



Prague, 10 February 2011

**FY 2010 financial results of the ČSOB group:<sup>1</sup>**

## **UNDERLYING NET PROFIT UP 24% TO CZK 13BN ON THE BACK OF DECREASING CREDIT COSTS AND TOP LINE GROWTH**

***Even during FY 2010, ČSOB continued to further increase underlying revenues, with underlying operating income reaching CZK 32.512bn (+4% Y/Y) as of 31 December 2010. In the same time, ČSOB group's cost of risk materially contracted as credit cost ratio dropped to 75 bps as of the end of 2010, compared to 112 bps a year ago. These achievements strongly contributed to the 24% Y/Y growth of underlying net profit to CZK 13.019bn (compared to CZK 10.488bn in FY 2009). As a result, the profitability measured by underlying return on equity (RoE) grew to 19.6%.***

Group lending increased by 1% Y/Y to CZK 413.7bn, while group deposits grew by 4% Y/Y to CZK 596.1bn. As a result, loan-to-deposit ratio further decreased to 68.5%, constituting a solid position for ČSOB group's post-crisis loan expansion.

Five indicators of resilience		2008	2009	2010
Profitability	high underlying net profit	CZK 12.6bn	CZK 10.5bn	CZK 13.0bn
	high underlying RoE	21.6%	17.1%	19.6%
Liquidity	low loan/deposit ratio	75.2%	71.1%	68.5%
Capital adequacy	high capital ratio	10.3%	15.0%	18.0%
Cost of risk	low credit cost ratio	0.59%	1.12%	0.75%
Cost efficiency	low underlying cost/income ratio	46.9%	43.4%	44.8%

Pavel Kavánek, Chief Executive Officer, comments on financial results:

*"Levels of profit, capital or cost of risk clearly document that ČSOB has come out of the crisis strong and resilient. We've had a successful year with the underlying net profit growing by almost one fourth."*

<sup>1</sup> All numbers in this press release are consolidated, unaudited, according to EU IFRS. This press release shows FY 2009 profit and loss statement items reclassified in accordance with the current accounting methodology in order to ensure comparability of EU IFRS financial statements in time.



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## **Profit and Loss Review**

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

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

The underlying profit includes revenue of CZK 0.3bn as a result of the **J.Ring dispute** related to the 2000 takeover of the IPB Bank which was **decided in favor of ČSOB** in December 2010.

**Operating profit** grew by 1% Y/Y from CZK 17.8bn to CZK 18.0bn on the back of both income and expenses increasing. **Operating income** increased by 4% Y/Y. The main contributor to the Y/Y difference was net interest income (NII) which grew by 5% Y/Y. **Operating expenses** grew by 7% Y/Y. The growth is especially connected with increased business demand level for ICT services. Part of the increase was also caused by a relatively lower level of capitalization in the ICT area.

**Net interest income** grew by 5% driven by mortgages, building savings loans and growing retail deposit base. **Net fee and commission income** decreased by 2% Y/Y primarily due to higher payments to the deposit insurance fund by CZK 163m. This was caused by the increase of the annual deposit insurance premium from 10 bps to 16 bps that has been reflected in ČSOB's P&L since 3Q 2010. A drop in **dividend income** after the December 2009 sale of the remaining stake in ČSOB Slovakia to KBC was offset by higher **income from financial markets** reflected in net gains from financial instruments at fair value through profit and loss.

The Y/Y comparison for staff expenses and general administrative expenses is distorted by KBC GS CZ (established in 2009) and thