOB's Board of Directors managing the newly created division **Customer Relationships**.
- Based on client preferences, this new division comprises: (i) ČSOB-branded distribution networks for private banking, affluent banking and SMEs and (ii) the Postal Savings Bank, distributed via Czech Post outlets.
  - Clients served so far under the ČSOB brand were not served at Czech Post outlets. As a major enhancement, they will be able to perform cash operations and entering cashless payments at Czech Post outlets.
- A specialized **Convenience Services** division was created:
  - It will focus on clients who require convenient services at various places and times through a channel suitable to their needs.
  - The products are offered under the Era brand.

Retail and SME: Key Volumes

	2012 (CZKm)	2011 (CZKm)	Y/Y Change (%)
Credit portfolio – mortgages	183,571	163,328	12.4
Credit portfolio – consumer loans	19,129	17,583	8.8
Credit portfolio – SME	70,763	66,151	7.0
of which investment loans	47,917	44,884	6.8
of which short term loans	22,845	21,266	7.5
Credit portfolio – building savings loans (55%)	69,789	71,665	(2.6)
Credit portfolio – leasing	21,820	22,843	(4.5)

Corporate

Corporate banking **includes the corporate services of ČSOB and ČSOB Factoring** and makes up **12.0% of assets and 11.6% of liabilities of the ČSOB group**.

The **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's corporate segment principally targets mid-cap corporations and seeks to combine local market expertise and products and standards of service customary in developed markets. As at 31 December 2012, the ČSOB group had approx. 4,000 corporate customers in the Czech Republic.

The ČSOB group has established a sales network of **10 regional branches** devoted to serving corporate customers, a unique regional coverage among Czech banks. In addition, the ČSOB group also has a specialized branch servicing non-banking financial institutions.

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.

ČSOB 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.

Most notable events and trends in the sector included:

- The volumes of **corporate credit portfolio** have continuously grown since late 2010 and reached CZK 106.5 bn which helped to bring ČSOB's market share to the pre-crisis level and the structure of the credit portfolio further improved.
- ČSOB noticed an increased demand for structured types of financing, e.g. acquisition finance and export finance as well as for plain vanilla loans and credit replacing bonds. Trade finance grew, esp. thanks to export letters of credit.
- The provision of new loans to the clients was in many cases accompanied by an agreement on the protection of the interest rate exposure, leading to increased sales of the interest rate derivatives.
- The corporate deposits increased in line with the credit growth, mainly thanks to the inflow on the current accounts.

Corporate: Key Volumes

	2012 (CZKm)	2011 (CZKm)	Y/Y Change (%)
Corporate loans	106,536	95,460	11.6
Factoring	3,986	4,142	(3.8)
Total	**110,522**	**99,602**	**11.0**

Financial Markets

The Financial markets segment **represents 18.1% of ČSOB group's assets and 15.6% of its liabilities**. The segment contains investment products and services to institutional investors and intermediaries, fund management activities and trading included in dealing services. The Financial markets segment focuses on customer-driven activities for retail, SME, corporate and institutional customers, while trading is a support business 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 **comprises 27.2% of ČSOB group's assets and 7.0% of its liabilities**. The segment comprises of the following:

- Interest charge on capital provided to subsidiaries which are a part of the corporate and retail/SME segment.
- The results of the reinvestment of free equity of ČSOB.
- The results of operations of non-banking subsidiaries.
- Asset-liability management (ALM).
- Income and expenses not directly attributable to other segments and eliminations.
- Net gains on disposal of participations in ČSOB Pojišťovna and ČSOB AM/IS (only in 2012).

In 2012, fee and commission income allocations were included into segment reporting. Comparative figures in the Statement of income for 2011 have been reclassified to allow for like-to-like comparison.

Insurance

As at 31 December 2012, **ČSOB Pojišťovna** was the fifth largest life insurance company in the Czech Republic with a 7.3% market share in terms of gross written premiums and the sixth largest non-life insurance company in the Czech Republic with a 6.4% market share in terms of gross written premiums (according to the Czech Insurance Association's methodology).

ČSOB Pojišťovna provides its customers with a wide range of insurance products, including single and regular premium life insurance as well as car (for individuals, fleets and leasing business), house, accident, travel and industrial insurance. As at 31 December 2012, ČSOB Pojišťovna had 1,039, 000 customers, comprising of individuals and business entities (including SME's as well as large corporations). Insurance products are mainly distributed through internal agent network, brokers and ČSOB group's branches.

ČSOB Pojišťovna is **rated by Standard & Poor's Rating Services**. Between 1 January 2012 and the date of this Annual Report, ČSOB Pojišťovna was rated BBB+. The outlook was raised to positive from stable on 12 December 2012.

Most notable events and trends in the insurance segment included:

- In life insurance, ČSOB Pojišťovna continued the successful **bancassurance** sales in 2012 thanks to new tranches of **Maximal Invest** (a CZK 1.6 bn increase year on year)
- In **non-life insurance**, ČSOB Pojišťovna achieved a strong top line performance, mainly in the car insurance business via the successful sale of *Naše auto (=our car)*.
- **Motor third party liability insurance**: while the average premium on new business grew by 23%, the drop in the average portfolio premium stopped only in September 2012. ČSOB Pojišťovna worked on improvement to the portfolio of outstanding policies: more new and more expensive vehicles were insured which brings a higher potential for cross selling.

- ČSOB Pojišťovna saw a very good performance in **industrial risks insurance**, with a year-on-year increase of gross premium written exceeding CZK 37 m, especially through brokers. This is a result of various measures to support of the SME business during 2012, e.g. new product Industrial risks SME.
- ČSOB Pojišťovna celebrated exceeding the **one million clients** threshold in 2012.

Claim processing and settlement:

- While no catastrophic events occurred in 2011, **claims performance** in 2012 was negatively influenced by winter frost losses in the beginning of the year, torrential rains and hailstorms in July 2012 and a few large MTPL and industrial risks claims.
- In life insurance, twenty tranches of Maximal Invest (unit linked, single premium insurance) reached maturity, exceeding the number of tranches opened. In addition, a large volume was paid out to clients from the capital value of Duo Bonus sold in 2011.

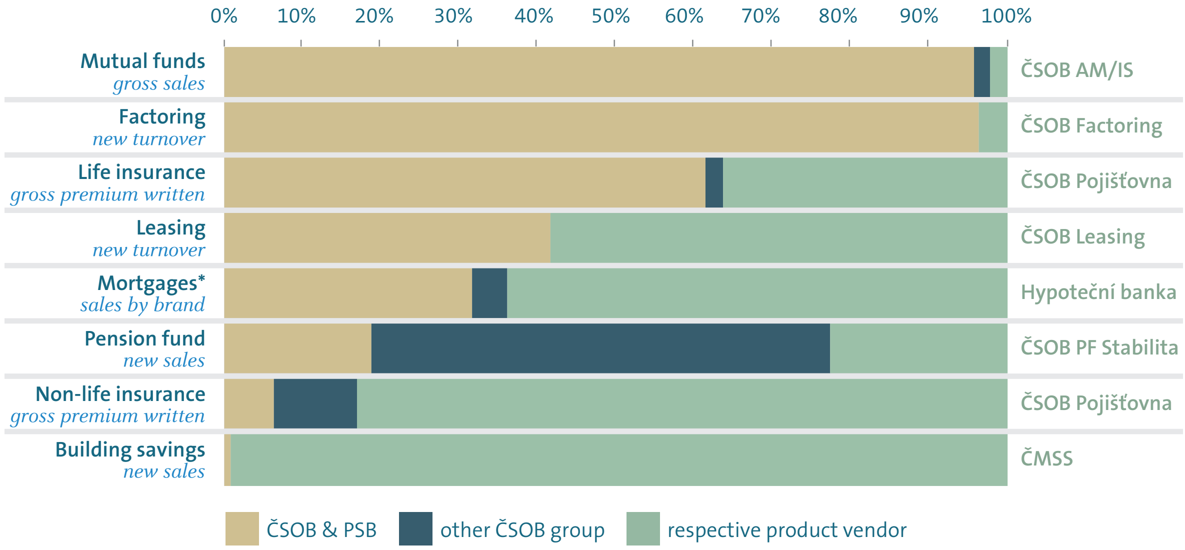
Insurance: Key Figures

	2012 (CZKm)	2011 (CZKm)	Y/Y Change (%)
Single life insurance	6,476	5,367	20.7
Regular life insurance	2,812	2,819	(0.2)
Life insurance total	**9,288**	**8,186**	**13.5**
Non-life total	**4,411**	**4,026**	**9.6**
Total	**13,699**	**12,212**	**12.2**
Amount of benefits paid to clients	9,647	6,769	42.5
Number of cases settled (pcs.)	208,870	190,205	9.8

ČSOB Group Synergies

The concept of multibranding and multichannel distribution gives the ČSOB group an opportunity to better serve its target customer groups. The following charts document the cross-selling activities within the ČSOB group. This distribution model allows the ČSOB group to combine diversification with specialization.

New production in 2012 – shares of distribution channels per product type:



The chart shows the volumes distributed in 2012 by the companies of the ČSOB group. Distribution by third parties is included in the figures for the respective product vendors (stated in green).

** The mortgage volumes originated by third parties are included under the specific brands under which they are sold by third parties.*

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 (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.

2009 In December, ČSOB sold remaining interest in the Slovak activities to KBC Bank.

ČSOB

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

ČSOB provides its services to all groups of clients, i.e. retail as well as SME, corporate and institutional clients. In retail banking in the Czech Republic, ČSOB is operating under main recognized brands – ČSOB, Era and Poštovní spořitelna (Postal Savings Bank – PSB). Clients are served via ČSOB branches, Era Financial Centers and outlets of the Czech Post network (PSB). ČSOB's products and services are also distributed through various direct distribution channels. In addition to its own products, ČSOB distributes products and services of the whole ČSOB group.

ČSOB Group

The ČSOB group is a leading financial services provider in the Czech Republic. ČSOB is a universal bank offering to its clients 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 operates in the Czech Republic mainly under the brands ČSOB, Era, PSB, Hypoteční banka and ČMSS. The ČSOB group provides its services to all groups of clients, i.e. retail as well as SME, corporate and institutional clients.

As of the end of 2012, the ČSOB group served over 4 million clients and employed approximately 7,800 employees (FTEs).

With total assets of CZK 937.2 bn as at 31 December 2012 and a total net profit of CZK 15.3 bn in 2012, the ČSOB group is one of the top three banking groups in the Czech Republic. As at 31 December 2012, the ČSOB group had CZK 629.6 bn of group deposits and a credit portfolio of CZK 476.1 bn.

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

ČSOB Group in Figures

	31. 12. 2012	31. 12. 2011
Employees (FTEs)	7,801	7,769
Clients *	>4 million	>4 million
of which the Bank	3, 054 ths	3, 096 ths
Users of internet banking	1,379 ths	1,237 ths
Retail / SME branches and advisory centers	**561**	**569**
ČSOB retail / SME branches	238	241
Era Financial Centers	73	62
ČMSS advisory centers	139	151
Hypoteční banka centers	27	27
ČSOB Pojišťovna branches	84	88
Leasing branches	**13**	**13**
ČSOB corporate branches	**11**	**11**
PSB outlets of the Czech Post network	**ca. 3,200**	**ca. 3,200**
ATMs (the Bank)	914	831

** The total number of unique clients exceeds 4 million. Client groups of different brands partly overlap, esp. between ČMSS and the full service brands of the Bank. The overlap between ČSOB and PSB is very limited.*

KBC Group Profile

ČSOB is a wholly-owned subsidiary of KBC Bank NV. KBC Bank is fully owned by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

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

As of the end of 2012, KBC Group served approximately 9 million clients in its five home markets and employed approximately 37,000 employees (FTEs; excluding companies to be divested), roughly half of which in Central and Eastern Europe. For more information please refer to the 2012 Annual Report of KBC Group available on www.kbc.com.

KBC Group's shares are traded publicly on the Euronext Exchange in Brussels and on the Luxembourg Stock Exchange. KBC Group's core shareholders are: KBC Ancora, Cera, MRBB (a farmers association) and other core shareholders.

KBC Group in Figures

		31. 12. 2012	31. 12. 2011
Total assets	EURbn	256.9	285.4
Loans and advances to customers	EURbn	128.5	138.3
Deposits from customers and debt securities	EURbn	159.6	165.2
Net profit, group share	EURm	612	13
Underlying net profit, group share	EURm	1,542	1,098
Tier 1 ratio, group level (Basel II)	%	13.8	12.3
Cost/income ratio, banking (based on underlying profit)	%	57	60

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

Long-term Ratings

(as at 31 December 2012)

Long-term ratings	Fitch	Moody's	S & P
KBC Bank	A-	A3	A-
KBC Insurance	A-	-	A-
KBC Group	A-	Baa1	BBB+

For current long-term ratings and 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.

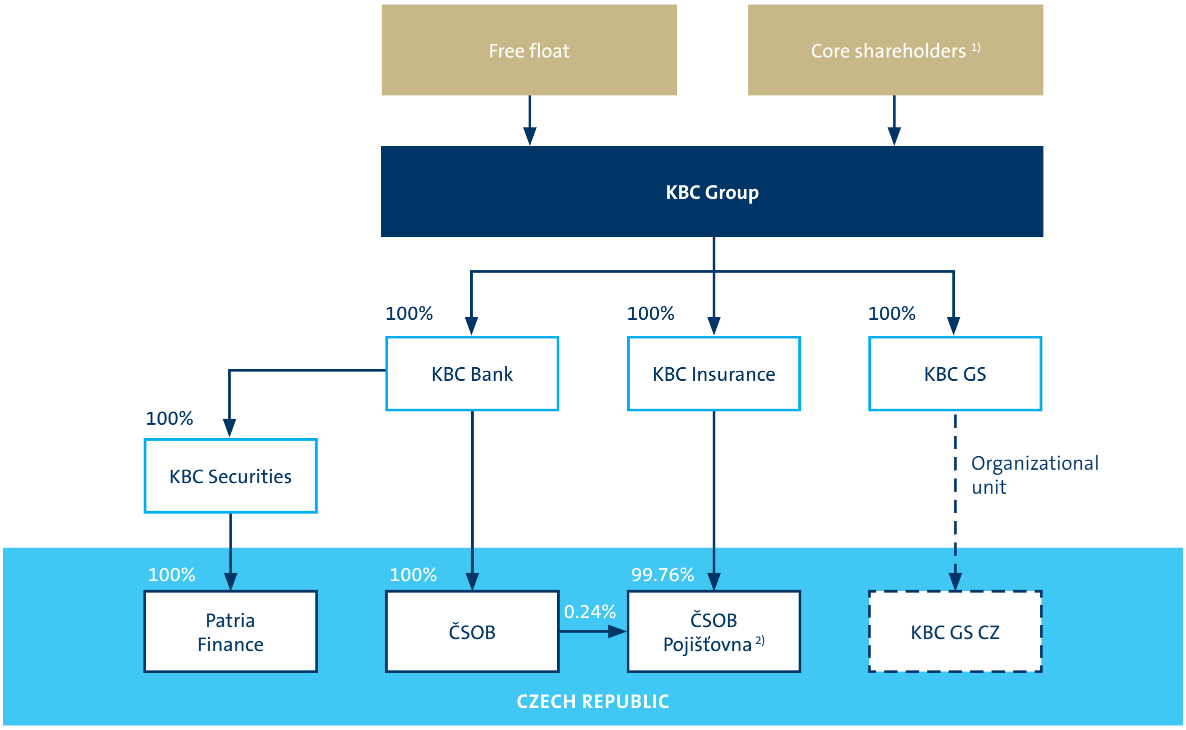
KBC Group and KBC Bank control ČSOB as they dispose with 100% of votes, based on the KBC Bank's ownership interest in ČSOB. ČSOB meticulously follows the legislation applicable on the territory of the Czech Republic to prevent any abuse of this control. ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January and 31 December 2012.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2012 as defined by Section 66a of the Commercial Code, please refer to the chapter Companies of the ČSOB group.

ČSOB is not dependent on any entity in the concern into which ČSOB belongs.

Main Companies of KBC Group in the Czech Republic

(as at 31 December 2012)



Percentages in the chart denote the ownership interest.

1) Main core shareholders are: KBC Ancora, Cera, MRBB (a farmers association) and the other core shareholders.
2) Voting rights in ČSOB Pojišťovna are distributed as follows: 40% ČSOB, 60% KBC Insurance.

For an overview of companies of the KBC group please refer to pages 177–178 of the 2012 Annual Report of KBC Group.

Corporate Social Responsibility

In ČSOB, social responsibility is a foundation stone of firm philosophy and essential to how business is done.

ČSOB approaches social responsibility – Corporate Social Responsibility or CSR – as an intrinsic element of daily life. CSR is built upon variety, diversity, freedom of choice and responsibility, as well as voluntariness and the ongoing development of the environment where business is done. The priorities of the Bank's CSR stem from such principles, embodied in community support, individual engagement and the voluntary action of ČSOB employees and society overall.

ČSOB primes its CSR strategy by means of **long-term partnerships with non-profit organizations as well as relationships with inspiring individuals and groups**. It is precisely an engaged community, connecting business with the non-profit sector and concrete recipients of assistance, which helps to systematically improve the quality of our lives.

Our Partners

Since 1995	Výbor dobré vůle – Nadace Olgy Havlové *(Olga Havel Foundation – the Committee of Good Will)*
Since 2002	Nadační fond Rozum a Cit *(Sense and Sensibility Endowment Fund)*
Since 2007	Asociace občanských poraden *(Association of Citizen's Advisory)*
	Nadace Via *(Via Foundation)*
	Centrum Paraple *(Paraple Centre)*
	Svaz paraplegiků *(Paraplegic Union)*
	Vysoká škola ekonomická *(University of Economics, Prague)*
	Umění bez bariér *(Art without Barriers)*
	Společnost Libri prohibiti *(Libri Prohibiti Society)*
	Neziskovky.cz
	Klub nemocných cystickou fibrózou *(Cystic Fibrosis Club)*
Since 2008	Poradna při finanční tísni *(Advisory for Financial Distress)*
	Nadační fond pro podporu zaměstnávání osob se zdravotním postižením *(Endowment Fund for Support of Employment of Disabled People)*
	Nadace ARTEVIDE *(ARTEVIDE Foundation)*
	Konto Bariéry, Nadace Charty 77 *(The Barriers Account, The Charta 77 Foundation)*
	Domov Sue Ryder
Since 2009	Bezpečne-online *(Safe internet)*
	Kontakt bB
Since 2010	Česká centra *(Czech Centres)*
	boNGO
	Sdružení Linka bezpečí *(Safety Line Association)*
Since 2011	Rehabilitační ústav Kladruby *(Rehabilitation Centre Kladruby)*
	Nadační fond Mathilda *(Mathilda Endowment Fund)*
	Sdružení Neratov *(Neratov Association)*
Since 2012	Sportovní klub vozíčkářů *(Wheelchair Sports Club)*
	Rozmarýna
	Business Leaders Forum

Awards in 2012

The long-term efforts of the ČSOB group CSR have been acknowledged by a range of awards.

Fincentrum Bank of the Year, 2012

ČSOB was awarded first place in the category of **Banks Without Barriers 2012**, and was selected by the physically challenged clients across the Czech Republic as the most accessible bank in the country.

Employer of the Year

ČSOB was awarded a bronze medal in the category of **The Most Desired Company** on the basis of voting by university students.

HR Excellence Award

The **"Program for Moms and Dads"** was awarded first place on the basis of voting in the yearly People Management Forum competition.

TOP Responsible Company

ČSOB was awarded third place in the category of **Workplace of the Future** for its "Program for Moms and Dads", as well as third place in the category of **Largest Donor Company**.

Key areas of ČSOB activity are long-term responsible business, education and development, diversity and environment.

In 2012, ČSOB provided CZK 31,566 ths for CSR activities. Funds were divided equally between charitable activities and social investment for the development of local communities.

Responsible Business

Ethics, transparency in business, partnership with clients and suppliers, these are the principles of ČSOB values. In addition to doing business responsibly, CSR involves socially responsible products, employee volunteering and social business.

A Responsible Company

The **ČSOB Group Anti-Corruption Program** is one of the key programs in which we continue our culture of non-acceptance of corruption. Effective since 1 October 2012, the program is comprised of rules and policies by which we do business, preventing corruption and avoiding conflict of interest.

Accessibility of Our Services

- **ATMs with applications for the vision impaired**

  63% of ATMs operated by ČSOB have voice navigation for the vision impaired.

- **Barrier-free branches**

  81% of more than three hundred ČSOB's branches are barrier-free. One-third of more than 3,000 outlets of the Czech Post network providing ČSOB products are barrier-free, others are equipped with signaling mechanisms used to call for assistance.

- **Era eScribe service for the hearing impaired**

  All 73 Era Financial Centers are equipped with devices enabling the hearing impaired to communicate with client workers.

- **Audio orientation beacons for the vision impaired**

  Installation of digital beacons was begun in November, 2012, to make Era Financial Centers accessible to the vision impaired.

Responsible Products

- **Era accounts for seniors, the disabled and non-profit organizations**

  Modern current accounts with noteworthy fee advantages for seniors, the disabled and non-profit organizations offer safe and easy administration of finances. In 2012, mid-year growth of more than 5.5% resulted from the opening of more than 25,000 new accounts for seniors and almost 2,000 accounts for the disabled; Era accounts for non-profit organizations grew in number to 24,500.

- **3P program: Bridging Assistance**

  For the fourth year in a row, the Civil Society Development Foundation (NROS) and PSB have provided non-commercial loans to non-profit organizations. Contributions surmounting CZK 22 m assist organizations in surmounting the period prior to receiving dotation from public budgets and the European Union.

Employee Philanthropy and Volunteer Activities

- **The Helping Together Grant Fund**

  Employees may request contributions for non-profit organizations in which they provide long-term assistance. A contribution of CZK 940 ths was made to 38 projects in 2012. Aid was aimed at increasing financial literacy among seniors and the disabled; education and development of healthy and disabled children; a day with emergency services workers or first-aid courses.

- **ČSOB and the Era Aid Fund**

  Employees may request support for projects in their region. In 2012, 32 projects were supported with more than CZK 627 ths.

- **Era and the Era Help Fund**

  Employees may request fund support for relatives and friends. Resources are designated for rehabilitation aids for children and adults; personal assistance for challenged children and students; and the education of disabled children. More than CZK 795 ths was distributed in 2012.

- **Sunny Day**

  ČSOB along with the Sense and Sensibility Endowment Fund have for the eleventh time supported drives for abandoned children and foster families by providing fee-free bank services. CZK 568 ths was generated by the drive.

- **Volunteer Day**

  Employees may take one day off with pay each year to help non-profit organizations. 2012 was the fifth volunteer year and 457 volunteers helped out at 41 organizations.

- **Run for a Good Cause**

  2012 saw ČSOB employees again run for a good cause, in support of the Olga Havel Foundation – the Committee of Good Will. 301 employees ran the Prague International Marathon and Half Marathon, raising more than CZK 440 ths to purchase various aids for the disabled.

Further Activities

- ČSOB employees expressed the symbolic support of the ČSOB marathon team by involvement in public collections for the Key Foundation, raising CZK 123 ths.

- ČSOB employees help Sue Ryder Home. Items from two goods drives were donated to Domov Sue Ryder's shops in Prague, raising CZK 39.5 ths. Further, ČSOB employees helped finance Domov Sue Ryder operations with their participation in the fourth annual small field football fund-raising Charity Cup.

- ČSOB donated almost CZK 2 m worth of goods – approximately 2,700 computers and notebooks, as well as monitors and furniture – to 241 non-profit organizations.

- The "Gifts You Cannot Buy" campaign took place at the end of 2012. The project was aimed at both clients and employees and raised CZK 19 ths. Including a donation from ČSOB, CZK 59 ths in total was given to three foster families.

- During the Christmas season, ČSOB employees again fulfilled the wishes of children from orphanages. 211 children received gifts at orphanages in Dlažkovice, Korkyně, Mašťov, Planá u Mariánských Lázní, Potštejn, Unhošť and Vrbno pod Pradědem.

Social Business

ČSOB and PSB have long co-operated with the Ergotep cooperative for the disabled and with the Endowment Fund for Support of Employment of Disabled People. Support to workshops employing people with special needs is provided by means of a financial audit whose successful completion enables licensing for the use of Work of the Disabled stamps. We make the quality work of the disabled visible and show that, despite physical challenge, disabled persons are able to produce the same quality as healthy persons.

Education and Development

ČSOB respects education and values people interested in further development, community assistance and help to persons from various social groups, especially the disadvantaged.

Financial Literacy

ČSOB has supported debt advisory provided free of charge by the Association of Citizen's Advisory since 2008. More than 25,000 clients have taken advantage of advisory services in the ensuing period. ČSOB likewise supports the Advisory for Financial Distress, utilized by more than 50,000 clients in four years of co-operation.

ČSOB has managed grants since 2010 in the ČSOB Education Fund. Over three years, more than CZK 3 m has supported 20 projects focused on financial education in the school system as well as on family financial health, the disabled and seniors.

Education

The Education Fund is a long-term initiative of ČSOB and the Olga Havel Foundation – the Committee of Good Will. Talented, disabled children are supported, as well as children from orphanages, with studies at secondary and specialized schools and universities throughout the Czech Republic.

At the end of 2012, we supported the creation of the Czech Banking Association Fund in Support of Education focusing on children's education.

Diversity

ČSOB supports equal employment opportunities; seeks out and develops the talent of ČSOB employees; provides and improves upon training systems; and supports the employment of the disabled. ČSOB cares about the health and well-being of employees and therefore enables flexibility at work by providing decreased work duties, work from home or shared workplaces. Each employee is respected regardless of race, gender, belief or opinion.

Support for Employment of the Disabled

In 2012, ČSOB and Era were the main sponsors of an initiative focused on overcoming obstacles to employment of the disabled. The initiative will continue in 2013 by means of a partnership fundraising project for supporting the employment of the disabled as well as an internal campaign aimed at employing the disabled at ČSOB.

Our Employees

Firm-wide employee satisfaction research includes focus on equal opportunity. Every employee may take advantage of a wide offer of courses and training sessions for further development in accordance with their needs and aims.

ČSOB helps employees harmonize their professional and personal life by offering flexible work hours, decreased work load and home office – the possibility of working from home. 11.5% of employees took advantage of this in 2012 and 350 employees were enrolled in the "Program for Moms and Dads" (employees on parental leave).

Autumn of 2012 saw ČSOB receive a grant for the European Social Fund for the "Work and Family – Equal Chance for Working Parents in ČSOB" project. The focus of the project is work-life balance among employees; the strengthening of the co-operation of management with employees; and better integration of employees on parental leave into the work flow process

Environment

As part of its sustainable development strategy, ČSOB strives not only to fulfill legal obligations but also at the same time voluntarily makes a commitment to diminish any negative impact of its business activities on its living environment. Primarily natural and cultural heritage, economical use of energy and resources, lowering emissions, environmental protection and support of considerate behavior among employees are the focus of our care for our living environment.

Ecological Responsibility

- In 2012, ČSOB committed to ČSN EN 16001 Energy Policy to lower energy demands of activities in the Czech Republic. Decreased energy consumption is manifested both in lower energy costs and in lower production of carbon dioxide burdening the living environment.
- The ČSOB prioritizes co-operation with suppliers holding certification of observance of environmental norms.
- ČSOB employees use office paper of lighter weight and office supplies whose production and disposal do not burden the living environment. Office waste is recycled.

We Support Regional Development

The ČSOB and Era Program for Regional Support was begun in 2007. More than CZK 17 m has been distributed among community projects over the past six years.

Employee Activities

- 64 colleagues from 19 teams in Prague, Brno, Liberec and Pardubice participated in the May, 2012 "Cycle to work" campaign. We have cycled more than 22,000 kilometers altogether.
- In 2012, ČSOB participated in the CSR Ambassadors project and employees provided consultation and advisory to students from the Faculty of Science, Charles University in Prague, for the creation of seminar works focused on the living environment.

Our Vision for the Future

ČSOB will further devote to priorities identified as essential for employees, clients and community as well as non-profit organizations and beneficial initiatives—in its awareness that social responsibility and commitment to sustainable development are long-term and a visible investment over time. We will also devote attention to the support of the philanthropic activities of individuals in the Czech Republic as well as social business activities, in consideration of current and ongoing discussion in society.

For more information please refer to the ČSOB Social Responsibility Report 2012 at www.csob.cz

ČSOB Group

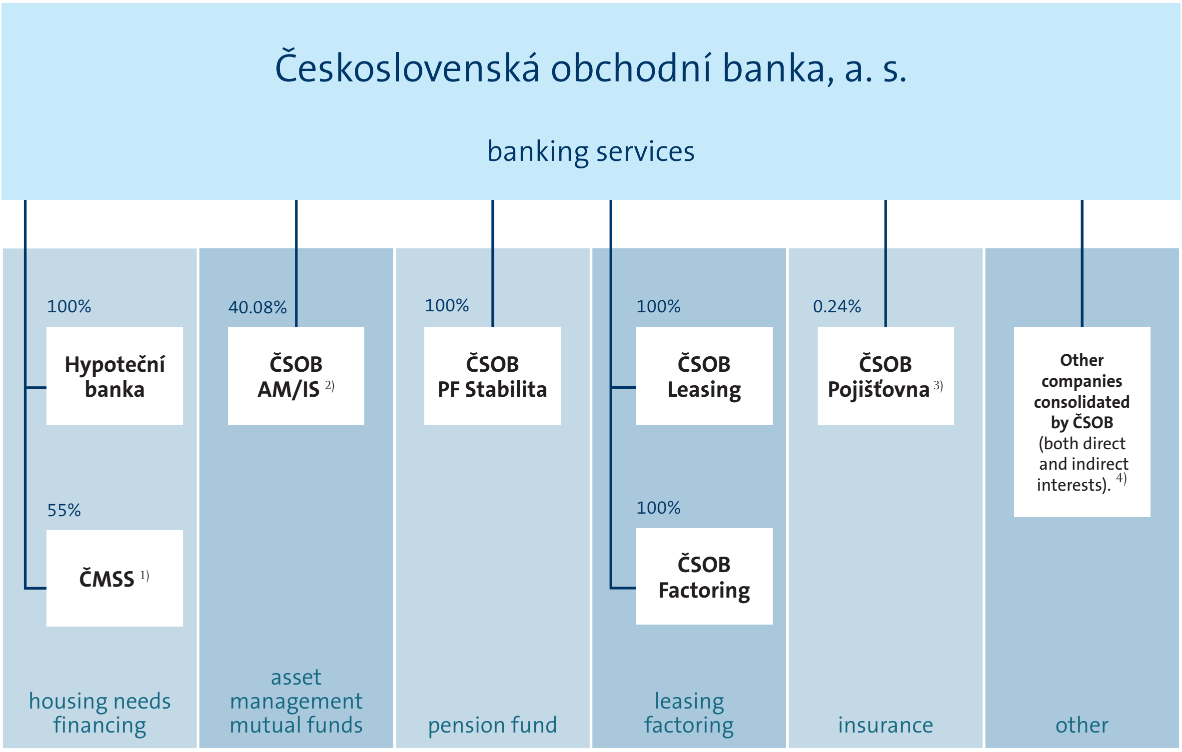
The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bancassurance KBC group which is active in Belgium and the CEE region.

As at 31 December 2012, ČSOB had ownership interests in 31 legal entities and, in addition to ČSOB, other 24 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 funds, securities brokerage, pension fund (and pension products since January 2013), leasing, factoring and insurance.

ČSOB's Consolidated Group

(as at 31 December 2012, EU IFRS)



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 2012.

1) 45% of shares owned by Bausparkasse Schwäbisch Hall; a proportional consolidated subsidiary of ČSOB.
2) 59.92% of shares owned by KBC Participations Renta C; subsidiary consolidated in ČSOB by an equity method.
3) 99.76% of shares owned by KBC Insurance; subsidiary consolidated in ČSOB by an equity method.
4) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2012.

Hypoteční banka, a.s.

Date of establishment:	10. 1. 1991
Business activities:	Provision of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Registered capital:	CZK 5,076,334.5 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 insurance products.

In 2012, Hypoteční banka provided about almost 23,000 mortgage loans in total volume of CZK 37.4 bn and maintained its position as the leader in the market for new mortgage loans with a market share of 30%.

Indicator*		2012	2011
Total assets	CZKm	201,176	181,002
Loans and advances to customers	CZKm	180,677	162,787
Total equity	CZKm	27,856	24,460
Profit for the year after tax	CZKm	2,795	2,631

** EU IFRS, audited.*

		2012	2011
Branches		27	27
Agents and brokers	ca.	3,200	2,500

Českomoravská stavební spořitelna, a.s.

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

Na těchto základech můžete stavět

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

The profit of ČMSS for 2012 didn't surpasse the record of 2011. The annual drop of the net profit was caused by a drop of net interest income by 13%, affected in particular by a drop of interest rates in the market. On the other side, the costs of credit risk decreased annualy by CZK 160 m and the opeerating costs by CZK 12 m.

Indicator*		2012	2011
Total assets	CZKm	168,650	170,878
Volume of loans and bridging hans (Retail)	CZKm	124,781	128,266
Volume of client deposits	CZKm	156,462	159,304
Total equity	CZKm	10,449	10,010
Profit for the year after tax	CZKm	1,835	2,073

** EU IFRS, audited.*

		2012	2011
Advisory centers		140	151
Tied agents	ca.	2,300	2,700

ČSOB Asset Management, a.s., investment company

Date of establishment:	3. 7. 1998
Business activities:	Collective and individual portfolio management as per license by the CNB
Identification number:	25677888
Registered capital:*	CZK 499,000 ths
Shareholders:	59.92% KBC Participations Renta C 40.08% ČSOB

** Shareholders (until 6 November 2012):*
KBC Participations Renta 55,71%; ČSOB 44,29%.

Contact

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

ČSOB AM/IS provides to its clients investment services of asset management, collective investment services, including the management of local mutual funds and the distribution of the KBC group's funds in the Czech Republic and is one of the leading companies on the Czech market. ČSOB AM/IS also participates in product development for the entire ČSOB group.

ČSOB AM/IS also manages the assets of several foreign funds within the KBC group.

Customers of ČSOB AM/IS 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/IS offers the services to clients via ČSOB branches, outlets of the Czech Post network, Era Financial Centers and ČMSS agents.

Indicator		2012	2011
Total assets managed by ČSOB AM/IS [1]	CZKm	145,194	137,176
Total assets in funds distributed by CSOB Group [1], [2]	CZKm	69,050	69,506

1) According to methodology of Czech Capital Market Association (AKAT); total statistic including funds and asset management.
2) Local and foreign funds distributed by ČSOB group.

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
Registered capital:	CZK 300,000 ths
Shareholders:	100% ČSOB

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.csob-penze.cz

The ČSOB group offers its clients various financial products, in 2012 - including voluntary pension funds which benefit from support by the Czech state through direct state contributions and tax relief granted to pension fund clients.

The pension funds are distributed through the ČSOB group, mostly by ČSOB bank and ČMSS agents.

Indicator		2012	2011
Funds registered in favour of participants	CZKm	28,855	28,650
– of which contributions of participants	CZKm	22,795	22,629
Profit for the year after tax*	CZKm	110	199
** EU IFRS, unaudited.*			
Customers	ca.	732,000	722,000

With the effect as at 1 January 2013, ČSOB PF Stabilita was transformed to ČSOB Penzijní společnost, a. s., a member of the ČSOB group which conducts pension insurance through transformed fund. Since 1 January 2013, ČSOB Penzijní společnost also offers pension savings through pension funds and supplementary pension savings through various participations funds with different investment strategy.

ČSOB Leasing, a.s.

Date of establishment:	31. 10. 1995
Business activities:	Financial services
Identification number:	63998980
Registered capital:	CZK 3,050,000 ths
Shareholders:	
% of registered capital	100% ČSOB
% of voting rights	50.82% ČSOB
	49.18% KBC Lease Holding

Contact

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

ČSOB Leasing provides financing of cars, trucks, machinery and equipment and technologies (incl. big ticket financing). ČSOB Leasing provides customers with a wide range of financial products for financing of productive assets.

ČSOB Leasing has been awarded many awards in the Zlatá koruna contest for the best financial products in the category of Leasing for Entrepreneurs.

ČSOB Leasing is a holder of ISO 9001:2008 certificate of quality.

Indicator		2012	2011
Volume of new leasing business	CZKm	11,616	12,185
Total assets*	CZKm	22,976	23,726
Profit for the year after tax*	CZKm	467	570
** EU IFRS, unaudited.*			
Branches		13	13

ČSOB Factoring, a.s.

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

Contact

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

ČSOB Factoring has been providing factoring services to its clients more than twenty years. Thanks to the quality of service still maintains a market share above 20%. In 2012, the volume of receivables assigned to ČSOB Factoring increased by 2.7% and reached CZK 29.5 bn.

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		2012	2011
Turnover of receivables	CZKm	29,489	28,697
Total assets*	CZKm	3,725	3,920
Profit for the year after tax*	CZKm	75	84

** 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
Registered capital:	CZK 2,796,248 ths
Shareholders:	
*% of registered capital**	99.76% KBC Insurance 0.24% 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

** Shareholders – the shares in registered capital (until 25 November 2012): ČSOB 25%, KBC Insurance 75%.*

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance products for both individuals and companies. Insurance products are mainly distributed through tied agents, brokers and the ČSOB group's branches.

In 2012, ČSOB Pojišťovna posted a net profit of CZK 620 m. Very good results of the company in 2012 were confirmed by its business results. ČSOB Pojišťovna posted gross premium written, the main indicator, in excess of CZK 13 bn.

Indicator *		2012	2011
Gross written premium life insurance	CZKm	9,288	8,186
Gross written premium non-life insurance	CZKm	4,411	4,026
Profit for the year after tax	CZKm	620	605
** EU IFRS, audited.*			
Branches		84	88
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	ca.	1,039,000	927,000

Companies of the ČSOB Group

(as at 31 December 2012)

ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital CZK	Share of ČSOB in: Registered Capital Total %	Direct %	Indirect %	Voting Rights %	Indirect Share of ČSOB via	Cons. EU IFRS [1] Y/N
Controlled Companies									
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
27081907	**ČSOB Advisory, a.s.** [3] 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
45794278	**ČSOB Factoring, a.s.** Factoring	Praha 10, Benešovská 2538/40	70,800,000	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
61859265	**ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group** [5] Pension insurance	Praha 5, Radlická 333/150	300,000,000	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** [6] Collective investment	Praha 5, Radlická 333/150	878,000,000	61.61	59.79	1.82	95.67	ČSOB AM/IS, 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
13584324	**Hypoteční banka, a.s.** [7] Mortgage banking	Praha 5, Radlická 333/150	5,076,334,500	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	61.61	none	61.61	95.67	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 Advisory	Y
36859516	**Property LM, s.r.o. in liquidation** Real estate activity; rent of flats and non-residential spaces	Bratislava, Medená 22/98, Slovak Republic	126,000	61.61	none	61.61	95.67	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	46,860,960	61.61	none	61.61	95.67	ČSOB Property fund	Y
99999999 [2]	**TEE SQUARE LIMITED, Ltd.** Advisory services for investment funds in the Caribbean area	British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986	7,814,532	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

Legal Entity				Share of ČSOB in:					
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital: Total	Registered Capital: Direct	Registered Capital: Indirect	Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS [1]
			CZK	%	%	%	%		Y/N
Others									
26199696	**CBCB - Czech Banking Credit Bureau, a.s.** Software development, IT advisory, data processing, network administration databank services	Praha 4, Na Vítězné pláni 1719/4	1,200,000	20.00	20.00	none	20.00	none	Y
26760401	**COFELY REN s.r.o.** [8] Production and sale of electricity from the solar irradiation	Praha 4, Lhotecká 793/3	186,834,000	42.82	42.82	none	42.82	none	Y
25677888	**ČSOB Asset Management, a.s., investment company** [9] Collective investment and asset management	Praha 5, Radlická 333/150	499,000,000	40.08	40.08	none	40.08	none	Y
45534306	**ČSOB Pojišťovna, a. s, a member of the ČSOB holding** [10] Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,796,248,000	0.24	0.24	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	0.24	none	0.24	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
45316619	**IP Exit, a.s.** [11] No activity	Praha 1, Senovážné náměstí 32	13,382,866,400	27.39	10.77	16.62	27.39	ČSOB Advisory, 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

1) A list of entities belonging to the ČSOB consolidated group according to EU IFRS as at 31 December 2012.
2) ID No. 99999999 - a foreign entity.
3) The business name of company changed on 14 May 2012 (the original business name ČSOB Investment Banking Services, a.s., člen skupiny ČSOB).
4) Shares in voting rights: ČSOB 50.82%, KBC Lease Holding 49.18%.
5) Registered capital increased to CZK 300 m on 25 January 2012.
6) Registered capital decreased to CZK 878 m on 17 January 2012; shares in registered capital: ČSOB 59.79%, ČSOB AM/IS 4.33%, ČSOB Pojišťovna 35.88%; shares in voting rights: ČSOB 95.67%, ČSOB AM/IS 4.33%.
7) Registered capital increased to CZK 5,076,334,500 on 15 October 2012.
8) Acquisition of participation on 24 October 2012.
9) Shares in registered capital: ČSOB 40.08%, KBC Participations Renta C 59.92%; shares in voting rights: ČSOB 40.08%, KBC Participations Renta C 59.92% (changes since 7 November 2012).
10) Shares in registered capital: ČSOB 0.24%, KBC Insurance 99.76%; shares in voting rights: ČSOB 40%, KBC Insurance 60% (changes since 26 November 2012).
11) Shares in registered capital: ČSOB 10.77%, ČSOB Advisory 16.62%, ČSOB Pojišťovna 0.11%; shares in voting rights: ČSOB 10.77%, ČSOB Advisory 16.62%.

Other changes:

MOTOKOV International a.s., in liquidation (ID No.: 00548219) - erased of an entry in the Register of Companies on 18 May 2012.
Auxilium, a.s. (ID No.: 25636855) - a national merger by acquisition with ČSOB Advisory, a.s. (the succession company); erased of an entry in the Register of Companies on 29 October 2012.

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 ultimate owner, 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 assigned its management, while the Supervisory Board oversees the Board of Directors. ČSOB also has had the Audit Committee as an independent governing body of ČSOB since January 2010. Members of the Audit Committee are elected by and reporting to the General Meeting of ČSOB's shareholders.

ČSOB's Board of Directors

In 2012, the ČSOB's Board of Directors operated as the Bank's statutory and supreme executive body and had **seven members** all of whom were also Senior Executive Officers.

ČSOB's Top Management

ČSOB's Top Management reports directly to the Board of Directors. ČSOB's Top Management consists of the Bank's senior employees in the positions of Chief Executive Officer and Senior Executive Officers. **In 2012**, ČSOB's Top Management had **seven members** who were identical with the ČSOB's Board of Directors.

In 2012, there were no personnel changes in the ČSOB's Board of Directors and ČSOB's Top Management.

	ČSOB's Board of Directors			ČSOB's Top Management
First Name and Surname	Position	Membership since	The Beginning of the Member's Current Term of Office [1]	Position
Pavel Kavánek	Chairman [2]	17. 10. 1990	20. 5. 2009	Chief Executive Officer
Petr Knapp	Member	20. 5. 1996	20. 5. 2009	Senior Executive Officer, Corporate Banking
Jan Lamser	Member	26. 5. 1997	20. 5. 2009	Senior Executive Officer, Mass Market
Petr Hutla	Member	27. 2. 2008	28. 2. 2013 [3]	Senior Executive Officer, Distribution
Bartel Puelinckx	Member	8. 12. 2010	8. 12. 2010	Senior Executive Officer, Finance Management (CFO)
Koen Wilmots	Member	8. 12. 2010	8. 12. 2010	Senior Executive Officer, Risk Management (CRO)
Jiří Vévoda	Member	8. 12. 2010	8. 12. 2010	Senior Executive Officer, Products and Staff Functions (CSO)

As at 31 December 2012.
1) The term in office of the members elected prior to the amendment of ČSOB Articles in effect from 3 June 2011, lasts five years; in other cases it lasts four years.
2) Current chairman term since 20 May 2009.
3) Elected to a new term in office.

Areas of Responsibility of ČSOB's Top Management

For a description of areas of responsibility managed by ČSOB's Top Management **as at 31 December 2012** please refer to the ČSOB's Organisation Chart, page 54 of this Annual Report.

ČSOB's Supervisory Board

ČSOB's Supervisory Board oversees the performance of the Board of Directors. **In 2012**, it had **nine members**.

First Name and Surname	Position	Membership since	The Beginning of the Member's Current Term of Office 1)
Jan Švejnar	Chairman 2)	9. 10. 2003 3)	20. 5. 2009
Patrick Roland Georges Zeno Vanden Avenne	Member	22. 4. 2006	15. 6. 2011
Hendrik George Adolphe Gerard Soete	Member	24. 2. 2007 3)	20. 6. 2012 5)
Marko Voljč	Member	29. 6. 2010	29. 6. 2010
Guy Libot	Member	1. 12. 2010	1. 12. 2010
Philip Marck	Member	1. 7. 2011	1. 7. 2011 6)
František Hupka	Member 4)	23. 6. 2005	23. 6. 2010
Martina Kantová	Member 4)	23. 6. 2010	23. 6. 2010
Ladislava Spielbergerová	Member 4)	23. 6. 2010	23. 6. 2010

As at 31 December 2012.
1) The term in office of the members elected prior to the amendment of ČSOB Articles in effect from 3 June 2011, lasts five years; in other cases it lasts four years.
2) Current chairman term since 3 June 2009.
3) Co-opted.
4) Elected by employees.
5) Elected to a new term in office.
6) Dissmised from 14 February 2013.

Changes in the ČSOB's Supervisory Board in 2012

On 20 June 2012, KBC Bank as the sole shareholder of ČSOB decided as follows: Hendrik George Adolphe Gerard Soete was elected a member of the ČSOB's Supervisory Board (to a new term in office) with effect from 20 June 2012.

ČSOB's Audit Committee

ČSOB's Audit Committee acts as an independent body of ČSOB and has four members. In 2012, there were no personnel changes in the ČSOB's Audit Committee.

First Name and Surname	Position		Membership since
Guy Libot 1)	Chairman	Member of the ČSOB's Supervisory Board	1. 12. 2010
Jan Švejnar	Member	Chairman of the ČSOB's Supervisory Board	1. 1. 2010 2)
Philip Marck	Member	Member of the ČSOB's Supervisory Board (until 14 February 2013)	1. 7. 2011 3)
Petr Šobotník	Independent member	Not a member of any ČSOB body	1. 2. 2011

As at 31 December 2012.
1) Chairman of the ČSOB's Audit Committee since 1 July 2011.
2) From 23 February 2007 to 31 December 2009, he was a member of the Audit Committee, a body of the ČSOB's Supervisory Board.
3) Dissmised from 5 April 2013.

Changes in the ČSOB's Managing and Supervisory Bodies in 2013

According to its updated strategy "KBC 2013 and beyond" effective as of 1 January 2013, KBC Group organized its core markets activities into three business units Belgium, Czech Republic (include all KBC's business in the Czech Republic) and International Markets. ČSOB's CEO Pavel Kavánek was appointed a member of KBC's Group Executive Committee responsible for the business unit Czech Republic.

ČSOB updated its business model and made following changes effective as of 1 January 2013:

- ČSOB's Board of Directors and ČSOB's Top Management have eight members, instead of seven. Since 1 January 2013, Marek Ditz (the head of Corporate and Institutional Banking until 31 December 2012) has been appointed a new member of ČSOB's Board of Directors (decision by the KBC Bank as the sole shareholder of ČSOB of 21 December 2012).

- ČSOB's Organisation Chart and areas of responsibility managed by ČSOB's Board of Directors and ČSOB's Top Management were rearranged accordingly.

- For a description of areas of responsibility managed by ČSOB's Top Management effective since 1 January 2013 please refer to the ČSOB's Organisation Chart, page 55 of this Annual Report.

The composition of the ČSOB's Board of Directors and the ČSOB's Top Management from 1 January 2013:

	ČSOB's Board of Directors	ČSOB's Top Management
First Name and Surname	Position	Position
Pavel Kavánek	Chairman	Chief Executive Officer
Petr Hutla	Member	Senior Executive Officer, Specialized Banking and Insurance
Marek Ditz	Member	Senior Executive Officer, Customer Relationships
Petr Knapp	Member	Senior Executive Officer, Corporate Banking and Financial Markets
Jan Lamser	Member	Senior Executive Officer, Convenience Services
Bartel Puelinckx	Member	Senior Executive Officer, Finance Management (CFO)
Koen Wilmots	Member	Senior Executive Officer, Operations Management (COO)
Jiří Vévoda	Member	Senior Executive Officer, Risk Management (CRO)

On 14 February 2013, KBC Bank as the sole shareholder of ČSOB decided as follows:

- Philip Marck was dismissed from the ČSOB's Supervisory Board with effect from 14 February 2013.

- Jan Gysels was elected a member of the ČSOB's Supervisory Board with effect from 14 February 2013.

- Petr Hutla was re-elected a member of the ČSOB's Board of Directors with effect (to a new term in office) with effect from 28 February 2013 (he has been a member of ČSOB's Board of Directors since February 2008).

On 5 April 2013, KBC Bank as the sole shareholder of ČSOB decided as follows:

- Philip Marck was dismissed from the ČSOB's Audit Committee with effect from 5 April 2013.

- Jan Gysels was appointed a member of the ČSOB's Audit Committee with effect from 5 April 2013.

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.

ČSOB, pursuant to the applicable Czech legal principles, doesn't 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 members of the Board of Directors, ČSOB's Top Management and the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
150 57 Praha 5
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* in ČSOB are:

(i) The Chairman of the Board of Directors, who is also the Chief Executive Officer, and other Members of the Board of Directors, who also act as Senior Executive Officers, constitute the ČSOB's Top Management (for details refer to Managing and Supervisory Bodies) and (ii) Members of the Supervisory Board.

In 2012, ČSOB did not have any persons discharging managerial responsibilities as defined in the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market, Section 2, paragraph 1, provision b) 4.

For description of areas of responsibility managed by ČSOB's Chief and Senior Executive Officers please refer to the ČSOB's Organisation Chart on page 54 of this Annual Report. Descriptions of work and decision-making processes are given in "Corporate Governance" on pages 50 – 53 of this Annual Report.

** Persons discharging managerial responsibilities within an issuer (in Czech "osoby s řídící pravomocí") as defined in the act above.*

Monetary and Non-monetary Income

(Section 118, paragraph 4, provision f)

In 2012, **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	69 341	0	9 025	0
Members of the Supervisory Board	3 864	0	0	0
Other members of the Top Management	No such persons in 2012.			

The income of the Chairman and Members of the Board of Directors in 2012 included: CZK 55,529 ths under the Contracts on the Performance of the Line Management Function, and remuneration totalling CZK 13,812 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 2,458 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 1,406 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 2012, the Members of the Board of Directors and their next of kin, the members of the Supervisory Board 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

ČSOB's Supervisory Board established for remuneration, nomination and personal issues the Nomination and Remuneration Committee. The Remuneration Rules are approved by this Committee of Supervisory Board as well as fulfilment of upfront performance targets (Key Performance Indicators; "KPIs") based on their evaluation by the Chairman of the Board of Directors. Members of Nomination and Remuneration Committee in 2012 were Marko Voljč (Chairman), Jan Švejnar and Guy Libot (they are also members of the Supervisory Board).

Members of the Board of Directors also serve as Senior Executive Officers with specific agendas. Their income comprises a fixed remuneration for performing the function of a member of the Board of Directors and a fixed salary for performing the management function of a Senior Executive Officer. Variable part of remuneration is derived from the fixed part and depends on meeting upfront performance targets (KPIs), including financial (e.g. net underlying profit, operating costs), risk (e.g. credit costs) and other parameters (e.g. number of clients). 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.

Following the change of the legislation, new bonus scheme for persons discharging managerial responsibilities within an issuer was launched in 2011. A half of the bonus is provided in non-cash instrument. Payment of a half of the bonus (both cash and non-cash portion) is deferred up to the next three years following the initial assignment of the benefit and is linked to fulfilling all conditions according to internal rule of Remuneration Policy.

Members of the Supervisory Board

The Chairman of the Supervisory Board is contracted for fixed salary per year that is set by the Nomination and Remuneration 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.

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 the CEO since 1993. Since 1 January 2013, Mr. Kavánek has been a member of the Executive Committee of KBC Group responsible for the business unit Czech Republic. *Membership in bodies of other companies:* President of the Executive Board of the Czech Banking Association; Chairman of the Supervisory Board of the Dagmar and Václav Havel Foundation VIZE 97; member of the Board of Trustees of the Aspen Institute Prague.
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. **Since 1 January 2013**, Mr. Knapp has been a member of ČSOB's Top Management as the Senior Executive Officer, **Corporate Banking and Financial Markets**. *Membership in bodies of other companies:* Chairman of the Supervisory Board of ČSOB Factoring (CZ); member of the Supervisory Board of ČSOB Leasing (CZ, until 31 December 2012); member of the Board of Directors of the Prague Economic Chamber (CZ).
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. Until 31 December 2012, he was responsible for services provided to mass retail clientele. **Since 1 January 2013**, Mr. Lamser has been a member of ČSOB's Top Management as the Senior Executive Officer, **Convenience Services**. *Membership in bodies of other companies:* Deputy Chairman of the Supervisory Board of ČMSS (CZ); member of the control commission of the Unijazz Association (CZ); President of the Czech Chess Union.

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 the Economic Associate Director of Tesla Pardubice – RSD from 1991. He has been working for ČSOB since 1993: first as the branch manager in Pardubice and the main branch manager in Hradec Králové, then as the main branch manager in Prague 1. Mr. Hutla then served as Senior Director, Corporate and Institutional Banking (between 2000 and 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (between 2005 and 2006), Human Resources and Transformation (between 2006 and 15 November 2009), Distribution (between 16 November 2009 and 31 December 2012). Since 27 February 2008, Mr. Hutla has been a member of the Board of Directors. From 14 January 2009 to 31 December 2011, he was also the head of KBC Global Services Czech Branch, organizational unit. **Since 1 January 2013**, Mr. Hutla has been a member of ČSOB's Top Management as the Senior Executive Officer, **Specialized Banking and Insurance**. *Membership in bodies of other companies:* Chairman of the Supervisory Board in: Hypoteční banka (CZ) and ČSOB Leasing (CZ, since 1 January 2013); member of the Supervisory Board in: ČSOB AM/IS (CZ), ČSOB PF Stabilita (CZ, until 31 December 2012) and ČSOB Factoring (CZ, since 1 January 2013); member of the Board of Trustees of Czech Technical University in Prague; member of the Board of Directors of the Czech Transplant Foundation.
Bartel Puelinckx *(Born on 16 December 1965)* Member of the Board of Directors and Senior Executive Officer, Finance Management	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	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 joined Kredietbank. He has been working for ČSOB since 1999. Between 1999 and 2005, he was responsible for Corporate Management and Distribution Segment. He was the Executive Director, Credits between 2005 and 30 April 2010. Mr. Wilmots was a member of ČSOB's Top Management as the Senior Executive Officer responsible for Risk Management between 1 May 2010 and 31 December 2012. He has been a member of the Board of Directors since 8 December 2010. **Since 1 January 2013**, Mr. Wilmots has been a member of ČSOB's Top Management as the Senior Executive Officer, **Operations Management**. *Membership in bodies of other companies:* Member of the Supervisory Board of Hypoteční banka (CZ, until 31 December 2012).

Jiří Vévoda

(Born on 4 February 1977)

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

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 responsible for HR and Trasformation (until December 2010) and Products and Staff Functions (between 1 January 2011 and 31 December 2012). Mr. Vévoda has been a member of the Board of Directors since 8 December 2010.

Since 1 January 2013, Mr. Vévoda has been a member of ČSOB's Top Management as the Senior Executive Officer, **Risk Management**.

Membership in bodies of other companies:
Member of the Supervisory Board in (since 1 January 2013): Hypoteční banka (CZ) and ČSOB Leasing (CZ).

Marek Ditz

(Born on 16 September 1972)

Member of the Board of Directors and Senior Executive Officer, Customer Relationships (since 1 January 2013)

He graduated from the University of Economics, Prague and Swiss Banking School, Zurich.

Mr. Ditz has been working for ČSOB since 1994. He was appointed the Manager of the Specialized and Institutional Banking unit in 2005. He was appointed the Executive director of Corporate and Institutional Banking in 2010, where he was in charge of the distribution network of 10 regional branches providing service to corporate clients as well as for specialised financing, foreign trade and institutional banking which also caters to non-banking financial institutions, banks and selected public sector entities.

Since 1 January 2013, Mr. Ditz has been a member of the Board of Directors and a member of ČSOB's Top Management as the Senior Executive Officer, **Customer Relationships**.

Membership in bodies of other companies:
Chairman of the Supervisory Board of ČSOB Advisory (CZ).

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 was a professor at the University of Michigan Business School and since the beginning of 2012 he serves at Columbia University in New York as the founding director of the Center for Global Economic Governance.

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

Membership in bodies of other companies:
Chairman of the Board of the Center for Economic Research and Graduate Education (CERGE) of the Charles University; member of the Academic Council of Faculty of Social Sciences of the Charles University; member of the Czech government's National Economic Council (NERV); Chairman of the Regional Association's Economic Council (ERAK).

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 a member of the Executive Committee of the KBC Group. From 29 April 2010 to December 2012, he was CEO of the KBC Group's Central & Eastern Europe and Russia business unit. Since 1 January 2013, he has been a member of of the Executive Committee of the KBC Group (Chief Change Officer) responsible for the Corporate Change & Support business unit.

Membership in bodies of other companies:
Member of the Board of Directors of K&H Bank (Hungary); member of the Board of Directors (a non-executive body) in: KBC Banka (Serbia) and Absolut Bank (Russia); Chairman of the Supervisory Board in: ČSOB Pojišťovna (CZ) and DZI (Bulgaria); member of the Supervisory Board in: ČSOB (SK) and CIBank (Bulgaria).

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. In 2010, he became the General Manager, Banking, Central & Eastern Europe and Russia within the KBC Global Services. One year later, he was appointed by the KBC Group to serve as the Senior General Manager Banking, for Central & Eastern Europe and Russia. Since 1 January 2013, Mr. Libot has been Senior General Manager, Banking Core Communities (part of the Corporate Change & Support business unit).

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

Membership in bodies of other companies:
President of the Board of Directors (a non-executive body) of KBC Banka (Serbia); member of the Board of Directors (a non-executive body) of Absolut Bank (Russia); Deputy Chairman of the Supervisory Board of CIBank (Bulgaria); member of the Supervisory Board in: ČSOB (SK) and Bank Zachodni WBK (Poland).

Patrick Roland Georges Zeno 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 had also been in managerial positions in Almanij (a former parent company of the KBC Group), Gevaert NV and, later, in KBC Bank and KBC Insurance. After the merger of Almanij and KBC in 2005, he was appointed to the position of Director of KBC Bank and became a member of the Audit Committee at KBC Bank. He has been a member of ČSOB's Supervisory Board since April 2006.

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 George Adolphe Gerard 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 headed 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. *Membership in bodies of other companies:* Member of the Board of Directors of the MRBB, the Financial Holding of Boerenbond (Belgium); CEO of the Agri Investment Fund of Boerenbond (Belgium); Chairman of the Covalis Meat Group (Belgium).
Philip Marck *(Born on 4 February 1959)* Member of the Supervisory Board (until 14 February 2013)	He studied at the Catholic University of Leuven (Belgium) and graduated at faculty of law of in 1982 and audio-visual communication media in 1983. Mr. Marck completed a degree in Business Management at the EHSAL Management School in Brussels in 1992. Mr. Marck started his career at Kredietbank in 1984 and subsequently held the position of a branch manager, first in retail branches and later in different corporate branches. In 2007, he became the Regional Manager Corporate Banking for the Brussels-Brabant-Limburg region. A year later, he was appointed the General Manager, Corporate Banking Belgium in KBC Bank. At present, he is the Regional Director for the Brussels-Oost-Brabant region. From 1 July 2011 to 14 February 2013, he was a member of the ČSOB's Supervisory Board. From 1 July 2011 to 5 April 2013, Philip Marck was a member of the ČSOB's Audit Committee. *Membership in bodies of other companies:* Member of the Board of Directors (a non-executive body) of KBC Banka (Serbia).
Jan Gysels *(Born on 28 September 1960)* Member of the Supervisory Board (since 14 February 2013)	He graduated from the Catholic University in Leuven (Belgium) with a degree in law in 1983 and he obtained post–graduate diploma in Business Management and in Maritime Studies in 1984. Mr. Gysels has been working for KBC since 1985. Between 1987 and 2009, he held various positions in the KBC group in Belgium and Hungary. From 2009 to 2012, he worked as the General Manager of KBC Communication Division in Belgium. Since January 2013, he has worked in the position of the General Manager Banking Communities Support in the KBC Global Services. Since 5 April 2013, he has been a member of the ČSOB's Audit Committee. *Membership in bodies of other companies:* Member of the Board of Directors (a non-executive director) of KBC Bank Ireland (Ireland); member of the Supervisory Board in: ČSOB (SK), CIBank (Bulgaria) and K&H Bank (Hungary).
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 (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. From 2005 to August 2012, she worked as a Retail Credits Advisor. At present, Ms. Kantová is on a maternity leave. 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. Between 2009 and 2012, Ms. Kantová was the chairperson of a local trade union organization in Hradec Králové. Since 1 January 2013, after the merger two local trade union organizations in Hradec Králové and in Prague, she has been a member of the board of the new local trade union organization. *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.

ČSOB's Audit Committee

Petr Šobotník *(Born on 16 May 1954)* Independent member of the Audit Committee	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, he joined the audit firm Coopers & Lybrand; he became a partner for audit in 1995. After the merger of the audit firms, he served as the Lead Audit Partner in PricewaterhouseCoopers from 1998 to 2002. He then worked in various top management positions in PwC until June 2010. At present, he is an independent consultant. Since 1 February 2011, he has been an independent member of the ČSOB's Audit Committee. *Membership in bodies of other companies:* President of the Czech Chamber of Auditors since 2007 (re-elected in November 2012 for another two-year term); 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 Corporate Governance Code based on the OECD Principles.

In February 2012, the ČSOB's Board of Directors adopted **the ČSOB's Corporate Governance Code** to define the role of key bodies and lay out basic rules of the Bank's governance in compliance with the Czech law and in line with the internationally accepted practice. The ČSOB's Corporate Governance Code is available in the Bank's Corporate Office.

In August 2012, the ČSOB's Board of Directors approved **the ČSOB's Anti-Corruption Programme Policy** (effective as from 1 October 2012) including the principle of zero tolerance for bribery and corrupt practices. By issuing and introducing this programme, ČSOB formalized its principles and attitudes nurtured by ČSOB on a continuous and long-term basis. Compliant with the Code of Ethics, this regulation was issued to show to both the public and our employees that corrupt practices or other unethical conduct is and will not be tolerated in ČSOB.

Československá obchodní banka, a. s. has the following bodies: General Meeting, Board of Directors, Supervisory Board, and Audit Committee.

General Meeting

The General Meeting of shareholders is the ČSOB's supreme body. **Under §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 in cases stipulated by the applicable laws. The ČSOB's Board of Directors and Supervisory Board are notified of resolutions adopted by the sole shareholder in writing by the delivery of a written notice.

Board of Directors

The Board of Directors of Československá obchodní banka, a. s. 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 shareholder and clients receive regular reports containing the required range of relevant data on the members of the Board of Directors and their professional and personal qualifications enabling them to execute their duties.

In 2012, the ČSOB's Board of Directors had seven members and worked in the following composition: Pavel Kavánek (Chairman), Petr Hutla, Petr Knapp, Jan Lamser, Bartel Puelinckx, Koen Wilmots and Jiří Vévoda. There was no change to the composition of the ČSOB's Board of Directors in 2012.

Subject to the amendment of the ČSOB's Articles of Association and effective **from 1 January 2013, the number of Board members has been increased to eight**. As of the same date, the General Meeting elected Marek Ditz as the eighth member of the Board of Directors.

The Board of Directors **meets regularly, usually once a week**, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational nature submitted for discussion individually by the Board members. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of the statutory body are attended by the director of the Bank's Corporate Office who acts as secretary of the Board of Directors 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 2012

Risk and Capital Oversight Committee (RCOC)

The Committee aims to support the ČSOB's Board of Directors in the field of risk and capital management of the ČSOB group.

Credit Sanctioning Committee (CSC)

The Committee decides approvals/non-approvals of credit exposure in cases within the ČSOB decision-making powers.

ICT Activity Steering Committee (ASC)

The Committee manages and monitors the transformation in the field of business and information technology and provides evaluation and methodological management of the processes within the area.

Public Affairs Committee (PAC)

The Committee intends to promote the establishment and implementation of business and strategic initiatives and projects reflecting own needs or external influences and aim to achieve the business and strategic objectives of the Bank or the companies associated in the ČSOB group.

ČSOB Corporate Social Responsibility Committee (CSRC)

The Committee defines the strategy of corporate social responsibility (CSR) and how it interlinks with the ČSOB's strategy, sets the direction in various areas of CSR and addresses inputs suggested and escalated from the Philanthropy Committee.

Crisis Committee (CRC)

The goal is to be efficient in solving crisis situations that, if unaddressed, would adversely affect the operations of the whole Bank, or the ČSOB group, as the case may be.

Other Bodies

EXCO – Executive Committee Retail/SME

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.

EXCO – Executive Committee Corporate and FM

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.

EXCO – Executive Committee Mass Market

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.

Supervisory Board

The Supervisory Board of Československá obchodní banka, a. s. supervises performance of tasks by the Board of Directors and discharge of the Bank's business activities.

Pursuant to the Bank's Articles of Association, **the ČSOB's Supervisory Board has nine members**, six of them are elected by the General Meeting and three of them are elected by the employees of the Bank.

Throughout 2012, the ČSOB's Supervisory Board **worked in the following composition**: Jan Švejnar (Chairman), Marko Voljč, Philip Marck, Guy Libot, Patrick Vanden Avenne, Hendrick Soete, František Hupka, Martina Kantová and Ladislava Spielbergerová.

Hendrik Soete (member of the ČSOB's Supervisory Board since 2007) was re-elected by the General Meeting for another (four-year) term on 20 June 2012.

In compliance with its plan of work, the Supervisory Board **held four meetings in 2012** 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 powers, the Supervisory Board selected an external auditor. The auditor attends all meetings of the Audit Committee, thus providing an independent, comprehensive and qualified opinion of whether the ČSOB's financial statements reflect the ČSOB's situation and performance correctly in all material respects. Pursuant to the Rules of Procedure 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.

Supervisory Board Committee

The Remuneration and Nomination Committee is an advisory and nomination body of the Supervisory Board. The Remuneration and Nomination Committee sets, assesses and evaluates the remuneration of ČSOB's top managers; the Committee meets as necessary but no less than once a year.

The Remuneration and Nomination Committee is composed of **three members**; in 2012 the members were Marko Voljč (Chairman), Jan Švejnar and Guy Libot.

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 the compilation 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 the auditor's independence.

The Audit Committee has **four members** elected from among the members of the Supervisory Board or third parties. Throughout 2012, the Audit Committee worked in the following composition: Guy Libot (Chairman), Jan Švejnar, Philip Marck and Petr Šobotník (independent member).

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 manager of the ČSOB's Compliance unit, 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 2012** where issues falling within the Audit Committee's competence were addressed.

Internal Control Mechanisms to Eliminate Financial Reporting Process Risks

A number of tools in several areas are used to ensure true and fair representation of transaction in the company's accounting records and correct financial statements presentation. There are both automated and manual checks incorporated in the entire process starting with the transaction registration in the company systems up to financial statements preparation.

Balances of all General Ledger accounts are subject to regular, at least monthly internal checks. The appointed person in charge, so-called Account Manager, performs logical and specific checks related to the General Ledger account balance consisting e.g. of reconciliation of data in support systems or non-accounting registers with the balances in the General Ledger, monitoring the development of the account balance, monitoring the occurrence of unusual transactions or manual entries in accounts with automatic accounting etc. Control procedures are set up to eliminate the risk of accounting errors and fraud. Corrections of accounting errors are monitored centrally. The adequacy and effectiveness of the accounting examinations are assessed on a regular basis. Findings are reported to the Internal Audit and Operational Risk Committee on a semi-annual basis.

The internal control system also includes internal regulations determining authorities assumed by each staff member making entries in the accounting books in order to duly segregate responsibilities within the document flow. Control procedures are integrated to accounting systems including the "four eye" check and access right authentication. The possibility of unauthorised entry is eliminated by defining the persons who can make a predefined scope of transactions and persons authorised to give approvals.

Accounting procedures and valuation rules for assets and liabilities including rules for provisions and allowances are defined within internal regulations prepared in accordance with the legal requirements and international financial reporting standards. Monitoring of compliance with the requirements and incorporation of changes is provided via Accounting Methodology which further cooperates with the units concerned. 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 2012 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the year 2012 prepared in accordance with EU IFRS.

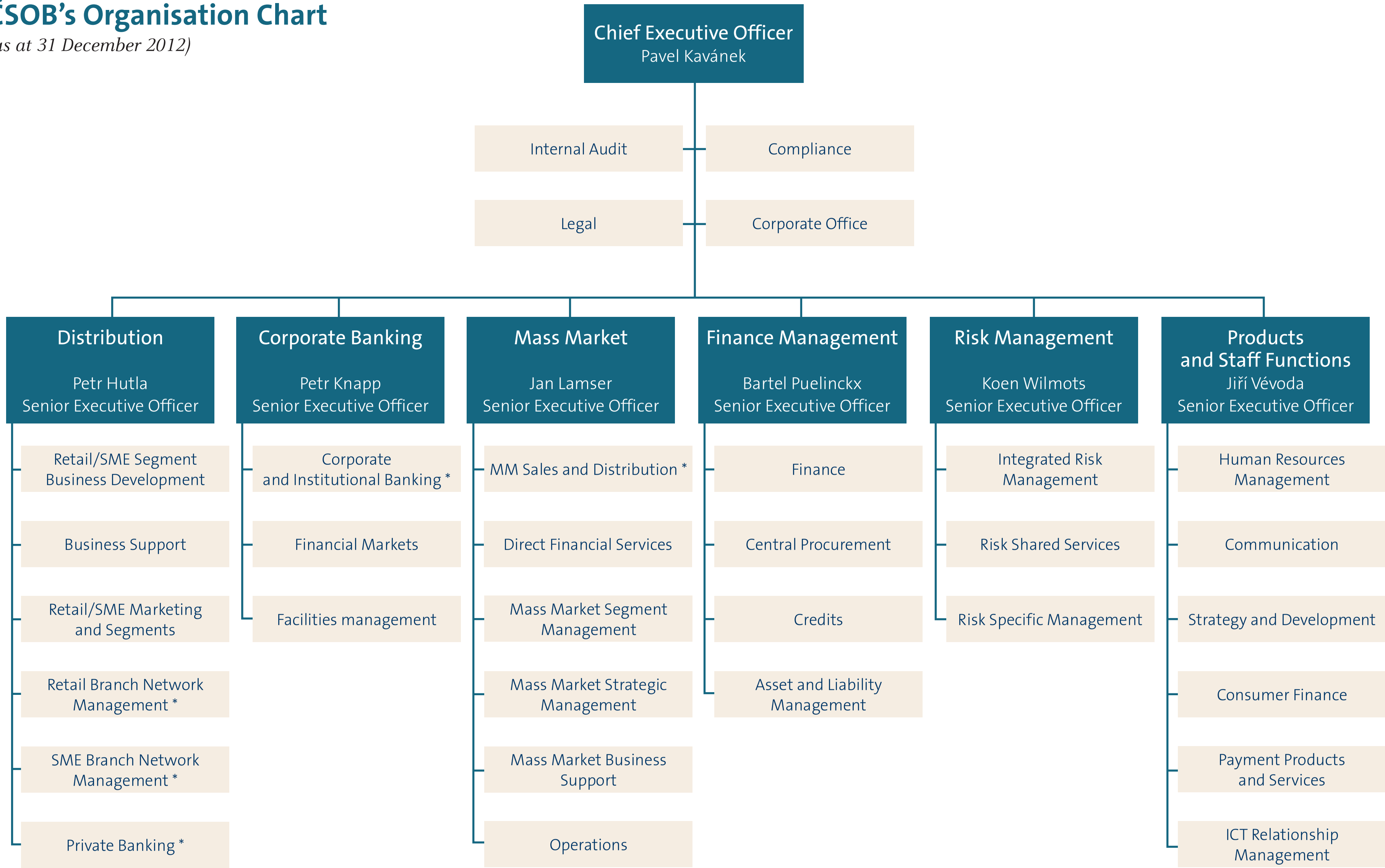
Control mechanisms are extended based on recommendations from internal audit, or based on outcomes of the risk assessment reviews organized as part of the operational risk management, please refer to Note 37.5 to the Separate Financial Statement for the year 2012 prepared in accordance with EU IFRS and to Note 39.5 to the Consolidated Financial Statement for the year 2012 prepared in accordance with EU IFRS.

An automated system is used to prepare majority of financial statements using the data from the central data warehouse, which are reconciled to the General Ledger balances.

Consolidated financial statements are regularly submitted to the company's Supervisory Board and both consolidated and separate financial statements are subject to external audit. The effectiveness and efficiency of internal controls is evaluated by internal auditors.

ČSOB's Organisation Chart

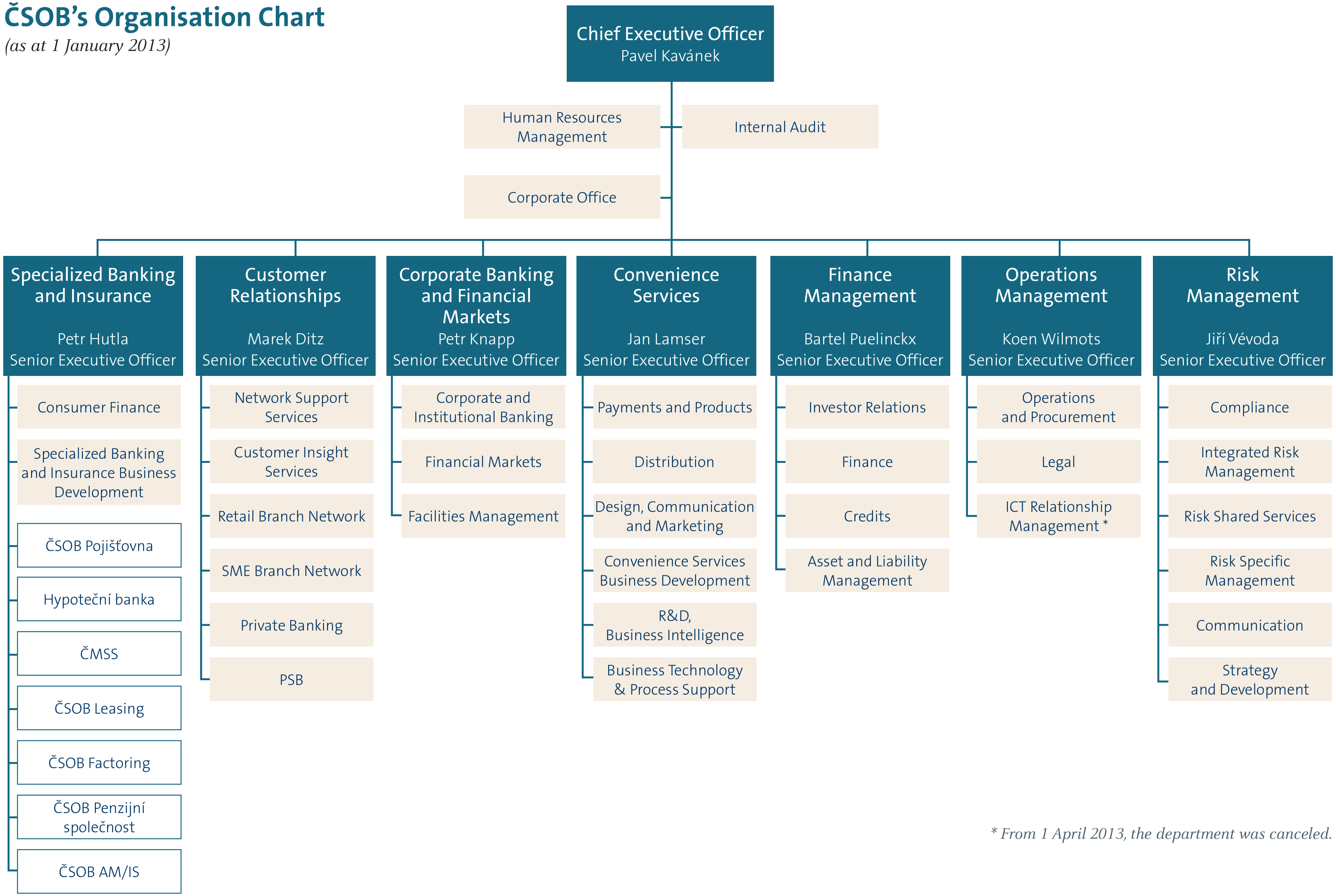
(as at 31 December 2012)



** These units manage respective branch network.*

ČSOB's Organisation Chart

(as at 1 January 2013)



** From 1 April 2013, the department was canceled.*

FINANCIAL PART

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholder 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 2012, and consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 1 to the 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 as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

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

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, License No. 2009

22 March 2013
Prague, Czech Republic

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

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

(CZKm)	Note	2012	Reclassified 2011
Interest income	5	32,697	33,318
Interest expense	6	(7,727)	(8,510)
Net interest income		**24,970**	**24,808**
Fee and commission income		8,747	9,095
Fee and commission expense		(3,242)	(2,845)
Net fee and commission income	7	**5,505**	**6,250**
Dividend income		26	41
Net gains from financial instruments at fair value through profit or loss and foreign exchange	8	2,315	1,460
Net realised gains on available-for-sale financial assets		126	642
Other net income	9	2,073	385
Operating income		**35,015**	**33,586**
Staff expenses	10	(7,222)	(6,779)
General administrative expenses	11	(8,009)	(8,009)
Depreciation and amortisation	22, 23	(856)	(911)
Operating expenses		**(16,087)**	**(15,699)**
Impairment losses	12	(1,584)	(5,062)
Share of profit of associates	19	195	145
Profit before tax		**17,539**	**12,970**
Income tax expense	13	(2,258)	(1,764)
Profit for the year		**15,281**	**11,206**
Attributable to:			
Owners of the parent		15,291	11,172
Non-controlling interests		(10)	34

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

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

(CZKm)	Note	2012	2011
Profit for the year		**15,281**	**11,206**
Exchange differences on translating foreign operation		(1)	1
Net gain on cash flow hedges		2,449	1,953
Net gain / (loss) on available-for-sale financial assets		3,837	326
Share of other comprehensive income of associates		(188)	16
Income tax (expense) / benefit relating to components of other comprehensive income		(1,027)	(528)
Other comprehensive income for the year, net of tax	31	**5,070**	**1,768**
Total comprehensive income for the year, net of tax		**20,351**	**12,974**
Attributable to:			
Owners of the parent		20,368	12,943
Non-controlling interests		(17)	31

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

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

(CZKm)	Note	2012	2011
ASSETS			
Cash and balances with central banks	15	28,293	46,691
Financial assets held for trading	16	162,265	176,703
Financial assets designated at fair value through profit or loss	16	7,352	11,021
Available-for-sale financial assets	17	91,904	87,404
Held-to-maturity investments	17	138,437	139,423
Loans and receivables	18	479,516	449,291
Fair value adjustments of the hedged items in portfolio hedge		1,030	77
Derivatives used for hedging	20	14,453	10,328
Current tax assets		17	70
Deferred tax assets	13	88	481
Investment in associate	19	126	1,150
Investment property	21	430	509
Property and equipment	22	8,045	8,114
Goodwill and other intangible assets	23	3,093	3,314
Non-current assets held-for-sale	24	85	98
Other assets	25	2,040	1,919
Total assets		**937,174**	**936,593**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	26	133,587	165,914
Financial liabilities at amortised cost	27	703,792	688,556
Fair value adjustments of the hedged items in portfolio hedge		1,741	103
Derivatives used for hedging	20	9,166	7,350
Current tax liabilities		772	532
Deferred tax liabilities	13	2,532	1,081
Other liabilities	28	10,508	10,816
Provisions	29	935	1,058
Total liabilities		**863,033**	**875,410**
Share capital	30	5,855	5,855
Share premium		7,509	7,509
Statutory reserve		18,687	18,687
Retained earnings		32,611	24,061
Available-for-sale reserve	30	5,701	2,612
Cash flow hedge reserve	30	3,567	1,578
Foreign currency translation reserve	30	-	1
Shareholders' equity		73,930	60,303
Non-controlling interests, presented within equity		211	880
Total equity		**74,141**	**61,183**
Total liabilities and equity		**937,174**	**936,593**

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 and signed on its behalf on 22 March 2013 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 2012

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: 30)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 30)	controlling interest	Equity
At 1 January 2011	**5,855**	**7,509**	**18,687**	**30,560**	**2,420**	**809**	**65,840**
Profit for the year	-	-	-	11,172	-	34	11,206
Other comprehensive income for the year	-	-	-	-	1,771	(3)	1,768
Total comprehensive income for the year	-	-	-	11,172	1,771	31	12,974
Capital decrease by non-controlling shareholders of subsidiaries	-	-	-	149	-	40	189
Dividends paid (Note: 14)	-	-	-	(17,820)	-	-	(17,820)
At 31 December 2011	**5,855**	**7,509**	**18,687**	**24,061**	**4,191**	**880**	**61,183**
At 1 January 2012	**5,855**	**7,509**	**18,687**	**24,061**	**4,191**	**880**	**61,183**
Profit for the year	-	-	-	15,291	-	(10)	15,281
Other comprehensive income for the year	-	-	-	-	5,077	(7)	5,070
Total comprehensive income for the year	-	-	-	15,291	5,077	(17)	20,351
Results from the loss of a control in a subsidiary	-	-	-	(145)	-	(652)	(797)
Dividends paid (Note: 14)	-	-	-	(6,596)	-	-	(6,596)
At 31 December 2012	**5,855**	**7,509**	**18,687**	**32,611**	**9,268**	**211**	**74,141**

[1] The statutory reserve represents accumulated transfers from retained earnings in compliance with the Czech Commercial Code. This reserve is not distributable and could be used only for compensation of losses incurred.

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

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

(CZKm)	Note	2012	2011
OPERATING ACTIVITIES			
Profit before tax		17,539	12,970
Adjustments for:			
Change in operating assets	33	(11,493)	(53,268)
Change in operating liabilities	33	(18,099)	54,380
Non-cash items included in profit before tax	33	3,611	6,112
Net gains from investing activities		(1,457)	(22)
Income tax paid		(1,374)	(2,532)
Net cash flows (used in) / from operating activities		**(11,273)**	**17,640**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		(3,164)	(4,731)
Maturity / disposal of investment securities		2,858	15,674
Purchase of property, equipment and intangible assets		(1,703)	(1,606)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		654	614
Dividends from associates		481	489
Proceeds from disposal of subsidiary, associate and joint venture companies		2,269	189
Increase of capital in associated companies		-	(315)
Net cash flows from investing activities		**1,395**	**10,314**
FINANCING ACTIVITIES			
Repayment of bonds		(1,000)	(1,507)
Repayment of subordinated debt		(4,000)	-
Issue of bonds		5,166	808
Dividends paid	14	(6,596)	(17,820)
Net cash flows used in financing activities		**(6,430)**	**(18,519)**
Net (decrease) / increase in cash and cash equivalents		**(16,308)**	**9,435**
Cash and cash equivalents at the beginning of the year	33	35,295	25,860
Net (decrease) / increase in cash and cash equivalents		(16,308)	9,435
Cash and cash equivalents at the end of the year	33	**18,987**	**35,295**
Additional information			
Interest paid		(8,092)	(9,059)
Interest received		33,723	33,993
Dividends received (other than from associates)		26	41

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

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 carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses). 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, consolidated statement of comprehensive 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 venture 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 judgements 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, 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 individually 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.

Goodwill impairment

Goodwill is tested annually for impairment. For this purpose, 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. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Classification of leases

Classification of leases into either finance leases or operating leases is based on the extent to which the risks and rewards from the asset ownership have been transferred from a lessor to a lessee. If substantial number of all the risks and rewards incidental to ownership have been transferred to the lessee the lease is classified as a finance lease. Managerial judgement is needed to assess the extent to which the risks and rewards have been transferred.

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.

Provisions

Provisions are recognised when a current obligation exists as a result of past events. It is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount will be made. Judgements are applied to evaluate whether the current obligation exists taking into account all available evidence and whether the event is more likely to occur than not. Estimates of the amount of the obligation also require managerial judgement.

2.3 Changes in accounting policies

Effective from 1 January 2012

The accounting policies adopted are consistent with those used in the previous financial year except for the adoption of 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 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments) is effective for periods beginning on or after 1 July 2011. The amendment provides relief for first-time adopters from having to reconstruct transactions that occurred before their transition to IFRS. It provides guidance for entities emerging from severe hyperinflation.

IFRS 7 Disclosures – Transfers of Financial Assets (Amendments) is effective for periods beginning on or after 1 July 2011. The standard should assist users to evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The amendment enhances disclosures for financial assets transferred but not derecognised entirely in the financial statements and assets derecognised entirely, but in which the entity retains a continuing involvement.

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments) is effective for periods beginning on or after 1 January 2012. The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is measured using the fair value model. The amendment requires that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale.

Improvements to IFRSs, issued in May 2011 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. None of these have a significant impact on the accounting policies, financial position or performance of the Group.

Effective after 1 January 2012

The following standards, amendments and interpretations have been issued and are effective after 1 January 2012. The Group has decided not to early adopt them but will adopt them as soon as required by the respective standard. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

IFRS 1 Government Loans (Amendments) is effective for periods beginning on or after 1 January 2013. The amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IAS 20 prospectively to government loans existing at the date of transition to IFRSs.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments) is effective for periods beginning on or after 1 January 2013. The amendment presents new required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

IFRS 9 Financial Instruments (the first phase) is effective for periods beginning on or after 1 January 2015 (as per Amendments). The standard has not been endorsed by the European Commission 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. Debt instruments 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 embedded 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 2013 or later.

IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosures (Amendments). IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015. Early application is permitted. The amendments also modify the relief from restating prior periods.

IFRS 10 Consolidated Financial Statements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces the part relating to the consolidated portion of IAS 27 Consolidated and Separate Financial Statements. New definition of control is included and a single control model that applies to all entities is introduced.

IFRS 11 Joint Arrangements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. The standard will have an impact on consolidated financial statements of the Group. Proportionate method of consolidation is disallowed by the new standard. Each line of financial statements will be reduced by amounts contributed by ČMSS (Note: 19) and the resulting interest in joint venture will be presented in one line in the caption Investment in associates and joint ventures in the statement of financial position. In the statement of income (resp. statement of other comprehensive income), one line item will be presented in the caption Share of profit of associates and joint ventures and Share of other comprehensive income of associates and joint ventures respectively.

IFRS 12 Disclosure of Interest in Other Entities is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard includes all of the disclosure requirements that were included in IAS 27, IAS 28 and IAS 31. The entity will be required to disclose judgements made to determine whether it controls an entity.

IFRS 10, 11, 12 Transition Guidance (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The amendments change the transition guidance to provide further relief from full retrospective application. The amendments clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC-12 and when applying IFRS 10.

Investment Entities (Amendments to IFRS 10, 12 and IAS 27) is effective for periods beginning on or after 1 January 2014. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

IFRS 13 Fair Value Measurement is effective for periods beginning on or after 1 January 2013. The standard provides guidance on how to measure the fair value of financial and non-financial assets and liabilities. The standard will not have any significant effect on the statement of financial position or income but will increase the amount of information disclosed in the notes to improve its relevance.

IAS 1 Presentation of Items of Other Comprehensive Income (Amendments) is effective for annual periods beginning on or after 1 July 2012. The amendments change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The option is retained to present profit or loss and OCI either in a single continuous statement or in two separate, but consecutive, statements.

IAS 19 Employee Benefits (Revision) is effective for periods beginning on or after 1 January 2013. The main changes within the revised standard relate to the accounting treatment of the category of post-employment benefits - defined benefit plans:

- The corridor mechanism for pension plans is abolished and all changes in the value of defined benefit plans will be recognised as they occur;
- The presentation options of actuarial results will be eliminated;
- The level of disclosures will be increased;

Other smaller changes to the short-term employee benefits and termination benefits and a number of minor clarifications and re-wording are included in the revised standard.

IAS 27 Separate Financial Statements (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments) is effective for periods beginning on or after 1 January 2013. These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine is effective for periods beginning on or after 1 January 2013.

Improvements to IFRSs, issued in May 2012 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 in foreign currency borrowing or derivatives that provide an effective hedge in the cash flow hedge of currency risk which are taken through OCI directly to equity until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

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 end of the reporting period. 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 through OCI 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 through OCI 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/losses from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(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, and currency, interest rate and commodity 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.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Group Asset Liability Management department uses for decreasing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

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 clean 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. 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 instruments designated at fair value through profit or loss*

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 clean 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, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. 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 reclassified to 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 is a different to 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 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 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 utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. 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 for collecting the loan 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 the statement of income - 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 the statement of income, 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 statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Group's criteria for application of hedge accounting 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/expense from hedging instrument is recorded in Net 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. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(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) Reclassification of financial assets

The Group does not reclassify any financial assets into or out of the Financial assets designated at fair value through profit or loss after initial recognition.

If a non-derivative financial asset at fair value through profit or loss is no longer held for selling or repurchasing it can only be reclassified in rare circumstances.

The Group can also reclassify, under certain circumstances, financial assets out of Available-for-sale.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the Available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to the statement of income over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate.

Sales and reclassifications from the Held-to-maturity portfolio without the risk of triggering tainting rules are possible only in limited circumstances, such as when it concerns an insignificant amount of instruments or instruments that are so close to maturity that the changes in the market interest rates would not significantly change their fair value. Further, no tainting rules are applied if the sales or reclassifications are attributable to an isolated event that is beyond the Group’s control (i.e. significant deterioration in the issuer’s creditworthiness or changes in tax, statutory or regulatory requirements) or if the sales occur after collecting a substantial amount of the instrument’s principal.

However, if sales or reclassifications from the Held-to-maturity portfolio do not fulfil the above limits, any remaining investments have to be reclassified as available-for-sale. Furthermore, no financial assets can be classified as Held-to-maturity for the following two years.

(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) 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.

(12) 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.

Interest income and expense of interest-bearing non-derivative financial instruments in the held-for-trading portfolio designated at fair value through profit or loss portfolio, derivatives used as economic hedges and hedging derivatives are also recognised in the caption using the effective interest rate method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

Fees and commissions that are not the integral part of the effective interest rate 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 integral part of the effective interest 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 clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(13) Cash and cash equivalents

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

(14) 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.

(15) 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 OCI is recognised through OCI in Retained earnings or in the Available-for-sale reserve.

(16) 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.

Property and equipment is 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.

(17) 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 transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Non-controlling interests in the acquirees are measured at the proportionate share of the acquiree's recognised net identifiable assets. Any acquisition-related costs are recognised in the statement of income when they are incurred. 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 the statement of income 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.

(18) 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.

(19) 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 provision relating to financial guarantees is included in Impairment losses.

(20) Employee benefits

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.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(21) 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.

(22) 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. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

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 to OCI, is also credited or charged to OCI 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.

(23) Share capital and reserves

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

The statutory reserve fund is accumulated in compliance with the Commercial Code and its use is limited by this legislation and the Articles of association or Statutes. The fund is not available for distribution to shareholders.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(24) 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.

(25) 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 2012 from the presentation applied in the financial statements at 31 December 2011. To conform to the changes in presentation in the current year, certain items in the comparative balances have been reclassified.

A reconciliation of the selected items of the financial statements for the year ended 31 December 2011 is provided below:

	2011	Reclassifications		2011
(CZKm)	As reported	A	B	Reclassified
Fee and commission income	9,040	55		9,095
Fee and commission expense	(3,672)		827	(2,845)
Other net income	440	(55)		385
General administrative expenses	(7,182)		(827)	(8,009)

The explanation for the reclassifications is as follows:

A/ **Income from FX options trading for clients**

Income from FX options trading for clients, previously presented within Other net income, have been reclassified into Fee and commission income, since the nature of the income is asset management performance fee;

B/ **Deposit insurance premium and contribution to the Securities Traders Guarantee Fund**

Contributions of the Group into the Deposit Insurance Fund and the Securities Traders Guarantee Fund, previously presented within Net fee and commission income, have been reclassified into General administrative expenses, since the nature of the contribution is operating expense rather than financial expense.

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 25 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2012	% 2011
Subsidiaries				
Auxilium, a.s.	Auxilium	Czech Republic	-	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 Advisory, a.s. (formerly ČSOB IBS)	ČSOB Advisory	Czech Republic	100.00	-
ČSOB Asset Management, a.s., investment company	ČSOB AM/IS	Czech Republic	-	44.29
ČSOB Factoring, a.s.	ČSOB Factoring	Czech Republic	100.00	100.00
ČSOB Investment Banking Services, a.s., a member of the ČSOB group	ČSOB IBS	Czech Republic	-	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 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	61.61	69.63
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100.00	100.00
Merrion Properties s.r.o.	Merrion Properties	Czech Republic	61.61	69.63
Property LM, s.r.o.	Property LM	Slovak Republic	61.61	69.63
Property Skalica, s.r.o.	Property Skalica	Slovak Republic	61.61	69.63
Joint venture				
Českomoravská stavební spořitelna, a.s.	ČMSS	Czech Republic	55.00	55.00
Associate				
ČSOB Asset Management, a.s., investment company	ČSOB AM/IS	Czech Republic	40.08	-
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	0.24	25.00

In November 2012, ČSOB sold 24.76% of its ownership in ČSOB Pojišťovna to KBC Insurance NV. The sale did not affect the significant influence of the Bank over the ČSOB Pojišťovna as 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 onwards. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank (Notes: 9, 19, 24, 37).

In May 2012, ČSOB Investment Banking Services, a.s., a member of the ČSOB group was renamed to ČSOB Advisory, a.s. In October 2012, Auxilium merged with ČSOB Advisory. ČSOB Advisory being the successor company.

In 2012, the indirect 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 sell the part of its ownership in ČSOB Pojišťovna and ČSOB AM/IS. Decrease was partially compensated by the Bank’s decision to realize a buyout of shares.

In November 2011, ČSOB PF Progres merged with ČSOB PF Stabilita, ČSOB PF Stabilita being the successor company.

Based on the Agreement on the exercise of voting rights, the Group is entitled to excercise 50.82% of the voting rights in ČSOB Leasing, since the remaining 49.18% of the voting rights were transferred to the KBC Lease Holding NV.

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 95.67% of the voting rights in ČSOB Property fund, Merrion Properties, Property LM and Property Skalica.

Based on the company statutes, 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.

Merger of ČSOB IS and ČSOB AM

On 27 April 2011, the Bank approved a merger of ČSOB Investiční společnost, a.s., a member of the ČSOB group (ČSOB IS) and ČSOB Asset Management, a.s., a member of the ČSOB group (ČSOB AM). It was decided that ČSOB IS would become a successor company and would afterwards be renamed to ČSOB Asset Management, a.s., investment company. The decisive date of the transaction was set at 1 July 2011. In June 2011, a pre-merger sale of 15.28% stake in ČSOB IS from Auxilium to KBC Participations Renta, SA was executed. As a result of the sale, the participation of the Group in ČSOB IS equity decreased and the Group received an advance payment on the sale in the amount of CZK 149 m. The merged company was registered in the Commercial register on 31 December 2011. As a result of the merger and the effective date of the registration, the Group effectively lost control over the merged ČSOB AM/IS starting January 2012 and started account for the entity using the equity method going forward. The advance payment received from the pre-merger sale in the amount of CZK 149 m was recognised in Other net income of the Consolidated statement of income for the year ended 31 December 2012, when the control was lost.

In the Group's financial statements as at 31 December 2011, ČSOB IS and ČSOB AM were consolidated using a full method of consolidation, since the Bank exercised control power over ČSOB IS and AM until the end of 2011 due to the former agreement which assured the Group a majority of the voting rights.

In November 2012, the Group sold 21 shares of ČSOB AM/IS to KBC Participations Renta C, SA to achieve a target share of ČSOB Group on the equity of ČSOB AM/IS of 40.08%. Realised gain on the sale amounted to CZK 75 m (Notes: 9, 19, 24, 37).

The table below shows assets (including goodwill), liabilities and non-controlling interest of merged ČSOB IS and ČSOB AM as at 31 December 2011 included in the consolidated financial statements that were derecognised from the consolidated financial statements of the Group (segment Retail / SME) in January 2012. The Statement of income for the year ended 31 December 2011 is also presented. In accordance with the change of the consolidation method, Investment in associates has been recognised in the consolidated statement of financial position in 2012 instead.

Statement of income

(CZKm)	2011
Fee and commission income	727
Fee and commission expense	(119)
Net fee and commission income	**608**
Net gains from financial instruments at fair value through profit or loss and foreign exchange	(1)
Other net income	(5)
Operating income	**602**
Staff expenses	(115)
General administrative expenses	(35)
Depreciation and amortisation	(7)
Operating expenses	**(157)**
Profit before tax	**445**
Income tax expense	(38)
Profit for the year	**407**

Statement of financial position

(CZKm)	2011
Cash and balances with central banks	-
Current tax assets	26
Deferred tax assets	1
Property and equipment	3
Goodwill and other intangible assets	10
Other assets	155
Total assets	**195**
Provisions	2
Other liabilities	225
Total liabilities	**227**
Non-controlling interests, presented within equity	681
Total net assets of the disposal group	**(713)**

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 strategic 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. Margin income from the operations with retail and SME clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Corporate: Companies with a turnover greater than CZK 300 m and financial institutions. This segment contains customers’ deposits, loans, overdrafts, credit cards facilities, funds transfer facilities and other transactions and balances with corporate customers. Margin income from the operations with corporate clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Financial markets: 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 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, Asset Liability Management (ALM), income and expenses not directly attributable to other segments and eliminations. In 2012, net gains on disposal of participations in ČSOB Pojišťovna and ČSOB AM/IS are included.

In 2012, fee and commission income previously reported within Group Centre was further allocated into segments. Comparative figures in the Statement of income for 2011 have been reclassified.

Segment reporting information by customer segments for 2012

(CZKm)	Retail / SME	Corporate	Financial markets	Group Centre	**Total**
Statement of income					
Net interest income	18,619	2,761	754	2,836	**24,970**
Net fee and commission income	4,250	1,039	301	(85)	**5,505**
Dividend income	20	-	-	6	**26**
Net gains / (losses) from financial instruments at fair value through profit or loss	1,220	779	626	(310)	**2,315**
Net realised gains on available-for-sale financial assets	265	-	-	(139)	**126**
Other net income	133	62	(1)	1,879	**2,073**
Operating income	**24,507**	**4,641**	**1,680**	**4,187**	**35,015**
of which:					
External operating income	*19,419*	*4,428*	*1,680*	*9,488*	***35,015***
Internal operating income	*5,088*	*213*	-	*(5,301)*	**-**
Depreciation and amortisation	(260)	(3)	-	(593)	**(856)**
Other operating expenses	(12,579)	(1,559)	(322)	(771)	**(15,231)**
Operating expenses	**(12,839)**	**(1,562)**	**(322)**	**(1,364)**	**(16,087)**
Impairment losses - additions	(2,929)	(604)	-	(265)	**(3,798)**
Impairment losses - reversals	1,143	719	-	352	**2,214**
Impairment losses	**(1,786)**	**115**	**-**	**87**	**(1,584)**
Share of profit of associates	-	-	-	195	**195**
Profit before tax	**9,882**	**3,194**	**1,358**	**3,105**	**17,539**
Income tax benefit / (expense)	(1,905)	(626)	(258)	531	**(2,258)**
Segment profit	**7,977**	**2,568**	**1,100**	**3,636**	**15,281**
Attributable to:					
Equity holders of the Bank	7,977	2,568	1,100	3,646	**15,291**
Non-controlling interest	-	-	-	(10)	**(10)**
Assets and liabilities					
Segment assets	400,524	112,074	169,325	255,125	**937,048**
Investment in associates	-	-	-	126	**126**
Total assets	**400,524**	**112,074**	**169,325**	**255,251**	**937,174**
Total liabilities	**567,942**	**100,156**	**134,356**	**60,579**	**863,033**
Capital expenditure	**1,223**	**9**	**-**	**302**	**1,534**

Segment reporting information by customer segments for 2011

(CZKm)	Retail / SME	Corporate	Financial markets	Group Centre	**Total**
Statement of income					
Net interest income	18,940	2,278	679	2,911	**24,808**
Net fee and commission income	4,905	1,090	188	67	**6,250**
Dividend income	36	-	-	5	**41**
Net gains / (losses) from financial instruments at fair value through profit or loss	924	769	(190)	(43)	**1,460**
Net realised gains on available-for-sale financial assets	463	-	-	179	**642**
Other net income	82	58	7	238	**385**
Operating income	**25,350**	**4,195**	**684**	**3,357**	**33,586**
of which:					
External operating income	*19,795*	*4,140*	*684*	*8,967*	***33,586***
Internal operating income	*5,555*	*55*	*-*	*(5,610)*	***-***
Depreciation and amortisation	(280)	(6)	(1)	(624)	**(911)**
Other operating expenses	(12,497)	(1,468)	(318)	(505)	**(14,788)**
Operating expenses	**(12,777)**	**(1,474)**	**(319)**	**(1,129)**	**(15,699)**
Impairment losses - additions	(3,050)	(1,483)	(5)	(3,243)	**(7,781)**
Impairment losses - reversals	1,476	999	-	244	**2,719**
Impairment losses	**(1,574)**	**(484)**	**(5)**	**(2,999)**	**(5,062)**
Share of profit of associates	-	-	-	145	**145**
Profit before tax	**10,999**	**2,237**	**360**	**(626)**	**12,970**
Income tax benefit / (expense)	(2,108)	(462)	(69)	875	**(1,764)**
Segment profit	**8,891**	**1,775**	**291**	**249**	**11,206**
Attributable to:					
Equity holders of the Bank	8,891	1,775	291	215	**11,172**
Non-controlling interest	-	-	-	34	**34**
Assets and liabilities					
Segment assets	376,261	100,817	200,679	257,686	**935,443**
Investment in associates	-	-	-	1,150	**1,150**
Total assets	**376,261**	**100,817**	**200,679**	**258,836**	**936,593**
Total liabilities	**557,156**	**94,252**	**165,787**	**58,215**	**875,410**
Capital expenditure	**1,164**	**15**	**-**	**217**	**1,396**

Interest income and interest expense are not presented separately since the Group assesses the performance of the segments primarily on the basis of the net interest income.

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

The Group operates predominantly in the Czech Republic.

5. INTEREST INCOME

(CZKm)	2012	2011
Cash balances with central banks	141	245
Loans and receivables		
Credit institutions	462	404
Other than credit institutions	20,877	20,533
Available-for-sale financial assets	2,880	3,118
Held-to-maturity investments	5,844	6,286
Financial assets held for trading (Note: 8)	1,453	1,500
Financial assets designated at fair value through profit or loss (Note: 8)	344	383
Derivatives used as economic hedges (Note: 8)	209	480
Derivatives used for hedging (Note: 8)	487	369
	32,697	**33,318**

6. INTEREST EXPENSE

(CZKm)	2012	2011
Financial liabilities at amortised cost		
Central banks	6	10
Credit institutions	243	294
Other than credit institutions	5,188	5,346
Debt instruments in issue	430	476
Subordinated liabilities	173	193
Discount amortisation on other provisions (Note: 29)	3	4
Financial liabilities held for trading (Note: 8)	663	790
Derivatives used as economic hedges (Note: 8)	551	876
Derivatives used for hedging (Note: 8)	470	521
	7,727	**8,510**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2012	2011
Fee and commission income		
Payment services	5,094	5,058
Administration of credits	2,002	1,970
Collective investments	406	610
Custody	157	164
Asset management	73	287
Securities	63	65
Other	952	941
	8,747	**9,095**
Fee and commission expense		
Retail service fees	1,045	906
Payment services	960	947
Commissions to agents	669	590
Other	568	402
	3,242	**2,845**
Net fee and commission income	**5,505**	**6,250**

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)	2012	2011
Net gains from financial instruments at fair value through profit or loss and foreign exchange- as reported	**2,315**	**1,460**
Net interest income (Notes: 5, 6)	809	545
	3,124	**2,005**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	537	(493)
Foreign exchange	3,005	(1,099)
Equity contracts	20	(18)
Commodity contracts	16	9
	3,578	(1,601)
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	489	579
Foreign exchange differences	(943)	3,027
Financial instruments at fair value through profit or loss and foreign exchange	**3,124**	**2,005**

9. OTHER NET INCOME

(CZKm)	2012	2011
Net gain from the sale of ČSOB Pojišťovna (Note: 3)	1,230	-
Net gain from the sale of ČSOB AM/IS (Note: 3)	224	-
Net operating leasing and rental income	392	372
Services provided to the parent and to entities under common control	198	266
Other services provided by ČSOB Leasing	54	78
Net gain on disposal of property and equipment	30	28
Net decrease / (increase) in provisions for legal issues	19	(204)
Net loss on disposal of Held-to-maturity investments	(24)	(6)
Contributions to pension fund clients	(519)	(483)
Other	469	334
	2,073	**385**

10. STAFF EXPENSES

(CZKm)	2012	2011
Wages and salaries	5,112	4,838
Salaries and other short-term benefits of senior management	69	71
Social security charges	1,523	1,547
Pension and similar expense	157	144
Restructuring programme (Note: 29)	203	-
Other	158	179
	7,222	**6,779**

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.

Following the change in legislation, a new bonus scheme for selective employees was launched in 2011. Half of the bonus is provided in a non-cash instrument Virtual investment certificate (VIC) as an equivalent of the 10-year government bond. Payment of the half of the bonus (both cash and non-cash portion) is deferred up to the next three years following the initial assignment of the benefit.

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, wholly-owned subsidiary of ČSOB and other pension funds approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Group of 2% or 3% of their salaries, respectively. The contributions are from 1 January 2013 as a part of pension reform sent to newly created Transformed fund or participation funds managed by ČSOB Penzijní společnost, a. s. or other pension companies

Termination benefits

Employees dismissed by their employer according to the Czech employment law are entitled to termination benefits equal to or less than three times the employee's month's average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (twice month's average salary), 15-20 years (2.5 times the month's average salary), 20-25 years (3 times the month's average salary), 25-30 years (4 times the month's average salary), 30-35 years (5 times the month's average salary) and over 35 years (6 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 2012 and 2011, no such compensation was paid out.

11. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2012	2011
Rental expenses on information technologies – minimum lease payments	1,606	1,479
Information technologies	1,303	1,327
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	855	827
Marketing	807	928
Rental expenses on land and buildings - minimum lease payments	535	629
Other building expenses	546	466
Professional fees	469	467
Communication	401	446
Payment cards and electronic banking	234	114
Administration	180	202
Retail service fees	140	159
Travel and transportation	125	127
Training	120	128
Car expenses	47	38
Insurance	37	33
Other	604	639
	8,009	**8,009**

12. IMPAIRMENT LOSSES

(CZKm)	2012	2011
Impairment of loans and receivables (Notes: 18, 33)	(1,631)	(1,822)
Provisions for loan commitments and guarantees (Notes: 29, 33)	57	43
Impairment of available for sale assets (Notes: 17, 31, 33)	(26)	(3,062)
Impairment of held-to-maturity investments (Note: 17, 33)	-	(5)
Impairment of property, plant and equipment (Notes: 22, 33)	(8)	3
Impairment of investment property (Notes: 21, 33)	(50)	(174)
Impairment of goodwill (Notes: 23, 33)	(193)	(151)
Impairment of non-current assets held-for-sale (Notes: 24, 33)	(21)	-
Impairment of other assets (Note: 33)	288	106
	(1,584)	**(5,062)**

13. TAXATION

The components of income tax expense for the years ended 31 December 2012 and 2011 are as follows:

(CZKm)	2012	2011
Current tax expense	2,116	1,947
Net provisions for tax disputes	(199)	199
Previous year over accrual of current tax	(475)	(117)
Deferred tax expense / (benefit) relating to the origination and reversal of temporary differences	816	(265)
	2,258	**1,764**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2012 and 2011 is as follows:

(CZKm)	2012	2011
Profit before taxation	17,539	12,970
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,332	2,464
Net provisions for tax disputes	(199)	199
Previous year over accrual of current tax	(475)	(117)
Previous year under accrual of deferred tax	610	-
Tax effect of non-taxable income	(1,428)	(1,173)
Tax effect of non-deductible expenses	410	399
Other	8	(8)
	2,258	**1,764**

The applicable tax rate for 2012 was 19% (2011: 19%).

Included in non-taxable income is interest income accrued on tax-free financial investments.

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

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

(CZKm)	2012	2011
At 1 January	**(600)**	**(342)**
Statement of income	(816)	265
Available-for-sale securities (Note: 31)		
Fair value remeasurement	(534)	396
Transfer to net profit	(26)	(548)
Cash-flow hedges (Note: 31)		
Fair value remeasurement	(446)	(408)
Transfer to net profit	(21)	32
Exchange differences	(1)	5
At 31 December	**(2,444)**	**(600)**

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

(CZKm)	2012	2011
Deferred tax asset		
Accelerated tax depreciation	44	260
Allowances for credit losses	42	105
Provisions	1	122
Impairment losses on financial investments	-	664
Employee benefits	-	247
Legal claims	-	134
Revaluation of financial assets and liabilities at fair value through profit or loss	-	93
Initial fee income	-	88
Unused tax losses applicable in the next periods	-	4
Amortisation of goodwill	-	(302)
Cash flow hedges	-	(365)
Available-for-sale securities	(3)	(581)
Other temporary differences	4	12
	88	**481**
Deferred tax liability		
Available-for-sale securities	1,227	123
Cash-flow hedging derivatives	897	65
Accelerated tax depreciation	626	1,037
Amortisation of goodwill	338	-
Initial fee expense	291	320
Finance lease valuation	117	171
Impairment losses on financial investments	(26)	-
Interest rate bonus	(76)	(77)
Unused tax losses applicable in the next periods	(81)	(294)
Revaluation of financial assets and liabilities at fair value through profit or loss	(93)	16
Legal claims	(131)	-
Provisions	(140)	(15)
Allowances for credit losses	(176)	(224)
Employee benefits	(195)	-
Other temporary differences	(46)	(41)
	2,532	**1,081**

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

(CZKm)	2012	2011
Accelerated tax depreciation	195	134
Finance lease valuation	54	10
Available-for-sale securities	36	(91)
Revaluation of financial assets and liabilities at fair value through profit or loss	16	(37)
Provisions	4	12
Interest rate bonus	(1)	(5)
Legal claims	(3)	(1)
Amortisation of goodwill	(36)	(37)
Employee benefits	(52)	1
Initial fee income	(59)	(54)
Allowances for credit losses	(111)	(87)
Unused tax losses applicable in the next periods	(217)	(138)
Impairment losses on financial investments	(638)	625
Other temporary differences	(4)	(67)
	(816)	**265**

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 initial recognition.

14. 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 2012 has not been taken before the date of issue of the financial statements.

Based on a sole shareholder decision from 26 June 2012, a dividend of CZK 22.53 per share was paid for 2011, representing a total dividend of CZK 6,596 m.

Based on a sole shareholder decision from 13 May 2011, a dividend of CZK 60.87 per share was paid for 2010, representing a total dividend of CZK 17,820 m.

15. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2012	2011
Cash (Note: 33)	9,053	8,196
Mandatory minimum reserves (Notes: 34, 39.2)	9,859	11,641
Reverse repo transactions (Notes: 33, 34, 36, 39.2)	7,500	25,302
Other balances with central banks (Notes: 33, 34, 39.2)	1,881	1,552
	28,293	**46,691**

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.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2012	2011
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 36)	95,819	119,050
Money market placements	15,966	7,361
Debt instruments		
Central government	29,505	25,774
Non credit institutions	21	21
Credit institutions	4,950	5,309
Corporate	879	1,265
Derivative contracts (Note: 20)		
Trading derivatives	13,668	15,497
Derivatives used as economic hedges	1,457	2,426
	162,265	**176,703**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Central government	1,312	4,790
Non credit institutions	398	406
Credit institutions	5,642	5,825
	7,352	**11,021**
Financial assets at fair value through profit or loss	**169,617**	**187,724**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 2,407 m (2011: CZK 4,001 m) pledged as collateral in repo transactions.

Included in Financial assets designated at fair value through profit or loss are debt securities recorded at fair value to reduce the accounting mismatch that would otherwise arise from measuring these assets or recognising the gains and losses from them on a different bases.

17. FINANCIAL INVESTMENTS

(CZKm)	2012	2011
Available-for-sale financial assets		
Debt securities		
Central government	64,297	58,129
Credit institutions	25,042	27,395
Corporate	2,012	1,297
Equity securities		
Credit institutions	-	48
Corporate	553	535
	91,904	**87,404**
Held-to-maturity investments		
Debt securities		
Central government	136,137	136,116
Non credit institutions	519	533
Credit institutions	1,682	2,675
Corporate	99	99
	138,437	**139,423**
Financial investments	**230,341**	**226,827**

Included within Financial investments are debt securities of CZK 8,307 m (2011: CZK 17,044 m) pledged as collateral in repo transactions and debt securities of CZK 1,766 m (2011: 1,782 m) pledged as collateral of term deposits and financial guarantees.

As at 31 December 2010, coupon bonds issued by the government of Greece were included within the portfolio of Available-for-sale financial assets of the Group in the carrying amount of CZK 3,768 m. In July 2011, the European Union approved a rescue plan for Greece, which was regarded as an objective evidence of impairment. Following the decision, the Group impaired its portfolio of bonds issued by the Greek government classified as Available-for-sale financial assets and reported under the Group Centre segment. The impairment loss on available-for-sale Greek bonds included in the statement of income amounted to CZK 3,077 m in 2011. Unrealised losses from the market revaluation, which were retained in equity in the amount of CZK 891 m as at 31 December 2010, were derecognised from the Available-for-sale reserve in 2011. The carrying amount of the Greek government bonds remaining in Available-for-sale debt securities decreased to CZK 1,554 m as at 31 December 2011.

In February 2012, an agreement on the key terms of the voluntary exchange of Greek government bonds held by the private sector was reached in the European Union. Based on the decision of the Group to accede the agreement, the Group derecognised the entire amount of old Greek bonds and realised the loss in the amount of CZK 412 m reported under Net realised gains on available-for-sale financial assets in the statement of income.

Just after the derecognition of the old Greek bonds, new financial instruments were recognised along with the key terms of the agreement. 15% of the principal of the old Greek bonds was exchanged for short-term securities issued by the European Financial Stability Facility (EFSF) and 31.5% was converted into the new 20 tranches of coupon bonds issued by the Greek government and Greek GDP-linked securities. Interest income, which was accrued on the old Greek bonds but was not paid by the date of the exchange, was replaced by short-term EFSF notes.

On 30 March 2012, the new debt instruments in the total carrying amount of CZK 1,115 m were sold to KBC Credit Investments NV. There are no debt instruments issued by Greek government held by the Group as at 31 December 2012.

Due to significant deterioration in the issuer's creditworthiness, the Group decided in January 2011 to gradually sell its portfolio of bonds issued by the Hungarian government, which were originally classified as Held-to-maturity investments. Following the decision, the bonds in the amount of CZK 1,012 m were reclassified to Available-for-sale financial assets in 2011 with the intention to sell based on the market conditions. The whole position of the bonds issued by the Hungarian government was sold or repaid in 2011.

Due to deterioration in the issuer's credibility, the Group decided to gradually sell the portfolio of bonds issued by the Italian and Spanish government classified as Held-to-maturity investments. Following the decision, the Italian bonds in the amount of CZK 975 m were sold in the end of 2011. The remaining position of the Italian and Spanish sovereign bonds in the total amount of CZK 1,499 m was sold in 2012. All these sales are considered by the Group as insignificant in relation to the entire Held-to-maturity portfolio.

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2011 and 2012:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2011	**136**	**470**	**-**	**606**
Increase (Note: 12)	3,077	14	5	3,096
Utilisation	-	(34)	(5)	(39)
Decrease (Note: 12)	(29)	-	-	(29)
Foreign currency translation	133	-	-	133
At 31 December 2011	**3,317**	**450**	**-**	**3,767**
Increase (Note: 12)	-	26	-	26
Utilisation	(3,162)	(298)	-	(3,460)
Foreign currency translation	(155)	-	-	(155)
At 31 December 2012	**-**	**178**	**-**	**178**

18. LOANS AND RECEIVABLES

(CZKm)	2012	2011
Analysed by category of borrower		
Central government	293	265
Non credit institutions	7,675	6,619
Credit institutions	24,461	23,783
Other legal entities	158,065	153,980
Private individuals	301,217	277,209
Gross loans	491,711	461,856
Allowance for impairment losses	(12,195)	(12,565)
	479,516	**449,291**

Of which finance lease receivables may be analysed as follows:

(CZKm)	2012	2011
Gross investment in finance leases, receivable	**10,173**	**12,067**
At not more than one year	3,902	4,853
At more than one but not more than five years	5,657	6,710
At more than five years	614	504
Unearned future finance income on finance leases	(786)	(912)
Net investment in finance leases	**9,387**	**11,155**
At not more than one year	3,601	4,486
At more than one but not more than five years	5,220	6,204
At more than five years	566	465
Accumulated allowance for uncollectible minimum lease payments receivable	612	760

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 2011 and 2012 by classes of financial instruments and by individual and collective impairment:

(CZKm)	Credit Institutions	Non-credit Institutions	Other legal entities	Private Individuals	Total
At 1 January 2011	**214**	**13**	**7,796**	**4,443**	**12,466**
Net increase in allowances for credit losses (Note: 12)	15	(3)	(145)	1,955	1,822
Write-offs	(12)	-	(503)	(1,199)	(1,714)
Foreign currency translation	-	-	(2)	(7)	(9)
At 31 December 2011	**217**	**10**	**7,146**	**5,192**	**12,565**
Net increase in allowances for credit losses (Note: 12)	(10)	2	(13)	1,652	1,631
Write-offs	-	-	(1,164)	(813)	(1,977)
Foreign currency translation	(1)	-	(23)	-	(24)
At 31 December 2012	**206**	**12**	**5,946**	**6,031**	**12,195**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2011	**11,438**	**1,028**	**12,466**
Increase in allowances for credit losses (Note: 12)	4,008	219	4,227
Decrease in allowances for credit losses (Note: 12)	(2,026)	(379)	(2,405)
Write-offs	(1,714)	-	(1,714)
Transfers	(22)	22	-
Foreign currency translation	(9)	-	(9)
At 31 December 2011	**11,675**	**890**	**12,565**
Increase in allowances for credit losses (Note: 12)	3,177	205	3,382
Decrease in allowances for credit losses (Note: 12)	(1,344)	(407)	(1,751)
Write-offs	(1,977)	-	(1,977)
Transfers	(67)	67	-
Foreign currency translation	(24)	-	(24)
At 31 December 2012	**11,440**	**755**	**12,195**

As at 31 December 2012, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 76 m (2011: CZK 98 m), which the Group is in the process of selling (Note: 24).

19. INVESTMENT IN ASSOCIATE AND JOINT VENTURE

In November 2012, ČSOB sold significant part of its participation in ČSOB Pojišťovna. As a result of the sale, the Group's ownership interest in ČSOB Pojišťovna decreased to 0.24 % as at 31 December 2012 (31 December 2011: 25%) (Note: 3).

Starting January 2012, ČSOB lost control in ČSOB AM/IS but retained significant influence and therefore the ČSOB AM/IS is considered to be an associated company (Note: 3).

The following table illustrates the summarised financial information of the investment in the associates:

	ČSOB AM/IS		ČSOB Pojišťovna	
(CZKm)	2012	2011	2012	2011
The associate's assets and liabilities				
Assets	809	-	43,424	40,832
Liabilities	525	-	38,624	36,232
Net assets	**284**	**-**	**4,800**	**4,600**
Carrying amount of the investment	**114**	**-**	**12**	**1,150**
The associate's revenue and profit				
Revenue	346	-	14,404	13,037
Profit for the year	130	-	620	580
Profit for the year – share of the Group	57	-	138	145

The Group has a 55% ownership interest (2011: 55%) in ČMSS (Note: 3). For 2012 and 2011, the Group's interest in this joint venture is as follows:

(CZKm)	2012	2011
Condensed assets and liabilities		
Cash and balances with central banks	1,189	1,169
Available-for-sale financial assets	7,846	7,145
Loans and receivables	83,028	85,044
Property and equipment	393	399
Goodwill and other intangible assets	164	119
Other assets	137	107
Total assets	**92,757**	**93,983**
Financial liabilities at amortised cost	86,054	87,617
Tax liabilities	239	187
Other liabilities	703	671
Provisions	15	2
Total liabilities	**87,011**	**88,477**
Condensed contingent liabilities		
Loan commitments	3,090	4,063
Condensed statement of income		
Net interest income	1,710	1,965
Net fee and commission income	381	299
Other operating income	13	11
Operating income	**2,104**	**2,275**
Operating expenses	(773)	(719)
Impairment losses	(67)	(155)
Profit before tax	**1,264**	**1,401**
Income tax expense	(255)	(261)
Profit for the year	**1,009**	**1,140**

20. 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; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2012 and 2011 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.

Trading positions

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	374,865	12,018	14,018	396,850	11,254	13,525
Forwards	34,514	16	18	39,500	6	10
Options	31,728	264	339	29,247	346	301
	441,107	**12,298**	**14,375**	**465,597**	**11,606**	**13,836**
Foreign exchange contracts						
Swaps / Forwards	106,953	594	743	145,205	2,802	1,268
Cross currency interest rate swaps	62,945	538	270	25,862	591	397
Options	12,022	112	113	16,924	362	361
	181,920	**1,244**	**1,126**	**187,991**	**3,755**	**2,026**
Equity contracts						
Forwards / Options	-	-	-	100	-	20
Commodity contracts						
Swaps / Options	7,273	126	116	4,425	136	131
Total trading derivatives (Notes: 16, 26)	**630,300**	**13,668**	**15,617**	**658,113**	**15,497**	**16,013**

Positions of ALM – economic hedges

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	52,934	491	1,545	38,465	457	1,319
Foreign exchange contracts						
Cross currency interest rate swaps	18,345	966	121	15,824	1,969	61
Total derivatives used as economic hedges (Notes: 16, 26)	**71,279**	**1,457**	**1,666**	**54,289**	**2,426**	**1,380**

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 both cash flow hedges and fair value hedges.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to hedge floating interest income from expected **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.

The Group also uses single currency interest rate swaps

- 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 and on a group of **non-standard client current accounts** (the variability in the interest paid on the client floating rate deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps). The Group stopped applying cash flow hedge accounting of a group of term deposits denominated in CZK using the CZK single currency swaps at the end of November 2012. The main reasons for the cessation of the cash flow hedge were a significant decline of the volume of eligible term deposits during the previous periods and a forecasted further decrease in their volume. The hedge was reconsidered to be prospectively ineffective.
- to hedge the interest rate risk arising from changes in external interest rates on a group of **non-retail client current accounts** (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert **floating-rate client loans / floating rate subordinated debt** to fixed rates.

Cross currency interest rate swaps (fix-to-fix or floating-to-fix) 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.

The contract or notional amounts and positive and negative fair values of the Group's outstanding cash flow hedging derivatives as at 31 December 2012 and 2011 are set out as follows:

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	154,269	9,780	5,360	191,952	7,387	5,711
Cross currency interest rate swaps	25,003	2,565	236	26,299	2,808	352
Total hedging derivatives	**179,272**	**12,345**	**5,596**	**218,251**	**10,195**	**6,063**

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

(CZKm)	2012	2011
Interest income (Note: 31)	153	61
Net gains from financial instruments at fair value through profit or loss (Note: 31)	(259)	108
Taxation	21	(32)
Net (losses) / gains	**(85)**	**137**

In 2012, a gain of CZK 14 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2011: CZK 24 m).

In 2012, the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in reclassification of the associated cumulative losses of CZK 273 m from equity to the statement of income (2011: gains of CZK 84 m). The losses were included in Net gains from financial instruments at fair value through profit or loss.

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 periods 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 2012 and 2011:

(CZKm)	2012	2011
Less than 3 months	5,171	5,067
More than 3 months but not more than 6 months	9,529	7,016
More than 6 months but not more than 1 year	21,402	19,734
More than 1 year but not more than 2 years	44,522	39,528
More than 2 years but not more than 5 years	43,426	78,960
More than 5 years	55,222	67,946
	179,272	**218,251**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of **foreign currency fixed rate bonds classified as Available-for-sale** attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

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 hedged bond is expected to be a highly effective hedge.

From August 2011, fair value hedges for **portfolios of retail non-maturity deposits** have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current and savings accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

From August 2011, fair value hedges for **portfolios of fixed rate loans** have been used to hedge interest rate risk arising from changes in fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

From November 2012, 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 Loans and receivables**, i.e. private issues without active secondary market, 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 bond is expected to be 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 2012 and 2011 are set out as follows:

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	19,804	-	2,066	9,300	-	1,201
Fair value portfolio hedges	93,998	1,993	1,443	26,540	116	72
Cross currency interest rate swaps						
Fair value micro hedges	5,418	115	61	5,012	17	14
Total hedging derivatives	**119,220**	**2,108**	**3,570**	**40,852**	**133**	**1,287**

In 2012, the net losses in the amount of CZK 223 m (2011: net gains of CZK 629 m) realised 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.

Net gains realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 177 m (2011: net losses of CZK 579 m).

21. INVESTMENT PROPERTY

(CZKm)	2012	2011
Cost at 1 January	1,024	1,019
Depreciation and impairment at 1 January	(515)	(306)
Net book value at 1 January	**509**	**713**
Depreciation	(26)	(34)
Impairment charge (Note: 12)	(50)	(174)
Foreign exchange adjustments	(3)	4
Net book value at 31 December	**430**	**509**
of which		
Cost	1,021	1,024
Depreciation and impairment	(591)	(515)
Fair value at 31 December	**441**	**523**
Other disclosures		
Rental income	78	74
Direct operating expenses from investments generating rental income	20	19
Direct operating expenses from investments not generating rental income	1	2

On 31 December 2012 and 2011, 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 significant market parameters available on the date of the assessment.

The impairment losses resulting from the decreased recoverable amount of the investment property in 2012 and 2011 were caused by decrease of expected future cash-flows.

22. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2011	8,563	591	598	4,093	68	13,913
Depreciation and impairment at 1 January 2011	(2,594)	(528)	(409)	(2,325)	-	(5,856)
Net book value at 1 January 2011	**5,969**	**63**	**189**	**1,768**	**68**	**8,057**
Transfers	184	35	19	1,009	(1,247)	-
Additions	-	-	-	-	1,225	1,225
Disposals	(5)	-	(1)	(323)	-	(329)
Depreciation	(327)	(39)	(34)	(185)	-	(585)
Depreciation related to operating leased assets (Note: 33)	-	-	-	(257)	-	(257)
Impairment release (Note: 12)	-	-	-	3	-	3
Net book value at 31 December 2011	**5,821**	**59**	**173**	**2,014**	**47**	**8,114**
of which						
Cost	8,724	565	608	4,347	47	14,291
Depreciation and impairment	(2,903)	(506)	(435)	(2,333)	-	(6,177)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2012	8,724	565	608	4,347	47	14,291
Depreciation and impairment at 1 January 2012	(2,903)	(506)	(435)	(2,333)	-	(6,177)
Net book value at 1 January 2012	**5,821**	**59**	**173**	**2,014**	**47**	**8,114**
Transfers	287	30	27	915	(1,259)	-
Additions	-	-	-	-	1,285	1,285
Disposals	(6)	(3)	(2)	(335)	-	(346)
Disposals through business combinations	-	-	-	(3)	-	(3)
Transfers to assets held for sale (Note: 24)	(111)	-	-	-	-	(111)
Depreciation	(326)	(28)	(34)	(209)	-	(597)
Depreciation related to operating leased assets (Note: 33)	-	-	-	(289)	-	(289)
Impairment charge (Note: 12)	(10)	-	-	2	-	(8)
Net book value at 31 December 2012	**5,655**	**58**	**164**	**2,095**	**73**	**8,045**
of which						
Cost	8,847	579	619	4,494	73	14,612
Depreciation and impairment	(3,192)	(521)	(455)	(2,399)	-	(6,567)

ČSOB Leasing owns assets leased out under operating leases, which represents 67% (2011: 67%) of the net book value in class Other of property and equipment.

23. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2011	3,636	4,269	868	49	8,822
Amortisation and impairment at 1 January 2011	(685)	(3,869)	(643)	-	(5,197)
Net book value at 1 January 2011	**2,951**	**400**	**225**	**49**	**3,625**
Transfers	-	145	-	(145)	-
Additions	-	-	-	171	171
Disposals	-	(1)	(4)	-	(5)
Amortisation	-	(251)	(75)	-	(326)
Impairment (Note: 12)	(151)	-	-	-	(151)
Net book value at 31 December 2011	**2,800**	**293**	**146**	**75**	**3,314**
of which					
Cost	3,636	4,432	844	75	8,987
Amortisation and impairment	(836)	(4,139)	(698)	-	(5,673)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2012	3,636	4,432	844	75	8,987
Amortisation and impairment at 1 January 2012	(836)	(4,139)	(698)	-	(5,673)
Net book value at 1 January 2012	**2,800**	**293**	**146**	**75**	**3,314**
Transfers	-	168	24	(192)	-
Additions	-	-	-	249	249
Disposals	-	-	(8)	-	(8)
Disposals through business combination	-	(2)	-	(8)	(10)
Amortisation	-	(193)	(66)	-	(259)
Impairment (Note: 12)	(193)	-	-	-	(193)
Net book value at 31 December 2012	**2,607**	**266**	**96**	**124**	**3,093**
of which					
Cost	3,636	4,559	858	124	9,177
Amortisation and impairment	(1,029)	(4,293)	(762)	-	(6,084)

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)	2012	2011
Retail / SME – Bank	2,511	2,511
Retail / SME – subsidiaries		
ČSOB PF Stabilita	-	193
Hypoteční banka	66	66
Other	30	30
	2,607	2,800

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 using the expected average growth rate of 3%; after that terminal value is applied.

Cash flows in the Retail / SME - Bank segment are based on net profit generated by the cash-generating unit above the required capital, calculated as 10.0% of its risk weighted assets, and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.0% (2011: 9.7%) and no long term growth were used in 2012 and 2011.

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

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Group has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail / SME - Bank has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail / SME - Bank a risk discount rate of 10.0% in 2012 (2011: 9.7%) 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. The scenario used assumes transformation of the fund under the expected Czech pension reform. That calculation uses cash-flow projections based on the financial budget approved by the management covering 2013. Cash flows beyond the year have been projected until 2037 based on business plans, which were used for a decision about the participation of the CSOB Group in the reorganised pension system resulting from changes in the respective legislation in the Czech Republic (Note: 38). For Transformed fund of CSOB Pension company, which was closed for new participants starting 1 January 2013, the management expects a consecutive decrease of the number of clients, volume of assets and profit. In 2012, the risk discount rate of 10.0% was used (2011: 10.2%).

The recoverable amount of the unit was determined to be lower than its carrying amount and an impairment loss of CZK 193 m (2011: CZK 151 m) was recognised in the 2012 Consolidated statement of income. The impairment loss was allocated fully to goodwill, and is included in Impairment losses.

Hypoteční banka

The recoverable amount of the Hypoteční banka CGU was determined based on the value-in-use methodology. That calculation uses cash-flow projections based on the financial budgets approved by the management covering a period 2013 - 2015. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate of 2-3%; after that terminal value is applied.

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 (Hypoteční banka) is particularly sensitive to a number of key assumptions as follows:

- The growth rate in forecasted cash flows beyond the terminal year of the budget.
  The Group has a conservative approach when calculating the terminal value, which implies that no growth rate on forecast cash flows beyond the terminal year.
- The risk discount rate. For Retail / SME – subsidiaries segment a risk discount rate of 10.0% in 2012 (2011: 9.7%) 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.

24. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Participations	Land and buildings	Other (Note: 18)	Total
Net book value at 1 January 2011	**-**	**-**	**140**	**140**
Additions	-	-	210	210
Disposals	-	-	(252)	(252)
Net book value at 31 December 2011	**-**	**-**	**98**	**98**
of which				
Cost	-	-	98	98
Impairment	-	-	-	-

(CZKm)	Participations	Land and buildings	Other (Note: 18)	Total
Net book value at 1 January 2012	-	-	**98**	**98**
Transfer from Investment in associates (Note:19)	1,189	-	-	1,189
Transfer from Property and equipment (Note: 22)	-	111	-	111
Additions	-	-	169	169
Disposals	(1,189)	(81)	(191)	(1,461)
Impairment charge (Note: 12)	-	(21)	-	(21)
Net book value at 31 December 2012	**-**	**9**	**76**	**85**
of which				
Cost	-	23	76	99
Impairment	-	(14)	-	(14)

Movements disclosed in Transfer from Investment in associates and Disposals represent part of investments of the Bank in ČSOB Pojišťovna and ČSOB AM/IS which were sold to KBC Insurance NV and KBC Participations Renta C, SA respectively in November 2012 (Note: 3).

25. OTHER ASSETS

(CZKm)	2012	2011
Other debtors, net of provisions (Notes: 32, 34, 39.2)	951	798
Accrued income (Notes: 32, 34, 39.2)	446	477
Prepaid charges	306	532
Receivables from securities clearing (Notes: 32, 34, 39.2)	176	13
VAT and other tax receivables	87	19
Other receivables from clients (Notes: 32, 34, 39.2)	53	39
Other	21	41
	2,040	**1,919**

26. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2012	2011
Short positions	4,727	4,735
Derivative contracts (Note: 20)		
Trading derivatives	15,617	16,013
Derivatives used as economic hedges	1,666	1,380
Term deposits	10,398	54,741
Repo transactions	96,062	83,301
Promissory notes	6	-
Bonds issued	5,111	5,744
Financial liabilities held for trading	**133,587**	**165,914**

27. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2012	2011
Deposits received from central banks		
Term deposits	**492**	**492**
Deposits received from credit institutions		
Current accounts	12,647	10,748
Term deposits	14,411	12,793
Repo transactions	8,307	17,089
	35,365	**40,630**
Deposits received from other than credit institutions		
Current accounts	280,773	264,163
Term deposits	23,370	28,428
Savings deposits	205,234	197,767
Building savings deposits	84,855	86,380
Pension funds clients deposits	28,904	28,703
Other deposits	6,486	6,719
	629,622	**612,160**
Debt securities in issue		
Bonds issued	15,079	10,993
Promissory notes	15,251	12,302
	30,330	**23,295**
Subordinated liabilities		
Subordinated debt	**7,983**	**11,979**
Financial liabilities at amortised cost	**703,792**	**688,556**

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, respectively to KBC Bank. Both subordinated debts were issued with the ten-year maturity. Their coupon rate was set up at 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. In September 2012, the Bank prepaid a majority of the first tranche in the amount of CZK 4,000 m. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

28. OTHER LIABILITIES

(CZKm)	2012	2011
Other clearing accounts (Notes: 32, 34, 39.3)	3,858	4,436
Payables to employees including social security charges (Notes: 32, 34, 39.3)	2,014	1,955
Accrued charges (Notes: 32, 34, 39.3)	1,658	1,463
Other creditors (Notes: 32, 34, 39.3)	986	997
Other debts to clients (Notes: 32, 34, 39.3)	696	733
VAT and other tax payables	458	394
Income received in advance	271	324
Payables to securities clearing entities (Notes: 32, 34, 39.3)	231	82
Other (Notes: 32, 34, 39.3)	336	432
	10,508	**10,816**

29. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loans commitments and Guarantees (Note: 35)	Total
At 1 January 2012	**588**	**-**	**81**	**389**	**1,058**
Additions	7	203	15	75	300
Amounts utilised	(151)	-	(11)	-	(162)
Unused amounts reversed	(118)	-	(3)	(132)	(253)
Disposals through business combination	(2)	-	-	-	(2)
Discount amortisation (Note: 6)	-	-	3	-	3
Foreign currency translation	(2)	-	-	(7)	(9)
At 31 December 2012	**322**	**203**	**85**	**325**	**935**

Restructuring

During 2012, the Group started restructuring programme, resulting in the creation of a provision of CZK 203 m (Note: 10). In the framework of this restructuring programme the total number of personnel reduced should reach 440.

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 2012, the Group had a provision in the total amount of CZK 322 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 a majority of the costs will be incurred over the next 6 years.

The Group created a new provision for onerous rental contracts in 2012 in the amount of CZK 15 m. It is expected that the costs will be incurred over the next 5 years.

30. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2012, the total authorised share capital was CZK 5,855 m (31 December 2011: CZK 5,855 m) and comprised of 292,750,000 ordinary shares with a nominal value of CZK 20 each (31 December 2011: 292,750,000 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

Based on the resolution of the sole shareholder dated 11 March 2011 reflecting the changes in Czech legislation, ČSOB's ordinary registered shares were converted into bearer shares (evidenced by an entry in the Register of Companies dated 14 March 2011).

No Treasury shares were held by the Group at 31 December 2012 and 2011.

On 31 December 2012, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2011: 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 2012 and 2011 are as follows:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2011	**2,422**	**(2)**	**-**	**2,420**
Other comprehensive income (Note: 31)	190	1,580	1	1,771
At 31 December 2011	**2,612**	**1,578**	**1**	**4,191**
Other comprehensive income (Note: 31)	3,089	1,989	(1)	5,077
At 31 December 2012	**5,701**	**3,567**	**-**	**9,268**

Unrealised gains and losses from Available-for-sale financial assets held by pension funds recognised in equity in the amount of CZK 894 m as at 31 December 2012 (31 December 2011: CZK 1 m) 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.

31. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2012	2011
Exchange differences on translating foreign operation	(1)	1
Cash flow hedges		
Net unrealised gains on cash flow hedges	2,350	2,125
Net losses / (gains) on cash flow hedges reclassified to the statement of income (Note: 20)	106	(169)
Tax effect relating to cash flow hedges (Note: 13)	(467)	(376)
	1,989	1,580
Available-for-sale financial assets		
Net unrealised gains / (losses) on available-for-sale financial investments	3,940	(2,483)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	(129)	(253)
Realised losses on available-for-sale financial investments reclassified to the statement of income on impairment (Note: 12)	26	3,062
Tax effect relating to available-for-sale financial investments (Note: 13)	(560)	(152)
	3,277	174
Share of other comprehensive income of associates	(188)	16
Other comprehensive income for the year, net of tax attributable to owners of the parent	**5,077**	**1,771**
Non-controlling interests	(7)	(3)
Other comprehensive income for the year, net of tax	**5,070**	**1,768**

Included within the Share of other comprehensive income of associates is a gain in the amount of CZK 279 m related to available-for-sale financial investments of ČSOB Pojišťovna which was realised from the other comprehensive income to the statement of income following the sale of the associate and recognised in Other net income.

32. 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 using prices of identical asset or liability, 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 unlisted shares, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

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 2012:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	111,785	-	111,785
Debt instruments	15,491	13,054	6,810	35,355
Derivative contracts	-	15,125	-	15,125
Financial assets designated at fair value through profit or loss				
Debt instruments	2,131	3,691	1,530	7,352
Available-for-sale financial assets				
Debt securities	65,124	18,647	7,580	91,351
Equity securities	116	-	437	553
Fair value adjustments of the hedged items in portfolio hedge	-	1,030	-	1,030
Derivatives used for hedging	-	14,453	-	14,453
Financial liabilities				
Financial liabilities held for trading				
Short positions	4,727	-	-	4,727
Derivative contracts	-	17,283	-	17,283
Term deposits	-	10,398	-	10,398
Repo transactions	-	96,062	-	96,062
Promissory notes	-	6	-	6
Bonds issued	-	5,111	-	5,111
Fair value adjustments of the hedged items in portfolio hedge	-	1,741	-	1,741
Derivatives used for hedging	-	9,166	-	9,166

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 2011:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	126,411	-	126,411
Debt instruments	22,968	9,401	-	32,369
Derivative contracts	-	17,923	-	17,923
Financial assets designated at fair value through profit or loss				
Debt instruments	10,480	541	-	11,021
Available-for-sale financial assets				
Debt securities	68,287	18,534	-	86,821
Equity securities	433	5	145	583
Fair value adjustments of the hedged items in portfolio hedge	-	77	-	77
Derivatives used for hedging	-	10,328	-	10,328
Financial liabilities				
Financial liabilities held for trading				
Short positions	4,735	-	-	4,735
Derivative contracts	-	17,393	-	17,393
Term deposits	-	54,741	-	54,741
Repo transactions	-	83,301	-	83,301
Bonds issued	-	5,744	-	5,744
Fair value adjustments of the hedged items in portfolio hedge	-	103	-	103
Derivatives used for hedging	-	7,350	-	7,350

Until December 2012, the pricing of mortgage bonds was based on CZK government bonds yield and interest rates of Interest rate swaps (IRS). Yield curves for estimating future cash flows of mortgage bonds with variable coupon were derived from IRS rates provided by KBC Bank. Yield curves for discounting the estimated future cash flows were based on the yield curve derived from CZK government bonds. As there has been no active market for mortgage bonds in the Czech Republic, estimation of any additional credit spread has been subject to management judgement.

Since December 2012, following the management's analysis of the 2012 market for mortgage bonds characteristics, the new valuation model for mortgage bonds has been implemented. Yield curves used in the model for discounting future cash flows are constructed from IRS rates and respective credit spread. The credit spreads are derived from available market quotes of mortgage bonds and Czech government bonds. Yield curves for estimating future cash flows of mortgage bonds with variable coupon are still derived from IRS rates provided by KBC Bank.

The spreads for the first five years of maturity are exclusively derived from market observable quotes of mortgage bonds (the management also validates these quotes by comparison to prices reached in observed market transactions). Therefore the mortgage bonds with the maturity of up to five years are included in level 2. The spread for the rest of the curve is derived from observed mortgage bond spread at 5 and 10 years and the slope of the Czech government yield curve. The management considers this a significant market unobservable input and as a consequence, the mortgage bonds with maturity longer than 5 years were transferred to Level 3, which was the main factor contributing to the Level 3 increase.

As a result of the implementation of the new valuation model, the Group has recorded unrealised losses of CZK 56 m into the Net gains from financial instruments at fair value through profit or loss and CZK 310 m into the Available-for-sale reserve.

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:

	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets		Total
(CZKm)	Debt securities	Debt securities	Debt securities	Equity securities	
At 1 January 2011	**-**	**-**	**-**	**136**	**136**
Total gains / (losses) recorded in profit or loss	-	-	-	21	21
Total gains / (losses) recorded in other comprehensive income	-	-	-	97	97
Sales	-	-	-	(109)	(109)
At 31 December 2011	**-**	**-**	**-**	**145**	**145**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	-	-	-	-	-
At 1 January 2012	**-**	**-**	**-**	**145**	**145**
Total gains / (losses) recorded in profit or loss	-	-	-	83	83
Total gains / (losses) recorded in other comprehensive income	-	-	-	253	253
Transfers into level 3	6,810	1,530	7,580	71	15,991
Sales	-	-	-	(115)	(115)
At 31 December 2012	**6,810**	**1,530**	**7,580**	**437**	**16,357**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	(64)	(10)	-	(23)	(97)

Total gains or (losses) recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss and foreign exchange, Net realised gains on available-for-sale financial assets and Impairment losses of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Management considers as key assumption not derived from market observable inputs and influencing Level 3 financial instruments fair value the value of credit spread included in the discount factor applied on mortgage bonds estimated future cash flows in periods after fifth year.

As at 31 December 2012, the increase / (decrease) of a credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds included in level 3 by CZK 85 m. Such a change of the credit spread is based on the variability of mortgage bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other market non-observable inputs in the valuation models used would not have a material impact on the estimated fair values.

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)	2012	2011	2012	2011
Financial assets				
Financial assets held for trading				
Debt instruments	351	-	-	259
Financial assets designated at fair value through profit or loss				
Debt instruments	3,078	-	-	-
Available-for-sale financial assets				
Debt securities	8,515	3,158	-	748

In 2012, transfers of debt instruments included in Financial assets designated at fair value through profit or loss and Available-for-sale financial assets from level 1 to level 2 represent mortgage bonds, for which market became illiquid.

In 2011, debt securities issued by the Greek government were transferred from level 1 to level 2 due to an illiquid market. These securities were further subject to impairment as described in Note 17.

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.

	2012		2011	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	28,293	28,293	46,691	46,691
Loans and receivables	479,516	507,289	449,291	476,536
Held-to-maturity investments	138,437	160,113	139,423	147,285
Other assets (Note: 25)	1,626	1,626	1,327	1,327
Financial liabilities				
Financial liabilities at amortised cost	703,792	708,176	688,556	690,849
Other liabilities (Note: 28)	9,779	9,779	10,098	10,098

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, where available. 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 or using the valuation model based on discounted cash flows.

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.

33. ADDITIONAL CASH FLOW INFORMATION

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

(CZKm)	2012	2011
Cash and balances with central banks (Note: 15)	18,434	35,050
Loans and advances to credit institutions	15,219	12,399
Financial liabilities at amortised cost to credit institutions	(14,666)	(12,154)
Cash and cash equivalents	**18,987**	**35,295**

Change in operating assets

(CZKm)	2012	2011
Net change in cash and balances with central banks (mandatory minimum reserves)	1,782	(2,038)
Net change in financial assets held for trading	16,532	(15,171)
Net change in financial assets designated at fair value through profit or loss	3,669	111
Net change in available-for-sale financial assets	(689)	12,377
Net change in loans and receivables	(31,130)	(50,727)
Net change in derivatives used for hedging	(1,669)	1,065
Net change in other assets	12	1,115
	(11,493)	**(53,268)**

Change in operating liabilities

(CZKm)	2012	2011
Net change in financial liabilities held for trading	(32,327)	27,044
Net change in financial liabilities at amortised cost	12,552	23,413
Net change in derivatives used for hedging	1,816	1,783
Net change in other liabilities	(140)	2,140
	(18,099)	**54,380**

Non-cash items included in profit before tax

(CZKm)	2012	2011
Allowances and provisions for credit losses (Note: 12)	1,574	1,779
Depreciation and amortisation (including investment property)	881	945
Net change in fair value adjustments of the hedged items in portfolio hedge	685	26
Amortisation of discounts and premiums	661	564
Depreciation related to operating leases assets (Note: 22)	289	257
Impairment on goodwill (Note: 12)	193	151
Provisions	141	243
Impairment on investment property (Note: 12)	50	174
Impairment on financial investment (Note: 12)	26	3,067
Impairment on non-current assets held-for-sale (Note: 12)	21	-
Impairment on property (Note: 12)	8	(3)
Share of profit of associate	(195)	(145)
Impairment on other assets (Note: 12)	(288)	(106)
Other	(435)	(840)
	3,611	**6,112**

34. 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 2012:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash and balances with Central banks (Note: 15)	19,240	-	-	-	**19,240**
Financial assets held for trading					
Financial derivatives	4,965	7,797	2,364	-	**15,126**
Other than financial derivatives	126,708	13,882	6,549	-	**147,139**
Financial assets designated at fair value through profit or loss	77	7,275	-	-	**7,352**
Available-for-sale financial assets	5,043	55,721	30,587	553	**91,904**
Loans and receivables	114,596	136,883	228,037	-	**479,516**
Fair value adjustments of the hedged items in portfolio hedge	306	724	-	-	**1,030**
Held-to-maturity investments	10,462	36,764	91,211	-	**138,437**
Derivatives used for hedging	3,434	7,725	3,294	-	**14,453**
Other assets (Note: 25)	1,626	-	-	-	**1,626**
Total carrying value	**286,457**	**266,771**	**362,042**	**553**	**915,823**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	5,720	9,015	2,548	-	**17,283**
Other than financial derivatives	114,767	1,430	107	-	**116,304**
Financial liabilities at amortised cost	200,523	252,731	250,538	-	**703,792**
Fair value adjustments of the hedged items in portfolio hedge	196	721	824	-	**1,741**
Derivatives used for hedging	2,894	4,615	1,657	-	**9,166**
Other liabilities (Note: 28)	9,779	-	-	-	**9,779**
Total carrying value	**333,879**	**268,512**	**255,674**	**-**	**858,065**

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2011:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash and balances with Central banks (Note: 15)	38,495	-	-	-	**38,495**
Financial assets held for trading					
Financial derivatives	9,123	6,815	1,984	-	**17,922**
Other than financial derivatives	138,670	13,860	6,251	-	**158,781**
Financial assets designated at fair value through profit or loss	1,290	7,157	2,574	-	**11,021**
Available-for-sale financial assets	14,449	39,994	32,378	583	**87,404**
Loans and receivables	115,422	127,610	206,259	-	**449,291**
Fair value adjustments of the hedged items in portfolio hedge	-	77	-	-	**77**
Held-to-maturity investments	5,150	30,164	104,109	-	**139,423**
Derivatives used for hedging	3,189	5,478	1,661	-	**10,328**
Other assets (Note: 25)	1,327	-	-	-	**1,327**
Total carrying value	**327,115**	**231,155**	**355,216**	**583**	**914,069**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,244	7,807	2,342	-	**17,393**
Other than financial derivatives	147,063	1,390	68	-	**148,521**
Financial liabilities at amortised cost	214,140	229,936	244,480	-	**688,556**
Fair value adjustments of the hedged items in portfolio hedge	-	103	-	-	**103**
Derivatives used for hedging	2,789	3,396	1,165	-	**7,350**
Other liabilities (Note: 28)	10,098	-	-	-	**10,098**
Total carrying value	**381,334**	**242,632**	**248,055**	**-**	**872,021**

35. 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 continuing court proceedings following 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. In 2011, the original court ruling was cancelled and the legal case was passed to the court in the first instance for new judicial proceedings. Based on that decision, the Group returned the expenses compensation of CZK 3 m from the total received amount from the original court case to the counterparty.

Similarly based on a court ruling in another case, the Group recovered an equivalent of CZK 683 m relating to partially impaired loan in 2010. Relevant carrying amount of the loan amounting to CZK 309 m is recognised in the 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 2012 and 2011 are as follows:

(CZKm)	2012	2011
Loan commitments – irrevocable (Note: 39.2)	80,258	80,004
Loan commitments – revocable	30,086	24,773
Financial guarantees (Note: 39.2)	24,871	27,314
Other commitments (Note: 39.2)	1,493	1,350
	136,708	**133,441**
Provisions for loan commitments and guarantees (Note: 29)	325	389

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: 39.2).

Litigation

Other than the litigations, for which provisions have already been made (Note: 29), 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.

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 information technologies, land and buildings are as follows:

(CZKm)	2012	2011
Not later than 1 year	1,375	1,344
Later than 1 year and not later than 5 years	1,400	1,448
Later than 5 years	260	299
	3,035	**3,091**

Future minimum sublease payments amounted to CZK 25 m as at 31 December 2012 (31 December 2011: CZK 41 m).

Operating lease commitments related to information technologies to KBC Global Services NV are included in ‘Not later than 1 year’ in the amount of CZK 833 m (2011: CZK 805 m). They represent expected half-year lease payments according to the committed notice period.

The operating leases related to land and buildings 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)	2012	2011
Not later than 1 year	508	570
Later than 1 year and not later than 5 years	961	989
Later than 5 years	2	161
	1,471	**1,720**

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.

36. 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)	2012	2011
Financial assets		
Cash and balances with central banks	7,500	25,302
Financial assets held for trading	95,819	119,050
Loans and receivables	2,633	2,638
	105,952	**146,990**

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 2012 was CZK 115,742 m, of which CZK 99,317 m has been either sold or repledged (31 December 2011: CZK 151,393 m and CZK 85,291 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)	2012	2011
Financial liabilities		
Financial liabilities held for trading	96,062	83,301
Financial liabilities at amortised cost	8,307	17,094
	104,369	**100,395**

Amounts of financial assets pledged as collateral in repo transactions are shown in notes Financial assets at fair value through profit or loss (Note: 16) and Financial investments (Note: 17).

37. RELATED PARTY DISCLOSURES

A number of 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 2012 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	5,346	-	-	3,810	7,341	-
Entities under common control						
ČSOB SK	132	-	-	105	7	-
KBC Internationale Financieringsmij NV	543	634	698	6,343	-	-
Patria Direct, a.s.	75	-	-	-	-	-
Patria Finance, a.s.	56	-	-	-	-	-
Other	39	-	-	256	-	-
Associates						
ČSOB Pojišťovna	-	-	-	-	111	57
Joint ventures						
ČMSS	-	-	-	874	-	10

The outstanding balances of liabilities from related party transactions as at 31 December 2012 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	181	-	43
KBC Bank	6,163	9,884	5,571	3
Entities under common control				
ČSOB SK	147	13	-	-
KBC Global Services NV	-	463	-	144
Patria Direct, a.s.	-	1,374	-	-
Patria Finance, a.s.	-	378	-	-
Other	42	141	-	3
Associates				
ČSOB AM/IS	-	554		16
ČSOB Pojišťovna	32	3,768	-	-
Joint ventures				
ČMSS	-	11,576	-	-

The outstanding balances of assets from related party transactions as at 31 December 2011 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	6,681	-	-	7,027	4,866	-
Entities under common control						
ČSOB SK	5	-	110	6	7	9
KBC Asset Management NV	-	-	-	-	-	14
KBC Asset Management SA	-	-	-	-	-	2
KBC Internationale Financieringsmij NV	772	886	700	6,351	-	-
Kredyt Bank SA	961	-	-	3	-	2
Patria Finance, a.s.	200	-	-	-	-	-
Other	126	-	-	1	-	-
Associates						
ČSOB Pojišťovna	5	-	43	-	53	28
Joint ventures						
ČMSS	-	-	-	869	-	46

The outstanding balances of liabilities from related party transactions as at 31 December 2011 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	320	-	28
KBC Bank	23,348	18,388	4,060	2
Entities under common control				
ČSOB SK	33	29	-	-
KBL European Private Bankers SA	250	133	-	-
KBC Asset Management SA	-	-	-	6
KBC Global Services NV	-	192	-	88
Patria Direct, a.s.	-	2,962	-	-
Patria Finance, a.s.	-	45	-	-
Other	61	212	-	24
Associates				
ČSOB Pojišťovna	24	2,595	-	18
Joint ventures				
ČMSS	1,170	10,102	-	1

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:

	2012		2011	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Senior management	-	5	-	3
KBC Bank	562	922	590	1,091
Entities under common control				
ČSOB SK	2	-	9	2
KBC Internationale Financieringsmij NV	213	-	172	-
Kredyt Bank SA	25	-	18	-
Oxford Street Finance Limited	1	-	2	-
Patria Direct, a.s.	1	6	2	-
Patria Finance, a.s.	1	1	3	1
Pembridge Square Limited	1	-	2	-
Regent Street Limited	1	-	2	-
Other	9	3	1	3
Associates				
ČSOB AM/IS	-	5	-	-
ČSOB Pojišťovna	-	47	-	48
Joint ventures				
ČMSS	26	154	5	163

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

	2012		2011	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
KBC Bank NV	64	1	55	-
Entities under common control				
KBC Asset Management NV	-	-	76	-
KBC Asset Management SA	-	-	483	30
KBC Global Services NV	-	15	-	-
Patria Finance, a.s.	4	-	15	-
Other	10	-	15	1
Associates				
ČSOB AM/IS	270	63	-	-
ČSOB Pojišťovna	336	-	287	73
Joint ventures				
ČMSS	-	107	1	81

In accordance with the Group strategy, the Group has been purchasing information and communication services from the related party KBC Global Services NV since 2009.

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 Global Services NV. In 2012, the Group received income of CZK 76 m (2011: CZK 68 m) from rental payments and related services, received CZK 48 m (2011: CZK 50 m) from the provision of administration services and paid expense of CZK 2,758 m (2011: CZK 2,651 m) for IT services, including rental expenses on information technologies.

In 2012, the Group received income of CZK 111 m (2011: CZK 129 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 new debt instruments issued by the Greek government and EFSF originated from the voluntary exchange of Greek government bonds agreement held by the Group in the total carrying amount of CZK 1,115 m were sold at market price to KBC Credit Investments NV on 30 March 2012 (Note: 17).

In January 2012, the Group lost control over the merged company ČSOB AM/IS and realised a gain on the sale of the share in ČSOB IS to KBC Participations Renta, SA in the amount of CZK 149 m (Note: 3).

In November 2012, ČSOB sold 24.76% of its ownership in ČSOB Pojišťovna to KBC Insurance NV and 4.21 % of ČSOB AM/IS to KBC Participations Renta C, SA. As a result of the transactions with the companies under common control, the Group has realised net gain of CZK 1,230 m and CZK 224 m respectively, reported under Other net income in the statement of income for 2012 (Notes: 3, 9).

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

	2012		2011	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank	7,493	198	5	203
Entities under common control				
ČSOB SK	-	121	-	23
Patria Direct, a.s.	75	-	-	-
Patria Finance, a.s.	-	-	-	20
Associates				
ČSOB Pojišťovna	-	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.

38. EVENTS AFTER THE REPORTING PERIOD

Pension reform

On 28 December 2011, a new legislation was introduced proposing reforms to the pension fund system within the Czech Republic. This legislation was ratified 7 November 2012 with an effective date of 1 January 2013. Accordingly, the net assets of the ČSOB PF Stabilita were split to the group of net assets of pension fund shareholders forming the pension fund management company ČSOB Penzijní společnost, a. s. and to the group of net assets of pension scheme participants forming the Transformed fund (as a part of Pillar III), which is closed to new participants. The ČSOB Penzijní společnost will be responsible for management of the Transformed fund. This company will be entitled to up to 15% of the profits of the Transformed fund in addition to a regular assets management fee and will need to guarantee the positive results and equity position of the Transformed fund. As a result the Group will retain control over the Transformed fund and will continue to consolidate it. The participants of the Transformed fund and new participants are offered the chance of participating in a supplementary pension scheme (as a new part of Pillar III) with the option to choose between a number of investment strategies. Furthermore, a new product will also be introduced, namely a contract on pension savings (the so called Pillar II). The ČSOB Penzijní společnost has become the provider of a supplementary pension scheme and contract on pension savings. Management has incorporated the expected impact of the revision of the pension fund system in making significant judgements and estimates as relate to the impairment assessment of the goodwill related to ČSOB PF Stabilita (Note: 23).

39. RISK MANAGEMENT

39.1 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's 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 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 minimising 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,

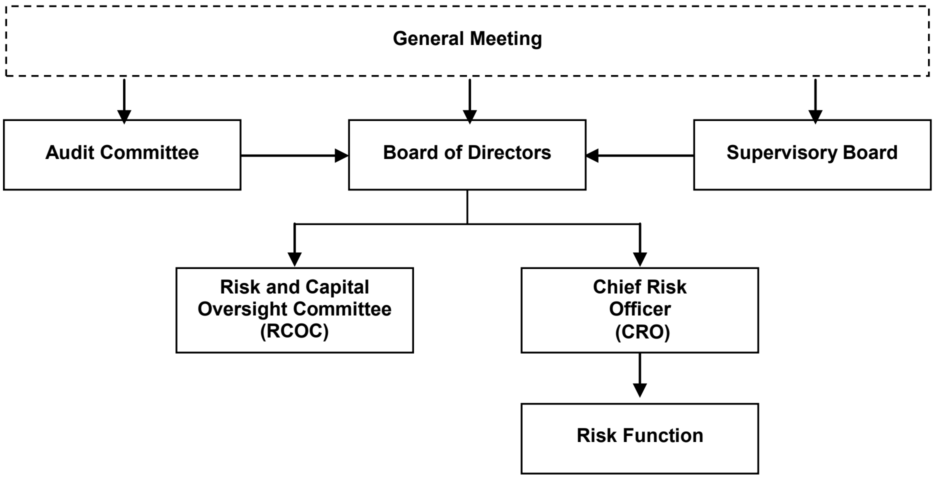
(ii) the RCOC is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

(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 CNB.

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 (calculated by Controlling Department for the purposes of management) 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 behaviour 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 Processes (NAPPs)

NAPPs 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 NAPPs 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 NAPP.

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, and the head of the ČSOB credit and bad debts department, corporate advice and underwriting department, corporate and bank credits department, corporate specialised finance department and corporate 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.

Internal Capital Adequacy Assessment Process

The New Basel Capital Accord, generally referred to as Basel 2, was the first to present, a qualitatively new dimension of requirements for capital adequacy assessment at banks and other credit institutions known as the Second Pillar.

Pillar 2, inter alia, requires the institution to internally assess its capital adequacy taking into account all (material) risks it faces or may face (Internal Capital Adequacy Assessment Process – ICAAP).

The ICAAP is seen as an integral part of the overall management and control system of the Group, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to

- continually set and assess the need for internal capital, and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC group, ČSOB has adopted a unified KBC group ICAAP approach, approved by the senior managements of both KBC and ČSOB, taking into account requirements of the home regulator (the National Bank of Belgium) as well as the host regulator (the Czech National Bank).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Group's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications.

Information about the ICAAP, including data on the state and anticipated development of internal capital adequacy, is also regularly presented to the senior management, including the RCOC.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses a completely economic-value-based approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward-looking, i.e. it also takes into account the risks to which the Group will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP

- the processes of planning, preparing and approving new activities, products or systems,
- other ongoing or anticipated material changes in its risk profile or in the external environment,
- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances, and
- stress test results,

including the methods of reflecting them when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

The amount of capital need is determined using the economic capital method and addresses the following material risks to which the Group is or may be exposed:

- Credit risk, including concentration risk
- Market risk in the trading book
- Operational risk
- ALM risk
- Business risk

A relevant amount of economic capital is allocated directly to these types of risk. Other risks, such as liquidity risk, strategic risk and reputation risk, are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital need is calculated for the ČSOB group as a separate entity within the KBC group at the probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

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 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 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. To prevent and manage excessive risk concentration at both a relationship and industry level, the Group, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc).

39.2 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 also regular collateral revisions.

Until September 2012, the Group had been using the IRB Foundation approach for the capital calculations of its non-retail exposures and IRB Advance approach for its retail exposures. As a result, credit risk had been 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) was managed based on statistical default prediction models that establish a rating (PD / Probability of Default) while LGD (Loss Given Default) and EAD (Exposure at Default) were based on regulatory values for capital calculation purposes and on expert estimates combined with historical data for credit decision purposes.

For the retail exposures, 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).

Since September 2012, the Group is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on principles of this approach.

The counterparty risk (i.e. default risk) is still managed based on statistical default prediction models that establish not only rating (PD / Probability of Default) but also LGD (Loss Given Default) and EAD (Exposure at Default). Risk factors are still determined in Retail based on risk-homogenous sets of exposure (so called pools).

The model results are used for capital calculation and for credit decision purposes too.

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 Advanced 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 internal and external 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	S&P's Rating	Performance	Impairment		
Normal	1-7	AAA - B	Performing customers	Unimpaired	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	(B-) - C	Performing customers	Collectively impaired	Non-defaulted	Watched
Uncertain – performing	10	D	Performing customers	Individually impaired	Defaulted	Substandard
Uncertain – non-performing	11	D	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	D	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 non-retail SMEs) are reviewed by the distribution with support of monitoring applications. 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 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 Group'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.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2012. The maximum exposure is shown as 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: 15)	-	19,240	-	-	19,240
Financial assets held for trading	-	1,457	160,808	-	162,265
Financial assets designated at fair value through profit or loss	176	7,176	-	-	7,352
Available-for-sale financial assets	1,267	90,637	-	-	91,904
Loans and receivables	461,894	12,127	-	5,495	479,516
Held-to-maturity investments	601	137,836	-	-	138,437
Fair value adjustments of the hedged items in portfolio hedge	-	1,030	-	-	1,030
Derivatives used for hedging	-	14,453	-	-	14,453
Other assets (Note: 25)	-	-	-	1,626	1,626
Total	463,938	283,956	160,808	7,121	915,823
Contingent liabilities (Note: 35)	26,039	-	-	-	26,039
Commitments – irrevocable (Note: 35)	80,258	-	-	-	80,258
Total	106,297	-	-	-	106,297
Total credit risk exposure	**570,235**	**283,956**	**160,808**	**7,121**	**1,022,120**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2011. The maximum exposure is shown as 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: 15)	-	38,495	-	-	38,495
Financial assets held for trading	-	2,427	174,276	-	176,703
Financial assets designated at fair value through profit or loss	186	10,835	-	-	11,021
Available-for-sale financial assets	10	87,394	-	-	87,404
Loans and receivables	428,371	17,938	-	2,982	449,291
Held-to-maturity investments	614	138,809	-	-	139,423
Fair value adjustments of the hedged items in portfolio hedge	-	77	-	-	77
Derivatives used for hedging	-	10,328	-	-	10,328
Other assets (Note: 25)	-	-	-	1,327	1,327
Total	429,181	306,303	174,276	4,309	914,069
Contingent liabilities (Note: 35)	28,275	-	-	-	28,275
Commitments – irrevocable (Note: 35)	80,004	-	-	-	80,004
Total	108,279	-	-	-	108,279
Total credit risk exposure	**537,460**	**306,303**	**174,276**	**4,309**	**1,022,348**

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.

Set out below is an analysis of the maximum exposure to credit risk of the Group before and after taking into account the collateral held:

	2012			2011		
(CZKm)	Gross maximum exposure	Financial effect of collateral	Net maximum exposure	Gross maximum exposure	Financial effect of collateral	Net maximum exposure
ASSETS						
Cash and balances with central banks (Note: 15)	19,240	7,500	11,740	38,495	25,302	13,193
Financial assets held for trading	162,265	95,819	66,446	176,703	119,050	57,653
Financial assets designated at fair value through profit or loss	7,352	-	7,352	11,021	-	11,021
Available-for-sale financial assets	91,904	-	91,904	87,404	-	87,404
Loans and receivables	479,516	328,710	150,806	449,291	297,314	151,977
Held-to-maturity investments	138,437	-	138,437	139,423	-	139,423
Fair value adjustments of the hedged items in portfolio hedge	1,030	-	1,030	77	-	77
Derivatives used for hedging	14,453	-	14,453	10,328	-	10,328
Other assets (Note: 25)	1,626	-	1,626	1,327	-	1,327
Total	915,823	432,029	483,794	914,069	441,666	472,403
Contingent liabilities and Commitments – irrevocable (Note: 35)	106,297	24,651	81,646	108,279	33,457	74,822
Total credit risk exposure	**1,022,120**	**456,680**	**565,440**	**1,022,348**	**475,123**	**547,225**

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

2012 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	183,571	-	7,739	**191,310**	(2,892)	-	**188,418**
Building savings loans	69,789	-	3,091	**72,880**	(744)	-	**72,136**
Consumer loans	19,129	8	10,076	**29,213**	(1,301)	(6)	**27,906**
SME	70,763	2,559	20,935	**94,257**	(3,508)	(44)	**90,705**
Leasing	21,820	-	1,065	**22,885**	(798)	-	**22,087**
Corporate	106,536	23,568	37,021	**167,125**	(2,389)	(65)	**164,671**
Factoring	3,986	-	-	**3,986**	(325)	-	**3,661**
Other	539	229	331	**1,099**	(238)	(210)	**651**
Total credits	**476,133**	**26,364**	**80,258**	**582,755**	**(12,195)**	**(325)**	**570,235**

2011 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	163,328	-	7,692	**171,020**	(2,342)	-	**168,678**
Building savings loans	71,665	-	4,063	**75,728**	(747)	-	**74,981**
Consumer loans	17,583	19	8,580	**26,182**	(1,086)	(4)	**25,092**
SME	66,151	1,684	21,241	**89,076**	(3,599)	(59)	**85,418**
Leasing	22,843	-	1,043	**23,886**	(952)	-	**22,934**
Corporate	95,460	25,725	37,020	**158,205**	(3,306)	(101)	**154,798**
Factoring	4,142	-	-	**4,142**	(290)	-	**3,852**
Other	574	1,236	365	**2,175**	(243)	(225)	**1,707**
Total credits	**441,746**	**28,664**	**80,004**	**550,414**	**(12,565)**	**(389)**	**537,460**

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

	2012		2011	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	289,831	49.7	270,569	49.2
Services	69,762	12.0	67,846	12.3
Distribution	36,582	6.3	32,789	6.0
Building and Construction	25,821	4.4	25,334	4.6
Commercial Real Estate	23,374	4.0	23,247	4.2
Automotive	19,478	3.3	17,128	3.1
Authorities	15,489	2.7	10,562	1.9
Finance and Insurance	13,969	2.4	10,656	1.9
Machinery and Heavy Equipment	13,303	2.3	11,323	2.1
Electricity	12,889	2.2	15,159	2.8
Metals	11,011	1.9	8,902	1.6
Oil, Gas and other Fuels	8,572	1.5	8,230	1.5
Other sectors	42,674	7.3	48,669	8.8
Total	**582,755**	**100.0**	**550,414**	**100.0**

Investment portfolio is structured according to type of the instrument.

2012 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	235,096	-	-	-	**235,096**
Equity securities	731	-	-	(178)	**553**
Loans and receivables within investment portfolio	13,157	-	-	-	**13,157**
Derivatives used for hedging	14,453	-	-	-	**14,453**
Derivatives held for trading	1,457	-	-	-	**1,457**
Cash and balances with central banks	19,240	-	-	-	**19,240**
Total investment	**284,134**	**-**	**-**	**(178)**	**283,956**

2011 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	239,775	-	-	(3,317)	**236,458**
Equity securities	1,033	-	-	(450)	**583**
Loans and receivables within investment portfolio	18,015	-	-	-	**18,015**
Derivatives used for hedging	10,328	-	-	-	**10,328**
Derivatives held for trading	2,426	-	-	-	**2,426**
Cash and balances with central banks	38,493	-	-	-	**38,493**
Total investment	**310,070**	**-**	**-**	**(3,767)**	**306,303**

Investment portfolio is monitored from counterparty sector point of view:

	2012		2011	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central government	220,986	77.8	238,034	77.7
Credit institutions	60,363	21.3	67,003	21.9
Corporate	2,369	0.8	1,048	0.3
Non-credit institutions	238	0.1	218	0.1
Total investment	**283,956**	**100.0**	**306,303**	**100.0**

Trading portfolio is structured according to type of the instrument.

2012 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	35,354	-	-	**35,354**
Loans and advances	111,786	-	-	**111,786**
Derivatives held for trading	13,668	-	-	**13,668**
Total trading portfolio	**160,808**	**-**	**-**	**160,808**

2011 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	32,387	-	-	**32,387**
Loans and advances	126,393	-	-	**126,393**
Derivatives held for trading	15,496	-	-	**15,496**
Total trading portfolio	**174,276**	**-**	**-**	**174,276**

Trading portfolio is monitored from counterparty sector point of view:

	2012		2011	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central government	129,805	80.7	142,950	82.1
Credit institutions	25,421	15.8	24,809	14.2
Corporate	5,505	3.4	5,996	3.4
Non-credit institutions	77	0.1	521	0.3
Total trading portfolio	**160,808**	**100.0**	**174,276**	**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:

	2012		2011	
(CZKm)	Total risk	of which Central government	Total risk	of which Central government
Czech Republic	937,018	340,686	929,818	365,285
Slovak Republic	4,999	1,035	4,531	926
Greece	-	-	1,555	1,554
Italy	6,720	-	5,912	957
Spain	176	-	868	617
Belgium	20,913	2,449	22,970	2,545
Hungary	14	-	54	-
Other Europe	48,788	6,913	52,087	8,842
Other	3,494	-	4,553	-
Total	**1,022,122**	**351,083**	**1,022,348**	**380,726**

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

	2012		2011	
Client	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
1 largest client	6,483	1.1	4,744	0.9
10 largest clients	32,624	5.6	26,037	4.7
25 largest clients	56,951	9.8	47,680	8.6

The largest exposure to a single client as at 31 December 2012 was CZK 211,520 m in investment portfolio (31 December 2011: CZK 223,638 m) to the Czech Government and CZK 129,166 m (31 December 2011: CZK 141,647 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 2012 and 2011, 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 5 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 2012 and 2011 per individual portfolios:

Credit portfolio

	2012					
	Unimpaired	Impaired assets				Total
	assets	Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-Performing)	Irrecoverable	
Mortgage loans	172,659	3,739	591	1,563	5,019	183,571
Building savings loans	66,464	1,574	571	429	751	69,789
Consumer loans	17,365	248	183	248	1,085	19,129
SME	64,009	1,795	1,105	443	3,411	70,763
Leasing	20,711	296	-	192	621	21,820
Corporate	97,696	3,822	3,032	254	1,732	106,536
Factoring	3,103	-	734	-	149	3,986
Other	-	6	-	-	533	539
Total	**442,007**	**11,480**	**6,216**	**3,129**	**13,301**	**476,133**

	2011					
	Unimpaired	Impaired assets				Total
	assets	Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-Performing)	Irrecoverable	
Mortgage loans	153,176	3,433	609	2,252	3,858	163,328
Building savings loans	68,476	1,486	-	1,028	675	71,665
Consumer loans	16,021	254	153	276	879	17,583
SME	59,091	1,412	1,620	687	3,341	66,151
Leasing	21,265	614	-	216	748	22,843
Corporate	86,348	3,589	3,057	523	1,943	95,460
Factoring	3,014	648	368	-	112	4,142
Other	-	9	1	1	563	574
Total	**407,391**	**11,445**	**5,808**	**4,983**	**12,119**	**441,746**

Investment portfolio

	2012		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	235,096	-	235,096
Equity securities	544	9	553
Loans and receivables within investment portfolio	13,157	-	13,157
Derivatives used for hedging	14,453	-	14,453
Derivative contracts held for trading	1,457	-	1,457
Cash and balances with central banks	19,240	-	19,240
Total	**283,947**	**9**	**283,956**

	2011		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	235,020	1,438	236,458
Equity securities	228	355	583
Loans and receivables within investment portfolio	18,015	-	18,015
Derivatives used for hedging	10,328	-	10,328
Derivative contracts held for trading	2,426	-	2,426
Cash and balances with central banks	38,493	-	38,493
Total	**304,510**	**1,793**	**306,303**

Trading portfolio

	2012		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	35,354	-	35,354
Loans and advances	111,786	-	111,786
Derivative contracts held for trading	13,668	-	13,668
Total	**160,808**	**-**	**160,808**

	2011		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	32,387	-	32,387
Loans and advances	126,393	-	126,393
Derivative contracts held for trading	15,496	-	15,496
Total	**174,276**	**-**	**174,276**

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

(CZKm)	2012 Less than 30 days	2011 Less than 30 days
Mortgage loans	10,276	7,953
Building savings loans	734	714
Consumer loans	433	404
SME	212	542
Leasing	99	188
Corporate	-	-
Factoring	-	-
Other	-	-
Total	**11,754**	**9,801**

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

Gross amounts of individually impaired financial assets included in credit portfolio and the related impairment are as follows:

	2012		2011	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Mortgage loans	7,173	(2,641)	6,719	(2,113)
Building savings loans	1,751	(673)	1,703	(600)
Consumer loans	1,517	(1,209)	1,308	(998)
SME	4,958	(3,401)	5,647	(3,438)
Leasing	813	(669)	964	(806)
Corporate	5,018	(2,308)	5,523	(3,213)
Factoring	883	(311)	480	(274)
Other	533	(228)	565	(233)
Total	**22,646**	**(11,440)**	**22,909**	**(11,675)**

Individually impaired financial assets included in investment portfolio in carrying amounts are as follows:

(CZKm)	2012	2011
Debt securities	-	1,438
Equity securities	9	355
Total	**9**	**1,793**

39.3 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 used loan-to-deposit ratio (LTD) until the end of 2011. From December 2011, the LTD has been replaced by net-stable-funding-ratio (NSFR) as the latter one became a market standard measure for structural liquidity position of financial institutions. Therefore, the Group adopted the NSFR as a key liquidity indicator. The NSFR is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). The strategy of the Group is to maintain the value of NSFR well above one. That means the Group 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 NSFR is monitored on monthly basis and it is regularly reported to the senior management of the Group.

The NSFR during the year was as follows:

(%)	2012	2011
31 March	131.5	n/a
30 June	130.1	n/a
30 September	127.6	n/a
31 December	133.2	133.6

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 2012:

(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	-	5,720	9,120	2,759	**17,599**
Other than financial derivatives	-	114,767	1,454	112	**116,333**
Financial liabilities at amortised cost	490,933	133,978	57,094	29,750	**711,755**
Fair value adjustments of the hedged items in portfolio hedge	1,741	-	-	-	**1,741**
Derivatives used for hedging	-	2,894	4,665	1,823	**9,382**
Other liabilities (Note: 28)	-	9,779	-	-	**9,779**
Total carrying value	**492,674**	**267,138**	**72,333**	**34,444**	**866,589**

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2011:

(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	-	7,244	8,091	2,731	**18,066**
Other than financial derivatives	-	147,063	1,449	75	**148,587**
Financial liabilities at amortised cost	463,247	152,698	46,528	38,584	**701,057**
Fair value adjustments of the hedged items in portfolio hedge	103	-	-	-	**103**
Derivatives used for hedging	-	2,797	3,540	1,381	**7,718**
Other liabilities (Note: 28)	-	10,098	-	-	**10,098**
Total carrying value	**463,350**	**319,900**	**59,608**	**42,771**	**885,629**

The maturity of contingent liabilities and commitments of CZK 136,708 m (2011: CZK 133,441 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 remaining contractual maturities of the financial instruments, 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 (Note: 34).

39.4 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 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 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.

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 Group added a Stress VaR calculation to the standard VaR measurement to fulfil CRD 3 requirements. A one year historic stress period is used for determining of stress VaR. All other assumptions are identical to the standard VaR measurement.

The tables below show potential gains or losses analysed using VaR 10D 99% model in 2012 and 2011:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2012	58	4	(4)	58
Average during the period	110	8	(8)	110
Highest	173	26	(23)	176
Lowest	57	1	(1)	57

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2011	81	7	(7)	81
Average during the period	82	7	(7)	82
Highest	112	25	(23)	114
Lowest	61	2	(1)	62

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 Board of Directors has established limits on the BPV sensitivity. The Board of Directors 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 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 predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2012:

		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	(6.9)	9.4	(141.9)	(363.8)	(503.2)
EUR	+ 10	0.4	(0.4)	1.9	87.3	89.2
USD	+ 10	0.0	0.0	(4.3)	(5.9)	(10.2)
CZK	- 10	6.9	(9.4)	141.9	363.8	503.2
EUR	- 10	(0.4)	0.4	(1.9)	(87.3)	(89.2)
USD	- 10	0.0	0.0	4.3	5.9	10.2

		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	(9.9)	2.5	72.5	(41.8)	23.3
EUR	+ 10	0.9	0.0	5.1	2.8	8.8
USD	+ 10	(0.1)	0.0	(2.6)	(3.3)	(6.0)
CZK	- 10	9.9	(2.5)	(72.5)	41.8	(23.3)
EUR	- 10	(0.9)	0.0	(5.1)	(2.8)	(8.8)
USD	- 10	0.1	0.0	2.6	3.3	6.0

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2011:

		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	(13.4)	(3.6)	31.7	(495.4)	(480.7)
EUR	+ 10	0.0	(0.2)	5.7	52.5	58.0
USD	+ 10	0.0	(0.3)	(5.8)	(12.9)	(19.0)
CZK	- 10	13.4	3.6	(31.7)	495.4	480.7
EUR	- 10	0.0	0.2	(5.7)	(52.5)	(58.0)
USD	- 10	0.0	0.3	5.8	12.9	19.0

		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	(10.5)	5.4	51.9	(56.9)	(10.1)
EUR	+ 10	0.9	(0.2)	(0.9)	(1.3)	(1.5)
USD	+ 10	0.9	0.0	(2.1)	(2.7)	(3.9)
CZK	- 10	10.5	(5.4)	(51.9)	56.9	10.1
EUR	- 10	(0.9)	0.2	0.9	1.3	1.5
USD	- 10	(0.9)	0.0	2.1	2.7	3.9

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Group adopted a strategy under which the banking book has no open positions in foreign currencies. Therefore the Group has not set any limits for open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Group sets 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 2012 and 2011:

	2012			2011		
(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	194	8	(8)	70	3	(3)

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 2012) 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	(7)
	+ 10	7
Dow-Jones / Nasdaq	- 10	(12)
	+ 10	12

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 2011) 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	(35)
	+ 10	35
Dow-Jones / Nasdaq	- 10	(8)
	+ 10	8

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.

39.5 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.

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 and business continuity management area as well. 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 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.

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. In 2012, 50 scenarios were considered for individual business segments units. All scenarios with a possible impact on the statement of income of over EUR 10 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.

40. 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., as amended 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 as defined by Pillar 1 of Basel II. The Group also analysed impact of proposed Basel III regulation and incorporated major changes / ratios 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.

The Group manages its capital structure in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

(CZKm)	2012	2011
Tier 1 capital	44,975	41,264
Tier 2 capital	7,983	14,080
Deductible items of Tier 1 and Tier 2	(788)	(940)
Total capital	**52,170**	**54,404**
Capital requirements	27,389	28,008
Risk weighted assets	**342,360**	**350,101**
Capital adequacy ratio	15.24%	15.54%

INDEPENDENT AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholder 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 2012, and statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. 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 as to 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.

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Karlovo náměstí 10, 120 00 Prague 2, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

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

Roman Hauptfleisch
Auditor, License No. 2009

22 March 2013
Prague, Czech Republic

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

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

(CZKm)	Note	2012	Reclassified 2011
Interest income	4	23,217	23,373
Interest expense	5	(6,495)	(7,162)
Net interest income		**16,722**	**16,211**
Fee and commission income	6	7,413	7,346
Fee and commission expense	6	(2,526)	(2,265)
Net fee and commission income		**4,887**	**5,081**
Dividend income		5,255	4,845
Net gains from financial instruments at fair value through profit or loss and foreign exchange	7	2,297	1,186
Net realised (losses) / gains on available-for-sale financial assets		(136)	162
Other net income	8	2,052	472
Operating income		**31,077**	**27,957**
Staff expenses	9	(5,900)	(5,396)
General administrative expenses	10	(7,270)	(7,198)
Depreciation and amortisation	20, 21	(502)	(574)
Operating expenses		**(13,672)**	**(13,168)**
Impairment losses	11	(504)	(3,641)
Profit before tax		**16,901**	**11,148**
Income tax expense	12	(1,222)	(509)
Profit for the year		**15,679**	**10,639**

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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

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

(CZKm)	Note	2012	2011
Profit for the year		**15,679**	**10,639**
Net gain on cash flow hedges	29	2,445	1,998
Net gain / (loss) on available-for-sale financial assets	29	3,807	(8,180)
Income tax (expense) / benefit relating to components of other comprehensive income	29	(1,187)	1,170
Other comprehensive income for the year, net of tax		**5,065**	**(5,012)**
Total comprehensive income for the year, net of tax		**20,744**	**5,627**

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

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

(CZKm)	Note	2012	2011
ASSETS			
Cash and balances with central banks	14	27,077	45,501
Financial assets held for trading	15	163,219	178,252
Financial assets designated at fair value through profit or loss	15	8,367	9,008
Available-for-sale financial assets	16	141,012	140,952
Held-to-maturity investments	16	132,669	133,659
Loans and receivables	17	293,148	261,046
Fair value adjustments of the hedged items in portfolio hedge		1,030	77
Investments in subsidiaries, associates and joint ventures	18	36,347	37,747
Derivatives used for hedging	19	14,452	10,328
Deferred tax assets	12	-	1,415
Property and equipment	20	3,621	3,557
Goodwill and other intangible assets	21	2,761	2,867
Other assets	23	1,331	1,088
Total assets		**825,034**	**825,497**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	135,870	167,592
Financial liabilities at amortised cost	25	608,467	595,092
Fair value adjustments of the hedged items in portfolio hedge		1,741	103
Derivatives used for hedging	19	8,652	7,339
Current tax liabilities		613	224
Deferred tax liabilities	12	468	-
Other liabilities	26	8,065	8,004
Provisions	27	912	1,045
Total liabilities		**764,788**	**779,399**
Share capital	28	5,855	5,855
Share premium		6,673	6,673
Statutory reserve		18,687	18,687
Retained earnings		25,058	15,975
Available-for-sale reserve	28	435	(2,649)
Cash flow hedge reserve	28	3,538	1,557
Total equity		**60,246**	**46,098**
Total liabilities and equity		**825,034**	**825,497**

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 and signed on its behalf on 22 March 2013 by:

Pavel Kavánek	Bartel Puelinckx
Chairman of the Board of Directors	Member of the Board of Directors
and Chief Executive Officer	and Chief Finance Officer

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

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 2011	**5,855**	**6,673**	**18,687**	**23,156**	**3,920**	**58,291**
Profit for the year	-	-	-	10,639	-	10,639
Other comprehensive income for the year	-	-	-	-	(5,012)	(5,012)
Total comprehensive income for the year	-	-	-	10,639	(5,012)	5,627
Dividends paid (Note: 13)	-	-	-	(17,820)	-	(17,820)
At 31 December 2011	**5,855**	**6,673**	**18,687**	**15,975**	**(1,092)**	**46,098**
At 1 January 2012	**5,855**	**6,673**	**18,687**	**15,975**	**(1,092)**	**46,098**
Profit for the year	-	-	-	15,679	-	15,679
Other comprehensive income for the year	-	-	-	-	5,065	5,065
Total comprehensive income for the year	-	-	-	15,679	5,065	20,744
Dividends paid (Note: 13)	-	-	-	(6,596)	-	(6,596)
At 31 December 2012	**5,855**	**6,673**	**18,687**	**25,058**	**3,973**	**60,246**

[(1)] The statutory reserve represents accumulated transfers from retained earnings in compliance with the Czech Commercial Code. This reserve is not distributable and could be used only for compensation of losses incurred.

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

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

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

(CZKm)	Note	2012	2011
OPERATING ACTIVITIES			
Profit before tax		16,901	11,148
Adjustments for:			
Change in operating assets	31	(12,433)	(45,710)
Change in operating liabilities	31	(15,195)	56,288
Non-cash items included in profit before tax	31	4,261	4,059
Net gains from investing activities		(1,331)	(3)
Income tax paid		(336)	(1,719)
Net cash flows (used in) / from operating activities		**(8,133)**	**24,063**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		(3,164)	(4,731)
Acquisition and equity increase of subsidiary, associate and joint venture companies		(3,100)	(2,718)
Maturity / disposal of investment securities		2,858	11,888
Purchase of property, equipment and intangible assets		(481)	(312)
Proceeds from sale and equity decrease of subsidiary, associate and joint venture companies		5,648	-
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		18	16
Net cash flows from investing activities		**1,779**	**4,143**
FINANCING ACTIVITIES			
Repayment of subordinated debt		(4,000)	-
Dividends paid		(6,596)	(17,820)
Net cash flows used in financing activities		**(10,596)**	**(17,820)**
Net (decrease) / increase in cash and cash equivalents		**(16,950)**	**10,386**
Cash and cash equivalents at the beginning of the year	31	34,746	24,360
Net (decrease) / increase in cash and cash equivalents		(16,950)	10,386
Cash and cash equivalents at the end of the year	31	**17,796**	**34,746**
Additional information			
Interest paid		(6,859)	(7,648)
Interest received		25,393	23,991
Dividends received		5,255	4,845

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

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 carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses). 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 ČSOB separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

2.2 Significant accounting judgements and estimates

While applying the Bank accounting policies, the management has used its judgements 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, 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 individually 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.

Goodwill impairment

Goodwill is tested annually for impairment. For this purpose, 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. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Classification of leases

Classification of leases into either finance leases or operating leases is based on the extent to which the risks and rewards from the asset ownership have been transferred from a lessor to a lessee. If substantial number of all the risks and rewards incidental to ownership have been transferred to the lessee the lease is classified as a finance lease. Managerial judgement is needed to assess the extent to which the risks and rewards have been transferred.

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.

Provisions

Provisions are recognised when a current obligation exists as a result of past events. It is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount will be made. Judgements are applied to evaluate whether the current obligation exists taking into account all available evidence and whether the event is more likely to occur than not. Estimates of the amount of the obligation also require managerial judgement.

2.3 Changes in accounting policies

Effective from 1 January 2012

The accounting policies adopted are consistent with those used in the previous financial year except for the adoption of 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 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments) is effective for periods beginning on or after 1 July 2011. The amendment provides relief for first-time adopters from having to reconstruct transactions that occurred before their transition to IFRS. It provides guidance for entities emerging from severe hyperinflation.

IFRS 7 Disclosures – Transfers of Financial Assets (Amendments) is effective for periods beginning on or after 1 July 2011. The standard should assist users to evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The amendment enhances disclosures for financial assets transferred but not derecognised entirely in the financial statements and assets derecognised entirely, but in which the entity retains a continuing involvement.

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments) is effective for periods beginning on or after 1 January 2012. The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is measured using the fair value model. The amendment requires that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale.

Improvements to IFRSs, issued in May 2011 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. None of these have a significant impact on the accounting policies, financial position or performance of the Bank.

Effective after 1 January 2012

The following standards, amendments and interpretations have been issued and are effective after 1 January 2012. The Bank has decided not to early adopt them but will adopt them as soon as required by the respective standard. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Bank financial statements.

IFRS 1 Government Loans (Amendments) is effective for periods beginning on or after 1 January 2013. The amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IAS 20 prospectively to government loans existing at the date of transition to IFRSs.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments) is effective for periods beginning on or after 1 January 2013. The amendment presents new required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

IFRS 9 Financial Instruments (the first phase) is effective for periods beginning on or after 1 January 2015 (as per Amendments). The standard has not been endorsed by the European Commission 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. Debt instruments 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 embedded 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 2013 or later.

IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosures (Amendments). IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015. Early application is permitted. The amendments also modify the relief from restating prior periods.

IFRS 10 Consolidated Financial Statements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces the part relating to the consolidated portion of IAS 27 Consolidated and Separate Financial Statements. New definition of control is included and a single control model that applies to all entities is introduced.

IFRS 11 Joint Arrangements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

IFRS 12 Disclosure of Interest in Other Entities is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard includes all of the disclosure requirements that were included in IAS 27, IAS 28 and IAS 31. The entity will be required to disclose judgements made to determine whether it controls an entity.

IFRS 10, 11, 12 Transition Guidance (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The amendments change the transition guidance to provide further relief from full retrospective application. The amendments clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC-12 and when applying IFRS 10.

Investment Entities (Amendments to IFRS 10, 12 and IAS 27) is effective for periods beginning on or after 1 January 2014. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

IFRS 13 Fair Value Measurement is effective for periods beginning on or after 1 January 2013. The standard provides guidance on how to measure the fair value of financial and non-financial assets and liabilities. The standard will not have any significant effect on the statement of financial position or income but will increase the amount of information disclosed in the notes to improve its relevance.

IAS 1 Presentation of Items of Other Comprehensive Income (Amendments) is effective for annual periods beginning on or after 1 July 2012. The amendments change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The option is retained to present profit or loss and OCI either in a single continuous statement or in two separate, but consecutive, statements.

IAS 19 Employee Benefits (Revision) is effective for periods beginning on or after 1 January 2013. The main changes within the revised standard relate to the accounting treatment of the category of post-employment benefits - defined benefit plans:

- The corridor mechanism for pension plans is abolished and all changes in the value of defined benefit plans will be recognised as they occur;
- The presentation options of actuarial results will be eliminated;
- The level of disclosures will be increased;

Other smaller changes to the short-term employee benefits and termination benefits and a number of minor clarifications and re-wording are included in the revised standard.

IAS 27 Separate Financial Statements (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments) is effective for periods beginning on or after 1 January 2013. These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine is effective for periods beginning on or after 1 January 2013.

Improvements to IFRSs, issued in May 2012 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 with the exception of differences in foreign currency borrowing or derivatives that provide an effective hedge in the cash flow hedge of currency risk, which are taken through OCI directly to equity until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

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 end of the reporting period. 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 entity as to obtain benefits from its activities.

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 respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(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, and currency, interest rate and commodity 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.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Bank Asset Liability Management department uses for decreasing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

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

- *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 clean 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. 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 instruments designated at fair value through profit or loss*

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 clean 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, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. 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 reclassified to 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 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 is a different to 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 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, utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. 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 for collecting the loan 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 the statement of income - 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 the statement of income, 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 statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Bank's criteria for application of hedge accounting 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 / expense from hedging instrument is recorded in Net 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. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(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) Reclassification of financial assets

The Bank does not reclassify any financial assets into or out of the Financial assets designated at fair value through profit or loss after initial recognition.

If a non-derivative financial asset at fair value through profit or loss is no longer held for selling or repurchasing it can only be reclassified in rare circumstances.

The Bank can also reclassify, under certain circumstances, financial assets out of Available-for-sale.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the Available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to the statement of income over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate.

Sales and reclassifications from the Held-to-maturity portfolio without the risk of triggering tainting rules are possible only in limited circumstances, such as when it concerns an insignificant amount of instruments or instruments that are so close to maturity that the changes in the market interest rates would not significantly change their fair value. Further, no tainting rules are applied if the sales or reclassifications are attributable to an isolated event that is beyond the Bank’s control (i.e. significant deterioration in the issuer’s creditworthiness or changes in tax, statutory or regulatory requirements) or if the sales occur after collecting a substantial amount of the instrument’s principal.

However, if sales or reclassifications from the Held-to-maturity portfolio do not fulfil the above limits, any remaining investments have to be reclassified as available-for-sale. Furthermore, no financial assets can be classified as Held-to-maturity for the following two years.

(12) 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.

(13) 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.

Interest income and expense of interest-bearing non-derivative financial instruments in the held-for-trading portfolio designated at fair value through profit or loss portfolio, derivatives used as economic hedges and hedging derivatives are also recognised in the caption using the effective interest rate method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

Fees and commissions that are not the integral part of the effective interest rate are generally recognised on an accrual basis when the service has been provided. Origination fees for loans which are probable of being drawn down, are deferred and recognised as an integral part of the effective interest 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 clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(14) Cash and cash equivalents

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

(15) 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.

Property and equipment is 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) 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 the statement of income 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.

(17) 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.

(18) 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 provision relating to financial guarantees is included in Impairment losses.

(19) Employee retirement benefits

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.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(20) 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.

(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. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

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 to OCI, is also credited or charged to OCI 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.

(22) Share capital and reserves

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

The statutory reserve fund is accumulated in compliance with the Commercial Code and its use is limited by this legislation and the Articles of association or Statutes. The fund is not available for distribution to shareholders.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(23) 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.

(24) 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 2012 from the presentation applied in the financial statements at 31 December 2011. To conform to the changes in presentation in the current year, certain items in the comparative balances have been reclassified.

A reconciliation of the selected items of the financial statements for the year ended 31 December 2011 is provided below:

	2011	Reclassifications		2011
(CZKm)	As reported	A	B	Reclassified
Fee and commission income	7,291	55		7,346
Fee and commission expense	(3,027)		762	(2,265)
Other net income	527	(55)		472
General administrative expenses	(6,436)		(762)	(7,198)

The explanation for the reclassifications is as follows:

A/ **Income from FX options trading for clients**

Income from FX options trading for clients, previously presented within Other net income, have been reclassified into Fee and commission income, since the nature of the income is asset management performance fee;

B/ **Deposit insurance premium and contribution to the Securities Traders Guarantee Fund**

Contributions of the Bank into the Deposit Insurance Fund and the Securities Traders Guarantee Fund, previously presented within Net fee and commission income, have been reclassified into General administrative expenses, since the nature of the contribution is operating expense rather than financial expense.

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 strategic 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. Margin income from the operations with retail and SME clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Corporate: Companies with a turnover greater than CZK 300 m and financial institutions. This segment contains customers' deposits, loans, overdrafts, credit card facilities, funds transfer facilities and other transactions and balances with corporate customers. Margin income from the operations with corporate clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Financial markets: 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, Asset Liability Management (ALM) and income and expenses not directly attributable to other segments. In 2012, net gains on disposal of participations in ČSOB Pojišťovna, a. s., člen holdingu ČSOB and ČSOB Asset Management, a.s., investment company are included.

In 2012, fee and commission income previously reported within Group centre was further allocated into segments. Comparative figures in the Statement of income for 2011 have been reclassified.

Segment reporting information by customer segments for 2012

(CZKm)	Retail / SME	Corporate	Financial markets	Group Centre	Total
Statement of income					
Net interest income	11,592	2,709	754	1,667	16,722
Net fee and commission income	3,901	920	301	(235)	4,887
Dividend income	-	-	-	5,255	5,255
Net gains / (losses) from financial instruments at fair value through profit or loss	1,088	773	626	(190)	2,297
Net realised losses on available-for-sale financial assets	-	-	-	(136)	(136)
Other net income	188	5	(1)	1,860	2,052
Operating income	**16,769**	**4,407**	**1,680**	**8,221**	**31,077**
of which:					
External operating income	*7,255*	*4,127*	*1,680*	*18,015*	*31,077*
Internal operating income	*9,514*	*280*	-	*(9,794)*	-
Depreciation and amortisation	(62)	(1)	-	(439)	(502)
Other operating expenses	(10,389)	(1,457)	(322)	(1,002)	(13,170)
Operating expenses	**(10,451)**	**(1,458)**	**(322)**	**(1,441)**	**(13,672)**
Impairment losses - additions	(1,409)	(492)	-	(271)	(2,172)
Impairment losses - reversals	605	718	-	345	1,668
Profit before tax	**5,514**	**3,175**	**1,358**	**6,854**	**16,901**
Income tax (expense) / benefit	(1,050)	(603)	(258)	689	(1,222)
Segment profit	**4,464**	**2,572**	**1,100**	**7,543**	**15,679**
Assets and liabilities					
Total assets	**89,417**	**107,904**	**169,325**	**458,388**	**825,034**
Total liabilities	**436,292**	**99,877**	**134,357**	**94,262**	**764,788**
Capital expenditures	**246**	**4**	**-**	**231**	**481**

Segment reporting information by customer segments for 2011

(CZKm)	Retail / SME	Corporate	Financial markets	Group Centre	Total
Statement of income					
Net interest income	11,688	2,229	679	1,615	16,211
Net fee and commission income	4,000	977	188	(84)	5,081
Dividend income	-	-	-	4,845	4,845
Net gains / (losses) from financial instruments at fair value through profit or loss	1,124	762	(190)	(510)	1,186
Net realised losses on available-for-sale financial assets	-	-	-	162	162
Other net income	153	1	7	311	472
Operating income	**16,965**	**3,969**	**684**	**6,339**	**27,957**
of which:					
External operating income	*7,113*	*3,830*	*684*	*16,330*	*27,957*
Internal operating income	*9,852*	*139*	*-*	*(9,991)*	*-*
Depreciation and amortisation	(95)	(3)	(1)	(475)	(574)
Other operating expenses	(10,159)	(1,370)	(318)	(747)	(12,594)
Operating expenses	**(10,254)**	**(1,373)**	**(319)**	**(1,222)**	**(13,168)**
Impairment losses - additions	(1,435)	(1,252)	(5)	(3,201)	(5,893)
Impairment losses - reversals	1,010	999	-	243	2,252
Profit before tax	**6,286**	**2,343**	**360**	**2,159**	**11,148**
Income tax (expense) / benefit	(1 195)	(455)	(69)	1 210	(509)
Segment profit	**5 091**	**1,888**	**291**	**3,369**	**10,639**
Assets and liabilities					
Total assets	**83,093**	**96,367**	**200,679**	**445,358**	**825,497**
Total liabilities	**427,189**	**93,961**	**165,787**	**92,462**	**779,399**
Capital expenditures	**146**	**-**	**-**	**166**	**312**

Interest income and interest expense are not presented separately since the Bank assesses the performance of the segments primarily on the basis of the net interest income.

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

The Bank operates predominantly in the Czech Republic.

4. INTEREST INCOME

(CZKm)	2012	2011
Cash balances with central banks	136	236
Loans and receivables		
Credit institutions	2,435	1,824
Other than credit institutions	8,146	7,561
Available-for-sale financial assets	4,263	4,864
Held-to-maturity investments	5,585	5,912
Financial assets held for trading (Note: 7)	1,489	1,534
Financial assets designated at fair value through profit or loss (Note: 7)	299	335
Derivatives used as economic hedges (Note: 7)	378	738
Derivatives used for hedging (Note: 7)	486	369
	23,217	**23,373**

5. INTEREST EXPENSE

(CZKm)	2012	2011
Financial liabilities at amortised cost		
Credit institutions	981	1,042
Other than credit institutions	3,453	3,550
Debt instruments in issue	160	162
Subordinated liabilities	172	193
Discount amortisation on other provisions (Note: 27)	3	4
Financial liabilities held for trading (Note: 7)	694	797
Derivatives used as economic hedges (Note: 7)	562	893
Derivatives used for hedging (Note: 7)	470	521
	6,495	**7,162**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2012	2011
Fee and commission income		
Payment services	5,094	5,060
Administration of credits	1,164	1,161
Collective investments	406	434
Custody	157	165
Securities	85	69
Asset management	73	58
Other	434	399
	7,413	**7,346**
Fee and commission expense		
Retail service fees	1,045	906
Payment services	960	947
Commissions to agents	47	48
Other	474	364
	2,526	**2,265**
Net fee and commission income	**4,887**	**5,081**

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)	2012	2011
Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported	**2,297**	**1,186**
Net interest income (Notes: 4, 5)	926	765
	3,223	**1,951**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	626	(170)
Foreign exchange	2,975	(1,031)
Equity contracts	20	-
Commodity contracts	16	9
	3,637	(1,192)
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	540	109
Foreign exchange differences	(954)	3,034
Financial instruments at fair value through profit or loss and foreign exchange	**3,223**	**1,951**

8. OTHER NET INCOME

(CZKm)	2012	2011
Net gain from the sale of ČSOB Pojišťovna, a.s., a member of the ČSOB holding (Note: 18)	1,271	-
Operating leasing and rental income	153	149
Services provided to Československá obchodná banka, a.s (ČSOB SK)	111	129
Net gain on disposal of loans and receivables	110	56
Net gain from the sale of ČSOB Asset Management, a.s., investment company (Note: 18)	75	-
Net decrease / (increase) in provisions for legal issues	21	(201)
Net loss on disposal of Held-to-maturity investments	(24)	(6)
Net loss on disposal of financial liabilities at amortised cost	(90)	-
Other	425	345
	2,052	**472**

9. STAFF EXPENSES

(CZKm)	2012	2011
Wages and salaries	4,142	3,839
Salaries and other short-term benefits of senior management	69	71
Social security charges	1,232	1,227
Pension and similar expense	143	126
Restructuring programme (Note: 27)	191	-
Other	123	133
	5,900	**5,396**

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.

Following the change in legislation, a new bonus scheme for selective employees was launched in 2011. Half of the bonus is provided in a non-cash instrument Virtual investment certificate (VIC) as an equivalent of the 10-year government bond. Payment of the half of the bonus (both cash and non-cash portion) is deferred up to the next three years following the initial assignment of the benefit.

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. wholly-owned subsidiary of ČSOB and other pension funds approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Bank of 2% or 3% of their salaries, respectively. The contributions are from 1 January 2013 as a part of pension reform sent to newly created Transformed fund or participation funds managed by ČSOB Penzijní společnost, a. s. or other pension companies.

Termination benefits

Employees dismissed by their employer according to the Czech employment law are entitled to termination benefits equal to or less than three times the employees's month's average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (twice month's average salary), 15-20 years (2.5 times the month's average salary), 20-25 years (3 times the month's average salary), 25-30 years (4 times the month's average salary), 30-35 years (5 times the month's average salary) and over 35 years (6 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 2012 and 2011, no such compensation was paid out.

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2012	2011
Rental expenses on information technologies – minimum lease payments	1,606	1,479
Information technologies	1,115	1,104
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	795	762
Rental expenses on land and buildings – minimum lease payments	679	767
Marketing	616	702
Other building expenses	497	439
Professional fees	401	408
Communication	376	418
Payment cards and electronic banking	234	114
Retail service fees	140	159
Travel and transportation	121	121
Administration	118	119
Training	99	105
Car expenses	56	58
Insurance	37	33
Other	380	410
	7,270	**7,198**

11. IMPAIRMENT LOSSES

(CZKm)	2012	2011
Impairment of loans and receivables (Notes: 17, 31)	(609)	(640)
Provisions for loan commitments and guarantees (Notes: 27, 31)	57	43
Impairment of available-for-sale financial assets (Notes: 16, 29, 31)	(23)	(3,048)
Impairment of held-to-maturity investments (Notes: 16, 31)	-	(5)
Impairment of investments in subsidiaries, associates and joint ventures (Notes: 18, 31)	(205)	(97)
Impairment of property and equipment (Notes: 20, 31)	(12)	-
Impairment of other assets (Note: 31)	288	106
	(504)	**(3,641)**

12. TAXATION

The components of income tax expense for the years ended 31 December 2012 and 2011 are as follows:

(CZKm)	2012	2011
Current tax expense	1,205	992
Net provisions for tax disputes	(199)	199
Previous year over accrual of current tax	(480)	(116)
Deferred tax expense / (benefit) relating to the origination and reversal of temporary differences	696	(566)
	1,222	**509**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2012 and 2011 is as follows:

(CZKm)	2012	2011
Profit before taxation	16,901	11,148
Applicable tax rates	19 %	19%
Taxation at applicable tax rates	3,211	2,118
Net provisions for tax disputes	(199)	199
Previous year over accrual of current tax	(480)	(116)
Previous year under accrual of deferred tax	610	-
Tax effect of non-taxable income	(2,185)	(1,812)
Tax effect of non-deductible expenses	263	120
Other	2	-
	1,222	**509**

The applicable tax rate for 2012 was 19% (2011: 19%).

Included in non-taxable income are tax-free interest income and dividend income.

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

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

(CZKm)	2012	2011
At 1 January	**1,415**	**(321)**
Statement of income	(696)	566
Available-for-sale securities (Note: 29)		
Fair value remeasurement	(697)	2,099
Transfer to net profit	(26)	(549)
Cash-flow hedges (Note: 29)		
Fair value remeasurement	(443)	(412)
Transfer to net profit	(21)	32
At 31 December	**(468)**	**1,415**

Deferred tax assets / (liability) are attributable to the following items:

(CZKm)	2012	2011
Deferred tax assets / (liability)		
Accelerated tax depreciation	246	222
Employee benefits	195	247
Provisions	132	119
Legal claim	131	134
Allowances for credit losses	55	67
Impairment losses on financial investments	38	664
Available-for-sale securities	(102)	621
Amortisation of goodwill	(338)	(302)
Cash-flow hedges	(830)	(365)
Other temporary differences	5	8
	(468)	**1,415**

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

(CZKm)	2012	2011
Accelerated tax depreciation	24	75
Provisions	13	(1)
Legal claim	(3)	(1)
Allowances for credit losses	(12)	(19)
Amortisation of goodwill	(36)	(37)
Employee benefits	(52)	6
Impairment losses on financial investments	(626)	605
Other temporary differences	(4)	(62)
	(696)	**566**

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 a profit allocation for 2012 has not been taken before the date of issue of the financial statements.

Based on a sole shareholder decision from 26 June 2012, a dividend of CZK 22.53 per share was paid for 2011, representing a total dividend of CZK 6,596 m.

Based on a sole shareholder decision from 13 May 2011, a dividend of CZK 60.87 per share was paid for 2010, representing a total dividend of CZK 17,820 m.

14. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2012	2011
Cash (Note: 31)	9,046	8,192
Mandatory minimum reserves (Notes: 32, 37.2)	8,776	10,520
Reverse repo transactions (Notes: 31, 32, 37.2)	7,500	25,302
Other balances with central banks (Notes: 31, 32, 37.2)	1,755	1,487
	27,077	**45,501**

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)	2012	2011
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 34)	95,819	119,050
Money market placements	15,967	7,482
Debt instruments		
Central government	29,504	25,774
Non credit institutions	21	21
Credit institutions	5,005	5,337
Corporate	1,197	1,660
Derivative contracts (Note: 19)		
Trading derivatives	14,029	16,154
Derivatives used as economic hedges	1,677	2,774
	163,219	**178,252**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Central government	-	822
Non credit institutions	397	406
Credit institutions	7,970	7,780
	8,367	**9,008**
Financial assets at fair value through profit or loss	**171,586**	**187,260**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 2,407 m (2011: CZK 4,001 m) pledged as collateral in repo transactions.

Included in Financial assets designated at fair value through profit or loss are debt securities recorded at fair value to reduce the accounting mismatch that would otherwise arise from measuring these assets or recognising the gains and losses from them on a different bases.

16. FINANCIAL INVESTMENTS

(CZKm)	2012	2011
Available-for-sale financial assets		
Debt securities		
Central government	40,600	40,889
Credit institutions	97,919	99,134
Corporate	2,012	698
Equity securities		
Credit institutions	-	8
Corporate	481	223
	141,012	**140,952**
Held-to-maturity investments		
Debt securities		
Central government	129,867	129,850
Non credit institutions	519	533
Credit institutions	2,184	3,177
Corporate	99	99
	132,669	**133,659**
Financial investments	**273,681**	**274,611**

Included within Financial investments are debt securities of CZK 8,307 m (2011: CZK 20,620 m) pledged as collateral in repo transactions and debt securities of CZK 1,766 m (2011: 1,782 m) pledged as collateral of term deposits and financial guarantees.

As at 31 December 2010, coupon bonds issued by the government of Greece were included within the portfolio of Available-for-sale financial assets of the Bank in the carrying amount of CZK 3,768 m. In July 2011, the European Union approved a rescue plan for Greece, which was regarded as an objective evidence of impairment. Following the decision, the Bank impaired its portfolio of bonds issued by the Greek government classified as Available-for-sale financial assets and reported under the Group Centre segment. The impairment loss on available-for-sale Greek bonds included in the statement of income amounted to CZK 3,077 m in 2011. Unrealised losses from the market revaluation, which were retained in equity in the amount of CZK 891 m as at 31 December 2010, were derecognised from the Available-for-sale reserve in 2011. The carrying amount of the Greek government bonds remaining in Available-for-sale debt securities decreased to CZK 1,554 m as at 31 December 2011.

In February 2012, an agreement on the key terms of the voluntary exchange of Greek government bonds held by the private sector was reached in the European Union. Based on the decision of the Bank to accede the agreement, the Bank derecognised the entire amount of old Greek bonds and realised the loss in the amount of CZK 412 m reported under Net realised gains on available-for-sale financial assets in the statement of income.

Just after the derecognition of the old Greek bonds, new financial instruments were recognised along with the key terms of the agreement. 15% of the principal of the old Greek bonds was exchanged for short-term securities issued by the European Financial Stability Facility (EFSF) and 31.5% was converted into the new 20 tranches of coupon bonds issued by the Greek government and Greek GDP-linked securities. Interest income, which was accrued on the old Greek bonds but was not paid by the date of the exchange, was replaced by short-term EFSF notes.

On 30 March 2012, the new debt instruments in the total carrying amount of CZK 1,115 m were sold to KBC Credit Investments NV. There are no debt instruments issued by Greek government held by the Bank as at 31 December 2012.

Due to significant deterioration in the issuer's creditworthiness, the Bank decided in January 2011 to gradually sell its portfolio of bonds issued by the Hungarian government, which were originally classified as Held-to-maturity investments. Following the decision, the bonds in the amount of CZK 1,012 m were reclassified to Available-for-sale financial assets in 2011 with the intention to sell based on the market conditions. The whole position of the bonds issued by the Hungarian government was sold or repaid in 2011.

Due to deterioration in the issuer's credibility, the Bank decided to gradually sell the portfolio of bonds issued by the Italian and Spanish government classified as Held-to-maturity investments. Following the decision, the Italian bonds in the amount of CZK 975 m were sold in the end of 2011. The remaining position of the Italian and Spanish sovereign bonds in the amount of CZK 1,499 m was sold in 2012. All these sales are considered by the Bank as insignificant in relation to the entire Held-to-maturity portfolio.

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2011 and 2012:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2011	**136**	**92**	**-**	**228**
Increase (Note: 11)	3,077	-	5	3,082
Utilisation	-	-	(5)	(5)
Decrease (Note: 11)	(29)	-	-	(29)
Foreign currency translation	133	-	-	133
At 31 December 2011	**3,317**	**92**	**-**	**3,409**
Increase (Note: 11)	-	23	-	23
Utilisation	(3,162)	-	-	(3,162)
Foreign currency translation	(155)	1	-	(154)
At 31 December 2012	**-**	**116**	**-**	**116**

17. LOANS AND RECEIVABLES

(CZKm)	2012	2011
Analysed by category of borrower		
Central government	293	265
Non credit institutions	6,546	5,436
Credit institutions	93,018	77,342
Other legal entities	164,356	151,798
Private individuals	36,370	34,438
Gross loans	300,583	269,279
Allowance for impairment losses	(7,435)	(8,233)
	293,148	**261,046**

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2011 and 2012 by classes of financial instruments and by individual and collective impairment:

(CZKm)	Non credit institutions	Credit institutions	Other legal entities	Private individuals	Total
At 1 January 2011	**10**	**213**	**6,563**	**1,518**	**8,304**
Net increase in allowances for credit losses (Note: 11)	(10)	16	(37)	671	640
Write-offs	-	(12)	(35)	(655)	(702)
Foreign currency translation	-	-	(2)	(7)	(9)
At 31 December 2011	**-**	**217**	**6,489**	**1,527**	**8,233**
Net increase in allowances for credit losses (Note: 11)	1	(10)	131	487	609
Write-offs	-	-	(963)	(419)	(1,382)
Foreign currency translation	-	(1)	(24)	-	(25)
At 31 December 2012	**1**	**206**	**5,633**	**1,595**	**7,435**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2011	**7,851**	**453**	**8,304**
Increase in allowances for credit losses (Note: 11)	2,538	43	2,581
Decrease in allowances for credit losses (Note: 11)	(1,796)	(145)	(1,941)
Write-offs	(702)	-	(702)
Foreign currency translation	(9)	-	(9)
At 31 December 2011	**7,882**	**351**	**8,233**
Increase in allowances for credit losses (Note: 11)	1,760	65	1,825
Decrease in allowances for credit losses (Note: 11)	(1,089)	(127)	(1,216)
Write-offs	(1,382)	-	(1,382)
Foreign currency translation	(25)	-	(25)
At 31 December 2012	**7,146**	**289**	**7,435**

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

		2012		2011	
Name	Abbreviation	(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
Auxilium, a. s.	Auxilium	-	-	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	709	100.00	969
ČSOB Advisory, a.s. (formerly ČSOB IBS)	ČSOB Advisory	100.00	1,858	-	-
ČSOB Asset Management, a.s., investment company	ČSOB AM/IS	-	-	44.29	145
ČSOB Factoring, a.s.	ČSOB Factoring	100.00	1,175	100.00	1,175
ČSOB Investment Banking Services, a.s., a member of the ČSOB group	ČSOB IBS	-	-	100.00	2,263
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	4,100	100.00	5,600
ČSOB Penzijní fond Stabilita, a.s., a member of the ČSOB Group	ČSOB PF Stabilita	100.00	1,357	100.00	1,547
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	59.79	312	59.76	337
Hypoteční banka, a.s.	Hypoteční banka	100.00	25,130	100.00	22,030
Joint venture					
Českomoravská stavební spořitelna, a.s.	ČMSS	55.00	1,540	55.00	1,540
Associate					
ČSOB Asset Management, a.s., investment company	ČSOB AM/IS	40.08	127	-	-
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	0.24	9	25.00	916
			36,347		**37,747**

All companies are incorporated in the Czech Republic.

In December 2012, a redemption of the share premium from ČSOB Leasing in the amount of CZK 1,500 m was processed.

In November 2012, ČSOB sold 24.76% of its ownership in ČSOB Pojišťovna to KBC Insurance NV. The sale did not affect the significant influence of the Bank over the ČSOB Pojišťovna as 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 onwards. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank (Notes: 8, 22, 35).

In June and October 2012, based on the Sole shareholder decision, the Bank increased the share premium of Hypoteční banka by CZK 2,605 m and statutory reserve of Hypoteční banka by CZK 495 m.

In May 2012, ČSOB Investment Banking Services, a.s., a member of the ČSOB group was renamed to ČSOB Advisory, a.s. In June 2012, a redemption of the share premium from ČSOB Advisory in the amount of CZK 600 m was processed. In October 2012, Auxilium merged with ČSOB Advisory. ČSOB Advisory being the successor company. In December 2012, a redemption of the other capital funds from ČSOB Advisory in the amount of CZK 1,000 m was processed.

In May 2012, a redemption of the share premium from Centrum Radlická in the amount of CZK 260 m was processed.

In July 2011, based on the shareholders decision, the Bank increased the registered capital and share premium of ČSOB Pojišťovna by CZK 157 m and CZK 158 m respectively.

In April 2011, based on the Sole shareholder decision, the Bank increased the share premium of Hypoteční banka by CZK 2,500 m.

In November 2011, ČSOB Penzijní fond Progres, a.s., a member of the ČSOB group merged with ČSOB PF Stabilita, ČSOB PF Stabilita being the successor company.

On 27 April 2011, the Bank approved a merger of ČSOB Investiční společnost, a.s., a member of the ČSOB group (ČSOB IS) and ČSOB Asset Management, a.s., a member of the ČSOB group (ČSOB AM). It was decided that ČSOB IS would become a successor company and would afterwards be renamed to ČSOB Asset Management, a.s., investment company. The decisive date of the transaction was set at 1 July 2011. The merged company was registered in the Commercial register on 31 December 2011. As a result of the merger and the effective date of its registration, the Bank effectively lost control over the merged ČSOB AM/IS starting January 2012.

In November 2012, the Bank sold 21 shares of ČSOB AM/IS to KBC Participations Renta C, SA to achieve a target share of the Bank on the equity of ČSOB AM/IS of 40.08% (Notes: 8, 22, 35).

As at 31 December 2011 and before, based on the Agreement on the exercise of voting rights, the Bank was entitled to a total of 52.94% of the voting rights in ČSOB AM, and therefore the company was considered to be a subsidiary.

The Bank executed its control over ČSOB IS indirectly through ČSOB AM, in which the Bank held a majority of the voting rights.

The.Bank is entitled to exercise 50.82% of the voting rights in ČSOB Leasing, since remaining 49.18% of the voting rights were transferred to the KBC Lease Holding NV.

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 95,67% of the voting rights in ČSOB Property fund. In 2012, the participation of the Bank in ČSOB Property fund increased 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 company statutes, the Bank controls ČMSS jointly with the owner of the remaining 45%. Therefore, the entity is classified as a joint venture.

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

At 31 December 2011 and 2012, the Bank considered the value of interests in certain subsidiaries to be impaired.

In December 2012 the value of interests in ČSOB PF Stabilita 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 190 m, has been recognised.

In December 2012 and 2011 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 15 m and 97 m respectively, has been recognised.

The Bank's management believes that there is no other indication of impairment in the value of its investments in subsidiaries, associates and joint ventures.

The following table shows a reconciliation of the impairment losses on investment in subsidiaries, associates and joint ventures for 2011 and 2012:

(CZKm)	ČSOB PF Stabilita	ČSOB Property fund	Total
At 1 January 2011	**379**	**108**	**487**
Increase (Note: 11)	-	97	97
At 31 December 2011	**379**	**205**	**584**
Increase (Note: 11)	190	15	205
Utilisation	-	(7)	(7)
At 31 December 2012	**569**	**213**	**782**

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; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2012 and 2011 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.

Trading positions

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	380,667	12,318	14,541	399,160	11,814	13,632
Forwards	34,514	16	18	39,500	6	10
Options	31,727	264	339	29,247	346	301
	446,908	**12,598**	**14,898**	**467,907**	**12,166**	**13,943**
Foreign exchange contracts						
Swaps / Forwards	106,961	594	743	145,208	2,802	1,268
Cross currency interest rate swaps	65,348	599	379	28,636	688	486
Options	12,022	112	113	16,924	362	361
	184,331	**1,305**	**1,235**	**190,768**	**3,852**	**2,115**
Equity contracts						
Forwards	-	-	-	100	-	20
Commodity contracts						
Swaps / Options	7,273	126	116	4,425	136	131
Total trading derivatives (Notes: 15, 24)	**638,512**	**14,029**	**16,249**	**663,200**	**16,154**	**16,209**

Positions of ALM – economic hedges

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	58,524	699	1,593	49,054	777	1,360
Foreign exchange contracts						
Cross currency interest rate swaps	20,918	978	123	16,464	1,997	72
Total derivatives used as economic hedges (Notes: 15, 24)	**79,442**	**1,677**	**1,716**	**65,518**	**2,774**	**1,432**

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 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. Bank policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Bank uses these instruments to hedge floating interest income from expected **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 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.

The Bank also uses single currency interest rate swaps

- 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 and on a group of **non-standard client current accounts** (the variability in the interest paid on the client floating rate deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps). The Bank stopped applying cash flow hedge accounting of a group of term deposits denominated in CZK using the CZK single currency swaps at the end of November 2012. The main reasons for the cessation of the cash flow hedge were a significant decline of the volume of eligible term deposits during the previous periods and a forecasted further decrease in their volume. The hedge was reconsidered to be prospectively ineffective.
- to hedge the interest rate risk arising from changes in external interest rates on a group of **non-retail client current accounts** (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert **floating-rate client loans / floating rate subordinated debt** to fixed rates.

Cross currency interest rate swaps (fix-to-fix or floating-to-fix) 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.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding cash flow hedging derivatives as at 31 December 2012 and 2011 are set out as follows:

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	154,269	9,780	5,359	191,952	7,386	5,700
Cross currency interest rate swaps	24,179	2,564	236	26,299	2,808	352
Total hedging derivatives	**178,448**	**12,344**	**5,595**	**218,251**	**10,194**	**6,052**

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

(CZKm)	2012	2011
Interest income (Note: 29)	153	61
Net gains from financial instruments at fair value through profit or loss (Note: 29)	(263)	108
Taxation	21	(32)
Net (losses) / gains	**(89)**	**137**

In 2012, a gain of CZK 10 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2011: CZK 24 m).

In 2012 the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in reclassification of the associated cumulative losses of CZK 273 m from equity to the statement of income (2011: gains of CZK 84 m). The losses were included in Net gains from financial instruments at fair value through profit or loss.

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 flows hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2012 and 2011:

(CZKm)	2012	2011
Less than 3 months	5,171	5,067
More than 3 months but not more than 6 months	9,529	7,016
More than 6 months but not more than 1 year	21,402	19,734
More than 1 year but not more than 2 years	44,522	39,528
More than 2 years but not more than 5 years	42,603	78,960
More than 5 years	55,221	67,946
	178,448	**218,251**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of **foreign currency fixed rate bonds classified as Available-for-sale** attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

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 bond is expected to be highly effective hedge.

From August 2011, fair value hedges for **portfolios of retail non-maturity deposits** have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current and savings accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

From August 2011, fair value hedges for **portfolios of fixed rate loans** have been used to hedge interest rate risk arising from changes in fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

From July 2012, new fair value hedges for **portfolios of fixed rate mortgage bonds classified as Available-for-sale** have been used to hedge interest rate risk arising from changes in fair value of fixed rate bonds to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

From November 2012, 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 Loans and receivables**, ie. private issues without active secondary market, 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 bond is expected to be 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 2012 and 2011 are set out as follows:

	2012			2011		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	17,804	-	1,553	9,300	-	1,201
Fair value portfolio hedges	93,998	1,993	1,443	26,540	117	72
Cross currency interest rate swaps						
Fair value micro hedges	5,418	115	61	5,012	17	14
Total hedging derivatives	**117,220**	**2,108**	**3,057**	**40,852**	**134**	**1,287**

In 2012, the net losses in the amount of CZK 223 m (2011: net gains of CZK 629 m) realised 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.

Net gains realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 177 m (2011: net losses of CZK 579 m).

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2011	5,122	155	550	1,261	50	7,138
Depreciation and impairment at 1 January 2011	(2,133)	(127)	(373)	(870)	-	(3,503)
Net book value at 1 January 2011	**2,989**	**28**	**177**	**391**	**50**	**3,635**
Transfers	153	8	16	158	(335)	-
Additions	-	-	-	-	304	304
Disposals	(2)	-	-	(2)	-	(4)
Depreciation	(229)	(20)	(32)	(97)	-	(378)
Net book value at 31 December 2011	**2,911**	**16**	**161**	**450**	**19**	**3,557**
of which						
Cost	5,265	138	559	1,342	19	7,323
Depreciation and impairment	(2,354)	(122)	(398)	(892)	-	(3,766)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2012	5,265	138	559	1,342	19	7,323
Depreciation and impairment at 1 January 2012	(2,354)	(122)	(398)	(892)	-	(3,766)
Net book value at 1 January 2012	**2,911**	**16**	**161**	**450**	**19**	**3,557**
Transfers	267	-	24	156	(447)	-
Additions	-	-	-	-	465	465
Disposals	(2)	(3)	(1)	(3)	-	(9)
Depreciation	(229)	(8)	(30)	(113)	-	(380)
Impairment (Note: 11)	(10)	-	-	(2)	-	(12)
Net book value at 31 December 2012	**2,937**	**5**	**154**	**488**	**37**	**3,621**
of which						
Cost	5,514	130	573	1,398	37	7,652
Depreciation and impairment	(2,577)	(125)	(419)	(910)	-	(4,031)

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2011	2,752	3,145	725	3	6,625
Amortisation and impairment at 1 January 2011	(63)	(2,939)	(566)	-	(3,568)
Net book value at 1 January 2011	**2,689**	**206**	**159**	**3**	**3,057**
Transfers	-	1	5	(6)	-
Additions	-	-	-	8	8
Disposals	-	-	(2)	-	(2)
Amortisation	-	(129)	(67)	-	(196)
Net book value at 31 December 2011	**2,689**	**78**	**95**	**5**	**2,867**
of which					
Cost	2,752	3,145	729	5	6,631
Amortisation and impairment	(63)	(3,067)	(634)	-	(3,764)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2012	2,752	3,145	729	5	6,631
Amortisation and impairment at 1 January 2012	(63)	(3,067)	(634)	-	(3,764)
Net book value at 1 January 2012	**2,689**	**78**	**95**	**5**	**2,867**
Transfers	-	-	20	(20)	-
Additions	-	-	-	16	16
Amortisation	-	(63)	(59)	-	(122)
Net book value at 31 December 2012	**2,689**	**15**	**56**	**1**	**2,761**
of which					
Cost	2,752	3,145	747	1	6,645
Amortisation and impairment	(63)	(3,130)	(691)	-	(3,884)

Goodwill has been allocated to the Retail / SME segment, representing a cash-generating unit. The recoverable amount for the Retail / SME 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 using the expected average growth rate of 3%; after that terminal value is applied.

Cash flows in the Retail / SME segment are based on net profit generated by the cash-generating unit above the required capital, calculated as 10.0% of its risk weighted assets, and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.0% in 2012 (2011: 9.70%) and no long term growth were used in 2012 and 2011.

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

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Bank has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail / SME has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail / SME a risk discount rate of 10.0% in 2012 (2011: 9.70%) 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)	ČSOB Pojišťovna	ČSOB AM/IS	Total
Net book value at 1 January 2012	**-**	**-**	**-**
Transfer from Investments in subsidiaries, associates and joint ventures	907	13	920
Disposals	(907)	(13)	(920)
Net book value at 31 December 2012	**-**	**-**	**-**
of which			
Cost	-	-	-
Impairment	-	-	-

There were no movements of Non-current assets held-for-sale in 2011.

Movement disclosed in Transfer and Disposals represents part of investments in ČSOB Pojišťovna and ČSOB AM/IS which were sold to KBC Insurance NV and KBC Participations Renta C, SA respectively in November 2012 (Note: 18).

23. OTHER ASSETS

(CZKm)	2012	2011
Other debtors, net of provisions (Notes: 30, 32, 37.2)	667	524
Accrued income (Notes: 30, 32, 37.2)	264	260
Prepaid charges	208	277
Receivables from securities clearing entities (Notes: 30, 32, 37.2)	176	13
VAT and other tax receivables	16	11
Other	-	3
	1,331	**1,088**

24. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2012	2011
Short positions	4,727	4,735
Derivative contracts (Note: 19)		
Trading derivatives	16,249	16,209
Derivatives used as economic hedges	1,716	1,432
Term deposits	11,999	56,171
Repo transactions	96,062	83,301
Promissory notes	6	-
Bonds issued	5,111	5,744
Financial liabilities held for trading	**135,870**	**167,592**

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2012	2011
Deposits received from credit institutions		
Current accounts	12,929	10,833
Term deposits	46,090	39,107
Repo transactions	8,307	20,723
	67,326	**70,663**
Deposits received from other than credit institutions		
Current accounts	280,577	263,639
Term deposits	23,367	28,424
Savings deposits	205,230	197,766
Other deposits	5,939	6,280
	515,113	**496,109**
Debt securities in issue		
Bonds issued	1,356	1,365
Promissory notes	16,689	14,975
	18,045	**16,340**
Subordinated liabilities		
Subordinated debt	**7,983**	**11,980**
Financial liabilities at amortised cost	**608,467**	**595,092**

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, respectively to KBC Bank NV. Both subordinated debts were issued with the ten-year maturity. Their coupon rate was set up at 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. In September 2012, the Bank prepaid a majority of the first tranche in the amount of CZK 4,000 m. 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)	2012	2011
Other clearing accounts (Notes: 30, 32, 37.3)	3,858	4,424
Payables to employees including social security charges (Notes: 30, 32, 37.3)	1,791	1,690
Accrued charges (Notes: 30, 32, 37.3)	1,226	1,015
Other creditors (Notes: 30, 32, 37.3)	466	448
Income received in advance	264	160
Payables to securities clearing entities (Notes: 30, 32, 37.3)	231	82
VAT and other tax payables	195	137
Other debts to clients (Notes: 30, 32, 37.3)	18	21
Other (Notes: 30, 32, 37.3)	16	27
	8,065	**8,004**

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loan commitments and guarantees	Total
At 1 January 2012	**576**	**-**	**81**	**388**	**1,045**
Additions	6	191	15	75	287
Amounts utilised	(151)	-	(11)	-	(162)
Unused amounts reversed	(118)	-	(3)	(132)	(253)
Discount amortisation (Note: 5)	-	-	3	-	3
Foreign currency translation	(2)	-	-	(6)	(8)
At 31 December 2012	**311**	**191**	**85**	**325**	**912**

Restructuring

During 2012 the Bank started restructuring programme, resulting in the creation of a provision of CZK 191 m (Note: 9). In the framework of this restructuring programme the total number of personnel reduced should reach 382.

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 2012, the Bank had a provision in the total amount of CZK 311 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 majority of costs will be incurred over the next 6 years.

ČSOB created a new provision for onerous rental contracts in 2012 in the amount of CZK 15 m. It is expected that the costs will be incurred over the next 5 years.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2012, the total authorised share capital was CZK 5,855 m (31 December 2011: CZK 5,855 m) and comprised of 292,750,000 ordinary shares with a nominal value of CZK 20 each (31 December 2011: 292,750,000 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

Based on the resolution of the sole shareholder dated 11 March 2011 reflecting the changes in Czech legislation, ČSOB's ordinary registered shares were converted into bearer shares (evidenced by an entry in the Register of Companies dated 14 March 2011).

No Treasury shares were held by the Bank at 31 December 2012 and 2011.

On 31 December 2012, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2011: 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 2012 and 2011:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Total
At 1 January 2011	**3,981**	**(61)**	**3,920**
Other comprehensive income (Note: 29)	(6,630)	1,618	(5,012)
At 31 December 2011	**(2,649)**	**1,557**	**(1,092)**
Other comprehensive income (Note: 29)	3,084	1,981	5,065
At 31 December 2012	**435**	**3,538**	**3,973**

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2012	2011
Cash flow hedges		
Net unrealised gains on cash flow hedges	2,335	2,167
Net losses / (gains) on cash flow hedges reclassified to the statement of income (Note: 19)	110	(169)
Tax effect relating to cash flow hedges (Note: 12)	(464)	(380)
	1,981	1,618
Available-for-sale financial assets		
Net unrealised gains / (losses) on available-for-sale financial investments	3,648	(11,067)
Net realised losses / (gains) on available-for-sale financial investments reclassified to the statement of income on disposal	136	(161)
Net realised losses on available-for-sale financial investments reclassified to the statement of income on impairment (Note: 11)	23	3,048
Tax effect relating to available-for-sale financial investments (Note: 12)	(723)	1,550
	3,084	(6,630)
Other comprehensive income for the year, net of tax	**5,065**	**(5,012)**

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 using prices of identical asset or liability, 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 unlisted shares, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

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 2012:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	111,786	-	111,786
Debt instruments	15,491	13,410	6,826	35,727
Derivative contracts	-	15,706	-	15,706
Financial assets designated at fair value through profit or loss				
Debt instruments	818	3,035	4,514	8,367
Available-for-sale financial assets				
Debt securities	41,648	33,800	65,083	140,531
Equity securities	116	-	365	481
Fair value adjustments of the hedged items in portfolio hedge	-	1,030	-	1,030
Derivatives used for hedging	-	14,452	-	14,452
Financial liabilities				
Financial liabilities held for trading				
Short positions	4,727	-	-	4,727
Derivative contracts	-	17,965	-	17,965
Term deposits	-	11,999	-	11,999
Repo transactions	-	96,062	-	96,062
Promissory notes	-	6	-	6
Bonds issued	-	5,111	-	5,111
Fair value adjustments of the hedged items in portfolio hedge	-	1,741	-	1,741
Derivatives used for hedging	-	8,652	-	8,652

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 2011:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	126,532	-	126,532
Debt instruments	22,969	9,823	-	32,792
Derivative contracts	-	18,928	-	18,928
Financial assets designated at fair value through profit or loss				
Debt instruments	4,995	4,013	-	9,008
Available-for-sale financial assets				
Debt securities	48,569	92,152	-	140,721
Equity securities	82	5	144	231
Fair value adjustments of the hedged items in portfolio hedge	-	77	-	77
Derivatives used for hedging	-	10,328	-	10,328
Financial liabilities				
Financial liabilities held for trading				
Short positions	4,735	-	-	4,735
Derivative contracts	-	17,641	-	17,641
Term deposits	-	56,171	-	56,171
Repo transactions	-	83,301	-	83,301
Bonds issued	-	5,744	-	5,744
Fair value adjustments of the hedged items in portfolio hedge	-	103	-	103
Derivatives used for hedging	-	7,339	-	7,339

Until December 2012, the pricing of mortgage bonds was based on CZK government bonds yield and interest rates of Interest rate swaps (IRS). Yield curves for estimating future cash flows of mortgage bonds with variable coupon were derived from IRS rates provided by KBC Bank. Yield curves for discounting the estimated future cash flows were based on the yield curve derived from CZK government bonds. As there has been no active market for mortgage bonds in the Czech Republic, estimation of any additional credit spread has been subject to management judgement.

Since December 2012, following the management's analysis of the 2012 market for mortgage bonds characteristics, the new valuation model for mortgage bonds has been implemented. Yield curves used in the model for discounting future cash flows curves are constructed from IRS rates and respective credit spread. The credit spreads are derived from available market quotes of mortgage bonds and Czech government bonds. Yield curves for estimating future cash flows of mortgage bonds with variable coupon are still derived from IRS rates provided by KBC Bank.

The spreads for the first five years of maturity are exclusively derived from market observable quotes of mortgage bonds (the management also validates these quotes by comparison to prices reached in observed market transactions). Therefore the mortgage bonds with the maturity of up to five years are included in level 2. The spread for the rest of the curve is derived from observed mortgage bond spread at 5 and 10 years and the slope of the Czech government yield curve. The management considers this a significant market unobservable input and as a consequence, the mortgage bonds with maturity longer than 5 years were transferred to Level 3, which was the main factor contributing to the Level 3 increase.

As a result of the implementation of the new valuation model, the Bank has recorded unrealised losses of CZK 287 m into the Net gains from financial instruments at fair value through profit or loss and CZK 4,762 m into the Available-for-sale reserve.

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:

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets		Total
(CZKm)	Debt securities	Debt securities	Debt securities	Equity securities	
At 1 January 2011	**-**	**-**	**-**	**47**	**47**
Total gains / (losses) recorded in other comprehensive income	-	-	-	97	97
At 31 December 2011	**-**	**-**	**-**	**144**	**144**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	-	-	-	-	-
At 1 January 2012	**-**	**-**	**-**	**144**	**144**
Total gains / (losses) recorded in profit or loss	-	-	-	83	83
Total gains / (losses) recorded in other comprehensive income	-	-	-	253	253
Transfers into level 3	6,826	4,514	65,083	-	76,423
Sales	-	-	-	(115)	(115)
At 31 December 2012	**6,826**	**4,514**	**65,083**	**365**	**76,788**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	(64)	124	-	(23)	37

Total gains or (losses) recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss, Net realised gains / (losses) on available-for-sale financial assets and Impairment losses of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Management considers as key assumption not derived from market observable inputs and influencing Level 3 financial instruments fair value the value of credit spread included in the discount factor applied on mortgage bonds estimated future cash flows in periods after fifth year.

As at 31 December 2012, the increase / (decrease) of a credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds included in level 3 by CZK 590 m. Such a change of the credit spread is based on the variability of mortgage bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other market non-observable inputs in the valuation models used would not have a material impact on the estimated fair values.

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)	2012	2011	2012	2011
Financial assets				
Financial assets held for trading				
Debt instruments	351	-	-	259
Financial assets designated at fair value through profit or loss				
Debt instruments	3,078	-	-	-
Available-for-sale financial assets				
Debt securities	8,515	3,158	-	748

In 2012, transfers of debt instruments included in Financial assets designated at fair value through profit or loss and Available-for-sale financial assets from level 1 to level 2 represent mortgage bonds, for which market became illiquid.

In 2011, debt securities issued by the Greek government were transferred from level 1 to level 2 due to an illiquid market. These securities were further subject to impairment as described in Note 16.

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:

	2012		2011	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	27,077	27,077	45,501	45,501
Loans and receivables	293,148	298,646	261,046	267,362
Held-to-maturity investments	132,669	153,290	133,659	141,125
Other assets (Note: 23)	1,107	1,107	797	797
Financial liabilities				
Financial liabilities at amortised cost	608,467	613,574	595,092	599,119
Other liabilities (Note: 26)	7,606	7,606	7,707	7,707

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, where available. 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 or using the valuation model using discounted future cash flows.

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)	2012	2011
Cash and balances with central banks (Note: 14)	18,301	34,978
Loans and advances to credit institutions	13,951	12,007
Financial liabilities at amortised cost to credit institutions	(14,456)	(12,239)
Cash and cash equivalents	**17,796**	**34,746**

Change in operating assets

(CZKm)	2012	2011
Net change in cash and balances with central banks (mandatory minimum reserves)	1,744	(2,085)
Net change in financial assets held for trading	17,010	(11,096)
Net change in financial assets designated at fair value through profit or loss	641	1,156
Net change in available-for-sale financial assets	2,555	15,513
Net change in loans and receivables	(32,749)	(51,117)
Net change in derivatives used for hedging	(1,679)	1,108
Net change in other assets	45	811
	(12,433)	**(45,710)**

Change in operating liabilities

(CZKm)	2012	2011
Net change in financial liabilities held for trading	(31,722)	28,047
Net change in financial liabilities at amortised cost	15,153	24,499
Net change in derivatives used for hedging	1,313	1,773
Net change in other liabilities	61	1,969
	(15,195)	**56,288**

Non-cash items included in profit before tax

(CZKm)	2012	2011
Amortisation of discounts and premiums	1,812	507
Net change in fair value adjustments of the hedged items in portfolio hedge	685	26
Allowances and provisions for credit losses (Note: 11)	552	597
Depreciation and amortisation	502	574
Impairment on investment securities (Note: 11)	228	3,150
Provisions	127	245
Impairment on property and equipment (Note: 11)	12	-
Impairment on other assets (Note: 11)	(288)	(106)
Other	631	(934)
	4,261	**4,059**

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 2012:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash and balances with Central banks (Note: 14)	18,031	-	-	-	18,031
Financial assets held for trading					
Financial derivatives	5,129	8,090	2,487	-	15,706
Other than financial derivatives	127,034	13,930	6,549	-	147,513
Financial assets designated at fair value through profit or loss	126	4,703	3,538	-	8,367
Available-for-sale financial assets	4,423	57,504	78,604	481	141,012
Loans and receivables	109,732	138,544	44,872	-	293,148
Fair value adjustments of the hedged items in portfolio hedge	306	724	-	-	1,030
Held-to-maturity investments	10,149	35,493	87,027	-	132,669
Derivatives used for hedging	3,434	7,725	3,293	-	14,452
Other assets (Note: 23)	1,107	-	-	-	1,107
Total carrying value	**279,471**	**266,713**	**226,370**	**481**	**773,035**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	5,844	9,345	2,776	-	17,965
Other than financial derivatives	116,368	1,430	107	-	117,905
Financial liabilities at amortised cost	143,626	226,670	238,171	-	608,467
Fair value adjustments of the hedged items in portfolio hedge	196	721	824	-	1,741
Derivatives used for hedging	2,837	4,387	1,428	-	8,652
Other liabilities (Note: 26)	7,606	-	-	-	7,606
Total carrying value	**276,477**	**242,553**	**243,306**	-	**762,336**

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2011:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash and balances with Central banks (Note: 14)	37,309	-	-	-	37,309
Financial assets held for trading					
Financial derivatives	9,374	7,284	2,270	-	18,928
Other than financial derivatives	139,185	13,888	6,251	-	159,324
Financial assets designated at fair value through profit or loss	949	4,636	3,423	-	9,008
Available-for-sale financial assets	11,852	35,581	93,288	231	140,952
Loans and receivables	97,522	125,208	38,316	-	261,046
Fair value adjustments of the hedged items in portfolio hedge	-	77	-	-	77
Held-to-maturity investments	5,072	29,940	98,647	-	133,659
Derivatives used for hedging	3,189	5,478	1,661	-	10,328
Other assets (Note: 23)	797	-	-	-	797
Total carrying value	**305,249**	**222,092**	**243,856**	**231**	**771,428**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,394	7,896	2,351	-	17,641
Other than financial derivatives	148,493	1,390	68	-	149,951
Financial liabilities at amortised cost	152,674	208,223	234,195	-	595,092
Fair value adjustments of the hedged items in portfolio hedge	-	103	-	-	103
Derivatives used for hedging	2,778	3,396	1,165	-	7,339
Other liabilities (Note: 26)	7,707	-	-	-	7,707
Total carrying value	**319,046**	**221,008**	**237,779**	**-**	**777,833**

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 continuing court proceedings following 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. In 2011, the original court ruling was cancelled and the legal case was passed to the court in the first instance for new judicial proceedings. Based on that decision, the Bank returned the expenses compensation of CZK 3 m from the total received amount from the original court case to the counterparty.

Similarly based on a court ruling in another case, the Bank recovered an equivalent of CZK 683 m relating to partially impaired loan in 2010. Relevant carrying amount of the loan amounting to CZK 309 m is recognised in the 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 2012 and 2011 are as follows:

(CZKm)	2012	2011
Loan commitments - irrevocable (Note: 37.2)	68,682	69,520
Loan commitments - revocable	47,401	38,717
Financial guarantees (Note: 37.2)	24,871	27,313
Other commitments (Note: 37.2)	1,493	1,350
	142,447	**136,900**
Provisions for loan commitments and guarantees (Notes: 27, 37.2)	325	388

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.

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 information technologies, land and buildings are as follows:

(CZKm)	2012	2011
Not later than 1 year	1,557	1,526
Later than 1 year and not later than 5 years	1,945	2,177
Later than 5 years	260	299
	3,762	**4,002**

Future minimum sublease payments amounted to CZK 29 m as at 31 December 2012 (31 December 2011: CZK 45 m).

Operating lease commitments related to information technologies to KBC Global Services NV are included in ‘Not later than 1 year’ in the amount of CZK 833 m (2011: CZK 805 m). They represent expected half-year lease payments according to the committed notice period.

The operating leases related to land and buildings 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)	2012	2011
Not later than 1 year	24	27
Later than 1 year and not later than 5 years	10	29
	34	**56**

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)	2012	2011
Financial assets		
Cash and balances with central banks	7,500	25,302
Financial assets held for trading	95,819	119,050
	103,319	**144,352**

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 2012 was CZK 109,314 m, of which CZK 99,317 m has been either sold or repledged (31 December 2011: CZK 147,730 m and CZK 85,291 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)	2012	2011
Financial liabilities		
Financial liabilities held for trading	96,062	83,301
Financial liabilities at amortised cost	8,307	20,723
	104,369	**104,024**

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 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 2012 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	Held- to-maturity investments	Derivatives used for hedging	Other assets
Directors / Senior management	-	-	-	-	-	-	-
KBC Bank NV	5,346	-	-	3,810	-	7,341	-
Entities under common control							
ČSOB SK	132	-	-	105	-	7	-
KBC Internationale Financieringsmij NV	543	-	-	6,343	-	-	-
Patria Direct, a. s.	75	-	-	-	-	-	-
Patria Finance, a. s.	56	-	-	-	-	-	-
Other	39	-	-	256	-	-	-
Subsidiaries							
BANIT	-	-	-	49	-	-	-
Centrum Radlická	-	-	-	1,984	-	-	-
ČSOB Factoring	50	-	-	2,499	-	-	-
ČSOB Leasing	450	-	-	14,758	-	-	-
ČSOB PF Stabilita	336	-	-	-	-	-	-
ČSOB Property Fund	62	-	-	-	-	-	-
Hypoteční banka	55	3,588	75,705	68,931	502	-	-
Associates							
ČSOB Pojišťovna	-	-	-	-	-	111	14
Joint ventures							
ČMSS	-	-	-	1,942	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2012 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	181	-	43
KBC Bank NV	6,676	9,884	5,058	3
Entities under common control				
ČSOB SK	147	13	-	-
KBC Global Services NV	-	463	-	139
Patria Direct, a. s.	-	1,374	-	-
Patria Finance, a. s.	-	378	-	-
Other	42	176	-	-
Subsidiaries				
Centrum Radlická	-	9	-	-
ČSOB Advisory (formerly ČSOB IBS)	-	2,067	-	-
ČSOB Leasing	-	103	-	-
ČSOB PF Stabilita	110	-	-	-
ČSOB Property Fund	50	82	-	-
Hypoteční banka	1,600	18,639	-	2
Associates				
ČSOB AM/IS	-	554	-	-
ČSOB Pojišťovna	32	2,502	-	-
Joint ventures				
ČMSS	-	24,222	-	-

The outstanding balances of assets from related party transactions as at 31 December 2011 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	Held- to-maturity investments	Derivatives used for hedging	Other assets
Directors / Senior management	-	-	-	-	-	-	-
KBC Bank NV	6,681	-	-	7,027	-	4,866	-
Entities under common control							
ČSOB SK	5	-	110	5	-	7	9
KBC Internationale Financieringsmij NV	772	-	-	6,351	-	-	-
Kredyt Bank SA	961	-	-	3	-	-	2
Patria Finance, a. s.	200	-	-	-	-	-	-
Other	129	-	-	1	-	-	-
Subsidiaries							
BANIT	-	-	-	25	-	-	-
Centrum Radlická	-	-	-	20	-	-	-
ČSOB Factoring	-	-	-	2,733	-	-	-
ČSOB AM/IS	-	-	-	-	-	-	69
ČSOB Leasing	672	-	-	12,888	-	-	-
ČSOB PF Stabilita	685	-	-	-	-	-	-
ČSOB Property Fund	68	-	-	-	-	-	-
Hypoteční banka	148	3,472	74,872	54,699	502	-	-
Associates							
ČSOB Pojišťovna	5	-	43	-	-	53	13
Joint ventures							
ČMSS	-	-	-	1,930	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2011 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	320	-	28
KBC Bank NV	23,348	18,388	4,060	2
Entities under common control				
ČSOB SK	33	29	-	-
KBL European Private Bankers SA	250	133	-	-
KBC Global Services NV	-	192	-	74
Patria Direct, a. s	-	2,962	-	-
Patria Finance, a. s.	-	45	-	-
Other	61	259	-	20
Subsidiaries				
Auxilium	-	1,400	-	-
BANIT	-	20	-	-
Centrum Radlická	-	7	-	-
ČSOB AM/IS	-	1,124	-	-
ČSOB IBS	-	2,485	-	-
ČSOB Leasing	-	107	-	-
ČSOB PF Stabilita	89	-	-	-
ČSOB Property Fund	42	56	-	-
Hypoteční banka	-	17,903	-	-
Associates				
ČSOB Pojišťovna	24	1,744	-	-
Joint ventures				
ČMSS	2,600	19,884	-	-

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:

	2012		2011	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Senior management	-	5	-	3
KBC Bank NV	562	922	509	1,091
Entities under common control				
ČSOB SK	2	-	9	2
KBC Internationale Financieringsmij NV	165	-	95	-
Kredyt Bank SA	25	-	18	-
Patria Direct, a. s	1	6	2	12
Patria Finance, a. s.	1	1	3	1
Other	9	3	1	3
Subsidiaries				
Auxilium (in 2012 merged with ČSOB Advisory)	-	8	-	11
Centrum Radlická	44	-	1	-
ČSOB AM	-	-	-	4
ČSOB Factoring	29	-	38	-
ČSOB IS	-	-	-	3
ČSOB Advisory (formerly ČSOB IBS)	-	18	-	22
ČSOB Leasing	410	-	461	-
ČSOB Property fund	12	11	17	17
Hypoteční banka	4,122	806	3,945	761
Associates				
ČSOB AM/IS	-	5	-	-
ČSOB Pojišťovna	-	25	-	25
Joint ventures				
ČMSS	58	272	12	253

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

(CZKm)	2012 Fee and commission income	2012 Fee and commission expense	2011 Fee and commission income	2011 Fee and commission expense
KBC Bank NV	64	1	55	-
Entities under common control				
KBC Global Services NV	-	15	-	-
KBC Securities NV	8	-	13	-
Patria Direct, a. s	2	-	2	-
Patria Finance, a. s.	4	-	15	-
Subsidiaries				
BANIT	-	100	-	91
ČSOB AM	-	-	3	-
ČSOB Factoring	-	-	2	-
ČSOB IS	-	-	294	-
Hypoteční banka	110	-	53	-
Associates				
ČSOB AM/IS	262	-	-	-
ČSOB Pojišťovna	129	-	111	-
Joint ventures				
ČMSS	-	6	-	15

Dividend income received from subsidiaries, associates and joint ventures in 2012 amounted to CZK 5,250 m (2011: CZK 4,829 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2012 amounted to CZK 185 m (2011: CZK 182 m).

In accordance with the Group strategy, the Bank has been purchasing information and communication services from the related party KBC Global Services NV, since 2009.

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 Global Services NV. In 2012, the Bank received income of CZK 76 m (2011: CZK 68 m) from the rental payments and related services, received CZK 48 m (2011: CZK 50 m) from the provision of administration services and paid expense of CZK 2,674 m (2011: CZK 2,555 m) for IT services, including rental expenses on information technologies.

In 2012, the Bank received income of CZK 111 m (2011: CZK 129 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 new debt instruments issued by the Greek government and EFSF originated from the voluntary exchange of Greek government bonds agreement held by the Group in the total carrying amount of CZK 1,115 m were sold at market price to KBC Credit Investments NV on 30 March 2012 (Note: 16).

In November 2012, ČSOB sold 24.76% of its ownership in ČSOB Pojišťovna to KBC Insurance NV and 4.21% of ČSOB AM/IS to KBC Participations Renta C, SA. As a result of the transactions with the companies under common control, ČSOB has realised net gain of CZK 1,271 m and CZK 75 m respectively, reported under Other net income in the statement of income for 2012 (Notes: 8, 18).

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

(CZKm)	2012 Guarantees received	2012 Guarantees given	2011 Guarantees received	2011 Guarantees given
KBC Bank NV	7,493	198	5	203
Entities under common control				
ČSOB SK	-	121	-	23
Patria Direct, a. s	75	-	-	-
Patria Finance, a. s.	-	-	-	20
Associates				
ČSOB Pojišťovna	-	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.

36. EVENTS AFTER THE END OF THE REPORTING PERIOD

Pension reform

On 28 December 2011 a new legislation was introduced proposing reforms to the pension fund system within the Czech Republic. This legislation was ratified on 7 November 2012 with an effective date of 1 January 2013. Accordingly, the net assets of the ČSOB PF Stabilita were split to the group of net assets of pension fund shareholders forming the pension fund management company ČSOB Penzijní společnost, a. s. and to the group of net assets of pension scheme participants forming the Transformed fund (as part of Pillar III), which is closed to new participants. The ČSOB Penzijní společnost will be responsible for management of the Transformed fund. This company will be entitled to up to 15% of the profits of the Transformed fund in addition to a regular assets management fee and will need to guarantee the positive results and equity position of the Transformed fund. As a result the ČSOB Penzijní společnost will retain control over the Transformed fund. The participants of the Transformed fund and new participants are offered the chance of participating in a supplementary pension scheme (as new part of Pillar III) with the option to choose between a number of investment strategies. Furthermore, a new product will also be introduced, namely a contract on pension savings (the so called Pillar II). The ČSOB Penzijní společnost has become the provider of a supplementary pension scheme and contract on pension savings. Management has incorporated the expected impact of the revision of the pension fund system in making significant judgements and estimates as relates to the impairment assessment of the investment in ČSOB PF Stabilita (Note: 18).

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 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,

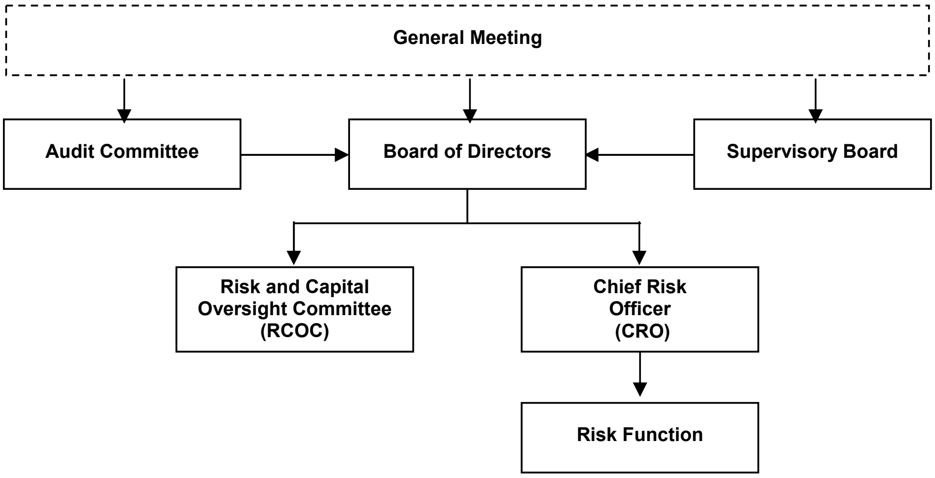
(ii) the RCOC is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

(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 CNB.

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 (calculated by Controlling Department for the purposes of management) 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 behaviour 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 Processes (NAPPs)

NAPPs 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 NAPPs 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 NAPP.

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, and the head of the ČSOB credit and bad debts department, corporate advice and underwriting department, corporate and bank credits department, corporate specialised finance department and corporate 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.

Internal Capital Adequacy Assessment Process (ICAAP)

The New Basel Capital Accord, generally referred to as Basel 2, was the first to present, a qualitatively new dimension of requirements for capital adequacy assessment at banks and other credit institutions known as the Second Pillar.

Pillar 2, inter alia, requires the institution to internally assess its capital adequacy taking into account all (material) risks it faces or may face (Internal Capital Adequacy Assessment Process – ICAAP).

The ICAAP is seen as an integral part of the overall management and control system of the Group, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to

- continually set and assess the need for internal capital, and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC group, ČSOB has adopted a unified KBC group ICAAP approach, approved by the senior managements of both KBC and ČSOB, taking into account requirements of the home regulator (the National Bank of Belgium) as well as the host regulator (the Czech National Bank).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Group's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications.

Information about the ICAAP, including data on the state and anticipated development of internal capital adequacy, is also regularly presented to the senior management, including the RCOC.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses a completely economic-value-based approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward-looking, i.e. it also takes into account the risks to which the Group will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP

- the processes of planning, preparing and approving new activities, products or systems,
- other ongoing or anticipated material changes in its risk profile or in the external environment,
- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances, and
- stress test results,

including the methods of reflecting them when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

The amount of capital need is determined using the economic capital method and addresses the following material risks to which the Group is or may be exposed:

- Credit risk, including concentration risk
- Market risk in the trading book
- Operational risk
- ALM risk
- Business risk

A relevant amount of economic capital is allocated directly to these types of risk. Other risks, such as liquidity risk, strategic risk and reputation risk, are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital need is calculated for the ČSOB group as a separate entity within the KBC group at the probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

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. To prevent and manage excessive risk concentration at both a relationship and industry level, the Bank, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc).

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 also regular collateral revisions.

Until September 2012, the Bank had been using the IRB Foundation approach for the capital calculations of its non-retail exposures and IRB Advance approach for its retail exposures. As a result, credit risk had been 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) was managed based on statistical default prediction models that establish a rating (PD / Probability of Default) while LGD (Loss Given Default) and EAD (Exposure at Default) were based on regulatory values for capital calculation purposes and on expert estimates combined with historical data for credit decision purposes.

For the retail exposures, 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).

Since September 2012, the Bank is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on principles of this approach.

The counterparty risk (i.e. default risk) is still managed based on statistical default prediction models that establish not only rating (PD / Probability of Default), but also LGD (Loss Given Default) and EAD (Exposure at Default). Risk factors are still determined in Retail based on risk-homogenous sets of exposure (so called pools).

The model results are used for capital calculation and for credit decision purposes too.

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 Advanced 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 internal and external 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	S&P Rating	Performance	Impairment		
Normal	1-7	AAA - B	Performing customers	Unimpaired	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	B- - C	Performing customers	Collectively impaired	Non-defaulted	Watched
Uncertain – performing	10	D	Performing customers	Individually impaired	Defaulted	Substandard
Uncertain – non-performing	11	D	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	D	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 with support of monitoring applications. 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 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 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 when 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.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2012. The maximum exposure is shown as 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)	-	18,031	-	-	18,031
Financial assets held for trading	-	1,677	161,542	-	163,219
Financial assets designated at fair value through profit or loss	176	8,191	-	-	8,367
Available-for-sale financial assets	1,267	139,745	-	-	141,012
Loans and receivables	187,537	99,926	-	5,685	293,148
Fair value adjustments of the hedged items in portfolio hedge	-	1,030	-	-	1,030
Held-to-maturity investments	601	132,068	-	-	132,669
Derivatives used for hedging	-	14,452	-	-	14,452
Other assets (Note: 23)	-	-	-	1,107	1,107
Total	189,581	415,120	161,542	6,792	773,035
Contingent liabilities (Note: 33)	26,039	-	-	-	26,039
Commitments – irrevocable (Note: 33)	68,591	91	-	-	68,682
Total	94,630	91	-	-	94,721
Total credit risk exposure	**284,211**	**415,211**	**161,542**	**6,792**	**867,756**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2011. The maximum exposure is shown as 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)	-	37,309	-	-	37,309
Financial assets held for trading	-	2,774	175,478	-	178,252
Financial assets designated at fair value through profit or loss	186	8,822	-	-	9,008
Available-for-sale financial assets	10	140,942	-	-	140,952
Loans and receivables	170,749	87,015	-	3,282	261,046
Fair value adjustments of the hedged items in portfolio hedge	-	77	-	-	77
Held-to-maturity investments	635	133,024	-	-	133,659
Derivatives used for hedging	-	10,328	-	-	10,328
Other assets (Note: 23)	-	-	-	797	797
Total	171,580	420,291	175,478	4,079	771,428
Contingent liabilities (Note: 33)	28,275	-	-	-	28,275
Commitments – irrevocable (Note: 33)	67,219	2,301	-	-	69,520
Total	95,494	2,301	-	-	97,795
Total credit risk exposure	**267,074**	**422,592**	**175,478**	**4,079**	**869,223**

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.

Set out below is an analysis of the maximum exposure to credit risk of the Bank before and after taking into account the collateral held:

(CZKm)	2012 Gross maximum exposure	2012 Financial effect of collateral	2012 Net maximum exposure	2011 Gross maximum exposure	2011 Financial effect of collateral	2011 Net maximum exposure
ASSETS						
Cash and balances with central banks (Note: 14)	18,031	7,500	10,531	37,309	25,302	12,007
Financial assets held for trading	163,219	95,819	67,400	178,252	119,050	59,202
Financial assets designated at fair value through profit or loss	8,367	-	8,367	9,008	-	9,008
Available-for-sale financial assets	141,012	-	141,012	140,952	-	140,952
Loans and receivables	293,148	87,938	205,210	261,046	74,914	186,132
Fair value adjustments of the hedged items in portfolio hedge	1,030	-	1,030	77	-	77
Held-to-maturity investments	132,669	-	132,669	133,659	-	133,659
Derivatives used for hedging	14,452	-	14,452	10,328	-	10,328
Other assets (Note: 23)	1,107	-	1,107	797	-	797
Total	773,035	191,257	581,778	771,428	219,266	552,162
Contingent liabilities and commitments – irrevocable (Note: 33)	94,721	19,957	74,764	97,795	27,697	70,098
Total credit risk exposure	**867,756**	**211,214**	**656,542**	**869,223**	**246,963**	**622,260**

The portfolios are further structured as follows:

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

2012 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	106,585	23,568	37,248	**167,401**	(2,389)	(65)	**164,947**
SME	70,763	2,559	20,935	**94,257**	(3,508)	(44)	**90,705**
Retail	19,130	8	10,076	**29,214**	(1,301)	(6)	**27,907**
Other	538	229	332	**1,099**	(237)	(210)	**652**
	197,016	**26,364**	**68,591**	**291,971**	**(7,435)**	**(325)**	**284,211**

2011 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	95,505	25,725	37,033	**158,263**	(3,306)	(100)	**154,857**
SME	66,151	1,683	21,241	**89,075**	(3,598)	(59)	**85,418**
Retail	17,583	19	8,580	**26,182**	(1,086)	(4)	**25,092**
Other	574	1,236	365	**2,175**	(243)	(225)	**1,707**
Total credits	**179,813**	**28,663**	**67,219**	**275,695**	**(8,233)**	**(388)**	**267,074**

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

Sector	2012 Granted exposure (CZKm)	2012 Percentage of total exposure	2011 Granted exposure (CZKm)	2011 Percentage of total exposure
Services	47,931	16.4	46,527	16.9
Distribution	36,549	12.5	32,747	11.9
Private persons	26,776	9.2	25,147	9.1
Building and Construction	25,399	8.7	24,872	9.0
Commercial Real Estate	23,374	8.0	23,267	8.4
Automotive	19,093	6.5	16,720	6.1
Authorities	14,723	5.0	9,696	3.5
Finance and Insurance	13,956	4.8	10,656	3.9
Electricity	12,889	4.4	15,159	5.5
Machinery and Heavy Equipment	12,820	4.4	11,040	4.0
Metals	10,356	3.6	8,224	3.0
Oil, Gas and other Fuels	8,572	2.9	8,230	3.0
Electrotechnics	5,830	2.0	5,184	1.9
Telecommunications	4,136	1.4	1,751	0.6
Food producers	3,651	1.3	3,443	1.3
Chemicals	3,535	1.2	4,047	1.5
Other sectors	22,381	7.7	28,985	10.5
Total	**291,971**	**100.0**	**275,695**	**100.0**

Investment portfolio is structured according to type of the instrument:

2012 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	279,523	-	-	-	**279,523**
Equity securities	597	-	-	(116)	**481**
Loans and receivables within investment portfolio	100,956	-	91	-	**101,047**
Derivatives used for hedging	14,452	-	-	-	**14,452**
Derivatives held for trading	1,677	-	-	-	**1,677**
Cash and balances with central banks	18,031	-	-	-	**18,031**
Total investment	**415,236**	**-**	**91**	**(116)**	**415,211**

2011 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	285,873	-	-	(3,317)	**282,556**
Equity securities	324	-	-	(92)	**231**
Loans and receivables within investment portfolio	87,094	-	2,301	-	**89,396**
Derivatives used for hedging	10,328	-	-	-	**10,328**
Derivatives held for trading	2,774	-	-	-	**2,774**
Cash and balances with central banks	37,307	-	-	-	**37,307**
Total investment	**423,700**	**-**	**2,301**	**(3,409)**	**422,592**

Investment portfolio is monitored from counterparty sector point of view:

	2012		2011	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central government	188,498	45.4	208,733	49.4
Credit institutions	205,744	49.6	195,121	46.2
Corporate	20,731	5.0	18,521	4.4
Non-credit institutions	238	-	217	-
Total investment	**415,211**	**100.0**	**422,592**	**100.0**

Trading portfolio is structured according to type of the instrument:

2012 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	35,728	-	-	35,728
Loans and advances	111,785	-	-	111,785
Derivative s held for trading	14,029	-	-	14,029
Total trading portfolio	**161,542**	**-**	**-**	**161,542**

2011 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	32,810	-	-	**32,810**
Loans and advances	126,514	-	-	**126,514**
Derivatives held for trading	16,154	-	-	**16,154**
Total trading portfolio	**175,478**	**-**	**-**	**175,478**

Trading portfolio is monitored from counterparty sector point of view:

	2012		2011	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central government	129,806	80.4	142,950	81.5
Credit institutions	25,759	15.9	25,547	14.6
Corporates	5,956	3.7	6,960	4.0
Non-credit institutions	21	-	21	-
Total trading portfolio	**161,542**	**100.0**	**175,478**	**100.0**

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)	2012 Total risk	2012 of which Central government	2011 Total risk	2011 of which Central government
Czech Republic	789,786	308,198	784,195	336,625
Slovak Republic	4,662	1,035	4,248	926
Greece	-	-	1,555	1,554
Italy	6,720	-	5,912	957
Spain	176	-	868	617
Belgium	19,581	2,449	22,970	2,545
Hungary	14	-	54	-
Other Europe	43,642	6,913	45,173	8,842
Other	3,175	-	4,248	-
Total	**867,756**	**318,595**	**869,223**	**352,066**

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

Client	2012 Granted exposure (CZK m)	2012 % of total credit portfolio	2011 Granted exposure (CZK m)	2011 % of total credit portfolio
1 largest client	6,479	2.2	4,744	1.7
10 largest clients	32,489	11.1	24,741	9.0
25 largest clients	55,937	19.2	45,470	16.5

The largest exposure to a single client as at 31 December.2012 was CZK 179,032 m in investment portfolio (31 December 2011: CZK 194,978 m) to the Czech Government and CZK 129,166 m (31 December 2011: CZK 141,647 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 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 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 2012 and 2011, 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 5 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 2012 and 2011 per individual portfolios:

Credit portfolio	2012					
	Unimpaired	Impaired assets				Total
	assets	Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-performing)	Irrecoverable	
Corporate	97,745	3,822	3,033	254	1,731	106,585
SME	64,009	1,795	1,104	443	3,412	70,763
Retail	17,365	248	183	248	1,086	19,130
Other	-	6	-	-	532	538
Total	**179,119**	**5,871**	**4,320**	**945**	**6,761**	**197,016**

Credit portfolio	2011					
	Unimpaired assets	Impaired assets				Total
		Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-performing)	Irrecoverable	
Corporate	86,392	3,590	3,057	523	1,943	95,505
SME	59,092	1,412	1,620	687	3,340	66,151
Retail	16,020	254	153	276	879	17,582
Other	-	9	1	1	563	574
Total	**161,504**	**5,265**	**4,831**	**1,487**	**6,725**	**179,812**

Investment portfolio	2012		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	279,523	-	279,523
Equity securities	476	5	481
Loans and receivables within investment portfolio	100,956	-	100,956
Derivatives used for hedging	14,452	-	14,452
Derivative contracts held for trading	1,677	-	1,677
Cash and balances with central banks	18,031	-	18,031
Total	**415,115**	**5**	**415,120**

Investment portfolio	2011		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	281,118	1,438	282,556
Equity securities	228	5	233
Loans and receivables within investment portfolio	87,093	-	87,093
Derivatives used for hedging	10,328	-	10,328
Derivative contracts held for trading	2,774	-	2,774
Cash and balances with central banks	37,307	-	37,307
Total	**418,848**	**1,443**	**420,291**

Trading portfolio	2012		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	35,728	-	35,728
Loans and advances	111,785	-	111,785
Derivative contracts held for trading	14,029	-	14,029
Total	**161,542**	**-**	**161,542**

Trading portfolio	2011		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	32,810	-	32,810
Loans and advances	126,514	-	126,514
Derivative contracts held for trading	16,154	-	16,154
Total	**175,478**	**-**	**175,478**

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

	2012	2011
(CZKm)	Less than 30 days	Less than 30 days
SME	212	542
Retail	434	404
Total	**646**	**946**

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

Gross amounts of individually impaired financial assets included in credit portfolio and the related impairment are as follows:

	2012		2011	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Credit portfolio				
Corporate	5,018	(2,308)	5,523	(3,213)
SME	4,959	(3,401)	5,647	(3,438)
Retail	1,517	(1,209)	1,308	(998)
Other	532	(228)	565	(233)
Total	**12,026**	**(7,146)**	**13,043**	**(7,882)**

Individually impaired financial assets included in investment portfolio in carrying amounts are as follows:

(CZKm)	2012	2011
Debt securities	-	1,438
Equity securities	5	5
Total	**5**	**1,443**

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 used loan-to-deposit ratio (LTD) until the end of 2011. From December 2011, the LTD has been replaced by net-stable-funding-ratio (NSFR) as the latter one became a market standard measure for structural liquidity position of financial institutions. Therefore, the Bank adapted the NSFR as a key liquidity indicator. The NSFR is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). The strategy of the Bank is to maintain the value of NSFR well above one. That means the Bank 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 NSFR is monitored on monthly basis and it is regularly reported to the senior management of ČSOB.

The NSFR during the year 2012 and 2011 was as follows:

(%)	2012	2011
31 March	125.3	n/a
30 June	123.3	n/a
30 September	121.2	n/a
31 December	125.9	129.0

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 2012:

(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	-	5,844	9,454	3,005	18,303
Other than financial derivatives	-	116,368	1,454	112	117,934
Financial liabilities at amortised cost	490,961	77,083	31,302	12,631	611,977
Fair value adjustments of the hedged items in portfolio hedge	1,741	-	-	-	1,741
Derivatives used for hedging	-	2,836	4,434	1,578	8,848
Other liabilities (Note: 26)	-	7,606	-	-	7,606
Total carrying value	**492,702**	**209,737**	**46,644**	**17,326**	**766,409**

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2011:

(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	-	7,399	8,203	2,700	18,302
Other than financial derivatives	-	148,493	1,449	75	150,017
Financial liabilities at amortised cost	463,478	91,001	23,872	23,163	601,514
Fair value adjustments of the hedged items in portfolio hedge	103	-	-	-	103
Derivatives used for hedging	-	2,788	3,540	1,381	7,709
Other liabilities (Note: 26)	-	7,707	-	-	7,707
Total carrying value	**463,581**	**257,388**	**37,064**	**27,319**	**785,352**

The maturity of contingent liabilities and commitments of CZK 142,447 m (2011: CZK 136,900 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 remaining contractual maturities of the financial instruments, 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 (Note: 33).

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.

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.

ČSOB added a Stress VaR calculation to the standard VaR measurement to fulfil CRD 3 requirements. A one year historic stress period is used for determining of stress VaR. All other assumptions are identical to the standard VaR measurement.

The tables below show potential gains or losses analysed using VaR 10D 99% model in 2012 and 2011:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2012	58	4	(4)	58
Average during the period	110	8	(8)	110
Highest	173	26	(23)	176
Lowest	57	1	(1)	57

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2011	81	7	(7)	81
Average during the period	82	7	(7)	82
Highest	112	25	(23)	114
Lowest	61	2	(1)	62

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 Board of Directors has established limits on the BPV sensitivity. The Board of Directors 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 predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2012:

		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	(10.1)	1.7	71.8	(57.1)	6.3
EUR	+ 10	1.2	(0.1)	3.9	2.8	7.8
USD	+ 10	0.3	0.0	(2.9)	0.0	(2.6)
CZK	- 10	10.1	(1.7)	(71.8)	57.1	(6.3)
EUR	- 10	(1.2)	0.1	(3.9)	(2.8)	(7.8)
USD	- 10	(0.3)	0.0	2.9	0.0	2.6

		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	(11.0)	(3.9)	(240.9)	(429.8)	(685.6)
EUR	+ 10	0.4	(0.4)	1.9	87.3	89.2
USD	+ 10	0.0	0.0	(4.3)	(5.9)	(10.2)
CZK	- 10	11.0	3.9	240.9	429.8	685.6
EUR	- 10	(0.4)	0.4	(1.9)	(87.3)	(89.2)
USD	- 10	0.0	0.0	4.3	5.9	10.2

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2011:

		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	(9.2)	4.2	41.6	(46.0)	(9.5)
EUR	+ 10	1.4	(0.4)	0.9	(4.7)	(2.8)
USD	+ 10	0.4	-	(5.9)	(2.8)	(8.3)
CZK	- 10	9.2	(4.2)	(41.6)	46.0	9.5
EUR	- 10	(1.4)	0.4	(0.9)	4.7	2.8
USD	- 10	(0.4)	-	5.9	2.8	8.3

		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	(13.0)	(17.0)	(47.0)	(590.4)	(667.4)
EUR	+ 10	-	(0.2)	5.7	52.5	58.0
USD	+ 10	-	(0.3)	(5.8)	(12.9)	(19.0)
CZK	- 10	13.0	17.0	47.0	590.4	667.4
EUR	- 10	-	0.2	(5.7)	(52.5)	(58.0)
USD	- 10	-	0.3	5.8	12.9	19.0

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 sets 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 2012 and 2011:

	2012			2011		
(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	40	2	(2)	2	-	-

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.

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 and business continuity management area as well. 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 Directors 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.

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. In 2012, 50 scenarios were considered for individual business segments units on the ČSOB Group level. All scenarios with a possible impact on the statement of income of over EUR 10 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 ll) and adopted by the CNB in the Czech National Bank's Decree No. 123/2007 Coll., as amended 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 as defined by Pillar 1 of Basel II. The Bank also analysed impact of proposed Basel III regulation and incorporated major changes / ratios 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.

The Bank manages its capital structure in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

(CZKm)	2012	2011
Tier 1 capital	37,832	33,683
Tier 2 capital	7,983	13,902
Deductible items of Tier 1 and Tier 2	(260)	(948)
Total capital	**45,555**	**46,637**
Capital requirements	25,240	27,421
Risk weighted assets	**315,498**	**342,767**
Capital adequacy ratio	14.44%	13.61%

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 2012 to 31 December 2012 (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

The balances of these transactions are disclosed in the Separate Financial Statements for 2012 (Note: 35).

a. Accounts, Deposit Products, Services of Domestic and International 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 and services of domestic and international payments, i.e. Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cash Pooling, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid or received fees for these services based on a standard price list. The 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 and accepting of payment cards, which means that payment cards were issued and their accepting was ensured 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. The 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. The 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. The 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 guarantees, 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. The 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. The 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. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

h. Receivables

In the accounting period, ČSOB concluded contracts with certain of the related entities for the administration or assigning of receivables, or these services were provided to Bank in the accounting period on the basis of contracts concluded in previous accounting periods. The Bank provided contractual commissions to related entities for these services. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

4.2 Other Relations

The balances of these transactions are disclosed in the Separate Financial Statements for 2012 (Note: 35).

4.2.1 Contracts

a. 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. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. 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. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. 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. The agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these agreements.

d. Co-operation Agreements – Selling Products and Services

In the accounting period, ČSOB concluded cooperation agreements, mandate and commission agent's contracts 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 concluded in previous accounting periods. The consideration exchanged with the related entities consisted of co-operation, contractual commissions, contractual fees or selling products. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

In addition to the co-operation agreements, in the accounting period ČSOB concluded with certain of the related entities contracts for labour-law relations and use employees within the group, 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 concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of information and confidentiality. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

e. Co-operation Agreements – Observance of Tax Obligation (VAT Grouping)

In the previous accounting period, ČSOB concluded agreement with certain of the related entities (ČMSS, ČSOB AM/IS, ČSOB PF Stabilita, ČSOB Pojišťovna, Hypoteční banka, KBC GS CZ) for co-operation on common fulfilment of tax obligation (VAT). The consideration provided by the related entities consisted of common fulfilment of tax obligation. The agreement was concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of this agreement.

f. Agreements on IT Services

In the accounting period, ČSOB concluded amendment to the framework agreement with KBC GS CZ for providing ICT services, which were provided in the accounting period also on the basis of agreement concluded in previous accounting periods. The consideration provided by Bank consisted of contractual commissions. The contract was concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of this contract.

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. The 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 supporting processes, i.e. co-operation in risk management, development of models, management consulting, central procurement, providing services in the area of accounting and taxes, processing of foreign payments 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 and consultations. The contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

i. Agreements on Providing Services – Facilities Management

In the accounting period, ČSOB concluded agreements with certain of the related entities for providing services in the area of facilities management, i.e. accounting and assets administration, food vouchers and catering, accommodation, postal services, documents archiving, telephone exchange, 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. The contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

Simultaneously in the accounting period, ČSOB concluded agreements with certain of the related entities of services in the area of facilities management, i.e. fleet management and parking administrations, when these services are provided to Bank by some related entities and, in some cases, these services were provided to Bank in the accounting period on the basis of contracts concluded in previous accounting periods. The Bank provided contractual commissions to related entities for these services. The contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

j. Agreements on Providing Services – Internal Audit

In the accounting period, ČSOB concluded agreements with certain of the related entities for co-operation and providing services in the area of internal audit and compliance, 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 services and contractual commissions. The contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

k. Other Contracts and Agreements

Auxilium and ČSOB Advisory Merger

On 29 October 2012, Auxilium, a.s. has merged with ČSOB Advisory, a.s. and as a result of such merger, all the existing contractual relationships arising out of agreements executed by and between Auxilium and third parties have been ex lege transferred to ČSOB Advisory (ČSOB Investment Banking Services, a.s., a member of the ČSOB group to May 2012).

Sale of Ownership in ČSOB Pojišťovna

On 26 November ČSOB sold 24.76% of its ownership in ČSOB Pojišťovna, to KBC Verzerkeringen and its ownership in the company decreased to 0.24%. Total consideration received for the sold shares was CZK 2,178 m. On 15 November 2012, ČSOB and KBC Verzerkeringen have concluded the Agreement on exercising of voting rights. The Agreement entitles ČSOB to exercise 40.00% of the voting rights in ČSOB Pojišťovna.

Sale of Ownership in ČSOB Asset Management, a.s., investiční společnost

On 7 November 2012, ČSOB sold 21 shares ČSOB AM/IS to company KBC Participations Renta C. The Bank decreased its ownership in the company ČSOB AM/IS to 40.08%. Total consideration received for the sold shares was CZK 89 m. For the purpose of the transaction the Bank concluded an agreement with ČSOB AM/IS, KBC Participations Renta and KBC Participations Renta C for mutual exchange of the valuation of related shares performed by third party.

Sale Debt Instruments Issued by Greek Government

On 30 March 2012, ČSOB sold all debt instruments issued by Greek government in the total carrying amount of CZK 1,115 m to KBC Credit Investments NV.

Trademark Licence Agreement of ČSOB

On 5 November 2012, ČSOB concluded agreement with KBC Group for using trademark ČSOB. The agreement was concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of this agreement.

4.2.2 Dividends

In the accounting period the following related entities paid dividends to ČSOB: Auxilium, BANIT, ČMSS, ČSOB Factoring, Hypoteční banka, ČSOB Advisory, ČSOB PF Stabilita, ČSOB Leasing, ČSOB Pojišťovna, ČSOB AM/IS, První certifikační autorita and CBCB.

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,
- Change of the Articles of Association,
- Approval of the status of certain subsidiaries,
- Increase/decrease of share capital and/or share premium,
- Redemption of other capital funds from ČSOB Advisory,
- Approval of merger of companies Auxilium and ČSOB Advisory,
- Decision to rename company ČSOB Investment Banking Services, a.s., a member of the ČSOB group to ČSOB Advisory, a.s. as of 14 May 2012.

Resolutions and related contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these Resolutions and related 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 submitted to review of the Supervisory Board of ČSOB.

In Prague, 20 March 2013

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 2012
ISIN	CZ0008000288
Class	Ordinary shares
Type	Bearer shares
Edition	Book-entered
Number of shares	292,750,000
Nominal value	CZK 20
Total issue volume	CZK 5,855,000,000
Amount of share capital	**CZK 5,855,000,000**
Paid up	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 2012, ČSOB neither held any own shares, nor issued stock certificates.

ČSOB shares are not publicly tradable on any official regulated market in either an EU member state, or an EEC member state.

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 Securities Commission in November 2003 (including joint issue terms and conditions for a previously non-determined number of bond issues) with a maximum amount of CZK 30 bn of outstanding bonds and 10-year tenure.

By 31 December 2012, ČSOB had 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 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 ZERO USD III/2014	CZ0003702524	13. 1. 2011	USDm	10
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
Bond ČSOB Měny II/2016 (Tranche no. 1)	CZ0003702821	5. 5. 2011	CZKm	280
Bond ČSOB koš akcií II/2016 (Tranche no. 1)	CZ0003702839	9. 6. 2011	CZKm	111.3
Bond ČSOB likvidní IV/2017 (3 Tranches)	CZ0003703050	2. 2. 2012	CZKm	2,400
Bond ČSOB 3M PRIBOR II/2017 (Tranche no. 1)	CZ0003703183	29. 3. 2012	CZKm	210
Bond ČSOB likvidní V/2017	CZ0003703258	17. 4. 2012	CZKm	1,000
Bond ČSOB likvidní VI/2017 (2 Tranches)	CZ0003703472	6. 8. 2012	CZKm	2,000
Bond ČSOB likvidní VII/2017 (Tranche no. 1)	CZ0003703480	12. 10. 2012	CZKm	1,000

In March 2013, ČSOB issued the following investment certificate issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investment certificate I (Tranche no. 1)	CZ0000300157	27. 3. 2013	CZKm	212

The Bond ČSOB VAR/2018 bond is listed at the Regulated Market of the Prague Stock Exchange (until 30 November 2012 listed at the Free market of the Prague Stock Exchange); trading started on 22 December 2008. The remaining bonds, mortgage bonds and investment certificates are unlisted.

The purpose of the issuance of bonds and of investment certificates 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 and the prospectus of investment certificates 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.*

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 and shall be effective 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 2012

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB group's financial position or profitability

Information on Court Disputes

– is available in Notes 27 and 33 of the Notes to the Separate Financial Statements for the year 2012 according to EU IFRS and in Notes 29 and 35 of the Notes to the Consolidated Financial Statements for the year 2012 according to EU IFRS.

The most significant ČSOB's court disputes as at 31 December 2012 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.	Czech Republic – Ministry of Finance	1,420

II. Litigation against ČSOB (the Defendant)

	Counterparty of the Dispute	Liability (CZKm)
1.	ICEC-HOLDING, a.s.	11,893
2.	imAGe Alpha, a.s.	11,227
3.	JUDr. Věslav Németh	1,682
4.	Bankruptcy Trustee of Chemapol Group, a.s.	1,450

Legal dispute 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 number 1 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.

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 2012	Report of the Board of Directors Managing and Supervisory Bodies Corporate Governance Policy Note 3 [2]
New Products and Services Introduced in 2012	Report of the Board of Directors
Description of Markets where ČSOB Competes	Company Profile Report of the Board of Directors
Profit Distribution	Note 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 2012	Companies of the ČSOB group Note 3 [2]
Expected Economic and Financial Situation of ČSOB in 2013	Report of the Board of Directors
Research and Development Costs There have been no significant research and development expenses reported within Financial Statements.	

1) The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for the year 2012 according to EU IFRS (unless stated otherwise).
2) The content refers to a note in Notes to the Consolidated Financial Statements for the year 2012 according to EU IFRS.
3) Together with this Annual Report, ČSOB also publishes the ČSOB Social Responsibility Report 2012.

Remuneration Charged by Auditors for 2012

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 (CZK ths)	ČSOB	Consolidated ČSOB Unit
Auditor services	17,570	28,137
Advisory	8,666	8,666
Total	**26,236**	**36,803**

Information about the Contribution to the Securities Traders 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.

Contribution to the Securities Traders Guarantee Fund for 2012 (CZKths)	ČSOB	Consolidated ČSOB Unit*
Basis for calculation of the contribution	590,404	590,404
The contribution	**11,808**	**11,808**

** Contribution of ČSOB AM/IS (CZK 2,566 ths) is not included in the total amount of the contribution of the consolidated ČSOB Unit, since the company is included in the Consolidated Financial Statements of the ČSOB group using the equity method of consolidation in 2012.*

Events after the Reporting Period

Chapter	Part
Report of the Board of Directors	Highlights and Main Events
Companies of the ČSOB Group	Companies of the ČSOB Group
Corporate Governance	Managing and Supervisory Bodies, ČSOB's Organisation Chart
Consolidated Financial Statements	Note 38
Separate Financial Statements	Note 36
Additional Information	Bonds

Information on the Publication of the ČSOB Annual Report

ČSOB will publish its Annual Report 2012 on its Internet website at www.csob.cz.

The **Czech National Bank** will add the ČSOB Annual Report 2012 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., No. 380/2010 Coll., No. 89/2011 Coll. and No.187/2012 Coll.); the Regulation also contains rules for definition of the Regulated consolidated unit.

The total authorized share capital as at 31 December 2012 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. In September 2012, ČSOB repaid prematurely CZK 4 bn of the first tranche of subordinated debt.

During the year 2012 the decrease of the regulatory consolidated capital amounted to CZK 2 bn. The significant reason was the subordinated debt voluntary prepayment and decrease of the coverage of expected credit losses in IRB. The decrease in this item reduced the regulatory capital by CZK 3 bn.

The amount of the total regulatory capital positively influenced the decision of the sole shareholder, KBC Bank, to increase retained profit from previous periods of part of the profit of the year 2011 in the amount CZK 4 bn.

The amount of the regulatory capital was also affected by the sale of capital investment in ČSOB Pojišťovna. Given that this investment was among fully deductible items, its sale caused increase on capital in the amount of CZK 1 bn.

Information on Capital of the Regulated Consolidated Unit

Information on Capital (CZKths)		31. 12. 2012	31. 12. 2011
1.	**Original capital (Tier 1)**	**44,975,057**	**41,264,011**
1.1	Common equity Tier 1	44,975,057	41,264,011
	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	18,686,648	18,686,651
	Retained profit from previous periods	15,864,091	11,636,217
	Minority interests	241,158	891,866
	Goodwill from consolidation	0	(112,073)
	Resulting exch. rate differences from consolidation	0	0
	Goodwill other than from consolidation	(2,688,910)	(2,688,910)
	Intangible assets other than goodwill	(491,480)	(513,291)
	Negative valuation difference from real value changes in AFS shares	(1)	(1)
1.2	Additional Capital Tier 1	0	0
	Hybrid Instruments	0	0
2.	**Additional capital (Tier 2)**	**7,982,775**	**14,079,892**
2.1	Dominant Tier 2	0	2,100,604
	Excess in the coverage of expected credit losses in IRB (Internal Rating-based) approach	0	2,100,604
	Excess on the limits for hybrid instruments	0	0
2.2	Additional Tier 2	7,982,775	11,979,288
	Subordinated debt	7,982,775	11,979,288
3.	**Total capital to cover market risk (Tier 3)**	**0**	**0**
4.	**Items deductible from original and additional capital** (from Tier 1 + Tier 2)	**(788,226)**	**(940,118)**
	In which IRB Provision shortfall and IRB equity expected loss amount	(787,096)	0
Total regulatory capital		**52,169,607**	**54,403,785**

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. 2012	31. 12. 2011
1.	**Credit risk total**	**21,668,694**	**22,946,329**
1.1	Total capital requirements for credit risks with standardized approach (STA)	2,255,625	2,358,336
	Exposures to central governments and central banks	0	0
	Exposures to institutions	142,868	116,193
	Exposures to enterprises	917,227	874,502
	Retail exposures	865,113	933,855
	Share exposures	8,426	29,848
	Other exposures	321,990	403,937
	Securitized exposures	0	0
1.2	Total capital requirement to credit risk subject to IRB approach	19,413,069	20,587,993
	Exposures to central governments and central banks	155,904	110,276
	Exposures to institutions	955,680	2,124,475
	Exposures to enterprises	9,559,477	11,160,737
	Retail exposures	6,630,917	5,829,691
	Share exposures	137,726	0
	Securitized exposures	0	0
	Other exposures	1,973,366	1,362,813
2.	Capital requirement **to settlement risk**	**0**	**20,000**
3.	Capital requirement **to position currency and commodity risk**	**1,203,739**	**1,381,933**
4.	Capital requirement **to operational risk**	**4,516,351**	**3,659,789**
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		**27,388,784**	**28,008,051**

3. ČSOB's Ratios (Unconsolidated)

Ratio		31. 12. 2012	31. 12. 2011
Capital adequacy	%	14.44	13.61
Return on average assets (ROAA)	%	1.90	1.36
Return on average equity (ROAE)	%	43.66	29.94
Assets per employee	CZKths	122,073	125,070
Administrative expenses per employee*	CZKths	1,782	1,769
Profit after income tax per employee*	CZKths	2,316	1,604

** 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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The auditors have also opined that the Consolidated Financial Statements present fairly, in all material respects, the financial position of the ČSOB group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Supervisory Board has reviewed the 2012 Separate Annual Financial Statements and has accepted the results of the audit of the 2012 Separate Annual Financial Statements and has recommended to the General Meeting to approve them.

In Prague, 12 April 2013

Decision of the ČSOB's Sole Shareholder

Rozhodnutí jediného akcionáře při výkonu působnosti valné hromady

podle ustanovení § 190 zákona č. 513/1991 Sb., obchodního zákoníku

KBC Bank NV, se sídlem v Bruselu, Havenlaan 2, PSČ 1080, Belgické království („**Jediný akcionář**"), společnost založená a existující podle práva Belgického království, zapsaná v Rejstříku právnických osob Brusel pod číslem 0462.920.226,

jako jediný akcionář společnosti **Československá obchodní banka, a. s.**, se sídlem Praha 5, Radlická 333/150, PSČ 150 57, IČ 000 01 350, zapsané v obchodním rejstříku vedeném Městským soudem v Praze, oddíl BXXXVI, vložka 46 („**Společnost**"), tímto rozhoduje takto:

schvaluje řádnou nekonsolidovanou účetní závěrku Společnosti k 31. prosinci 2012 a řádnou konsolidovanou účetní závěrku Společnosti k 31. prosinci 2012 sestavené podle Mezinárodních standardů účetního výkaznictví ve znění přijatém Evropskou unií; a

Jediný akcionář také bere na vědomí:

(i) zprávu představenstva Společnosti o podnikatelské činnosti Společnosti a o stavu jejího majetku za rok 2012; a

(ii) zprávu o kontrolní činnosti dozorčí rady Společnosti v roce 2012 a o přezkoumání řádné účetní závěrky sestavené k 31.12.2012.

V případě rozporu mezi oběma jazykovými verzemi je rozhodující verze česká.

V Bruselu dne 17. dubna 2013.

KBC Bank NV

Name: Luc Popelier
Executive Director

Danny De Raymaeker
Executive Director

Name:
Executive Director

Decision of the Sole Shareholder in Exercising the Powers of the General Meeting

in accordance with Sec. 190 of the Act No. 513/1991 Coll., the commercial code

KBC Bank NV, with its registered office at Brussels, Havenlaan 2, Post Code 1080, Belgium ("**Sole Shareholder**"), a company founded and organised under the Belgian law, registered in the Register of Legal Persons under number 0462.920.226,

as a sole shareholder of **Československá obchodní banka, a. s.**, with its registered office at Prague 5, Radlická 333/150, Postal Code 150 57, having Identification Number: 000 01 350, registered with the Commercial Register maintained by the Municipal Court in Prague, Section BXXXVI, Insert No. 46 ("**Company**"), hereby decides as follows:

approves annual separate financial statements of the Company for the year ended on 31 December 2012 and annual consolidated financial statements of the Company for the year ended on 31 December 2012 prepared in accordance with IFRS in wording passed by the EU; and

The Sole shareholder also takes knowledge of:

(i) Company´s Board of Directors report on Company´s business activity and state of its assets for the year of 2012; and

(ii) Company´s Supervisory Board Report on its control activities during the year of 2012 and review of Company´s regular financial statements as of the day of 31st December 2012.

In case of any discrepancy between both language versions, the Czech one shall prevail.

In Brussels, on the day of 17 April 2013.

KBC Bank NV

Name: Luc Popelier
Executive Director

Danny De Raymaeker
Executive Director

Name:
Executive Director

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2012

hereby declare that, to their best knowledge, the ČSOB Annual Report 2012 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, 23 April 2013

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

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 2012 presented in the annual report of the Bank on pages 60 - 159 and our audit report dated 22 March 2013 is presented in the annual report of the Bank on pages 58 - 59. We have also audited the separate financial statements of Československá obchodní banka, a. s. (or "the Bank") as at 31 December 2012 presented in the annual report of the Bank on pages 162 - 254 and our audit report dated 22 March 2013 is presented in the annual report of the Bank on pages 160 - 161 (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 of the Bank on pages 1 - 55 and 256 - 276 is consistent with that contained in the audited financial statements as at 31 December 2012. 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 2012 presented in the annual report of the Bank on pages 256 - 260. 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 the Bank 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 2012 is materially misstated.

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

Roman Hauptfleisch
Auditor, License No. 2009

23 April 2013
Prague, Czech Republic

ABBREVIATION

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.
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.
CNB	Czech National Bank
CZSO	Czech Statistical Office
ČMSS	Českomoravská stavební spořitelna, a.s.
ČSOB Advisory	ČSOB Advisory, a.s.
ČSOB AM / ČSOB Asset Management	ČSOB Asset Management, a.s., a member of the ČSOB group
ČSOB AM/IS	ČSOB Asset Management, a.s., investment company
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 Penzijní společnost	ČSOB Penzijní společnost, 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 Verzekeringen	KBC Insurance NV (i.e. KBC Verzekeringen NV)
KBC Lease Holding	KBC Lease Holding NV
KBC Participations Renta	KBC Participations Renta SA
KBC Participations Renta C	KBC Participations Renta C 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
Patria Direct	Patria Direct, a.s.
Patria Finance	Patria Finance, a.s.
Property LM	Property LM, s. r. o. in liquidation
Property Skalica	Property Skalica, s.r.o.

ČSOB Group Unaudited Consolidated Financial Results Releases

(In accordance with EU IFRS)

Financial Results		Date of Release
as at 31 December 2012	4Q / FY 2012	14 February 2013
as at 31 March 2013	1Q 2013	16 May 2013
as at 30 June 2013	2Q / 1H 2013	8 August 2013
as at 30 September 2013	3Q / 9M 2013	14 November 2013
as at 31 December 2013	4Q / FY 2013	13 February 2014

CONTACT DETAILS

Investor Relations

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Czech Republic

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E-mail: investor.relations@csob.cz

The 2012 ČSOB Annual Report was released in electronic version at www.csob.cz on 29 April 2013.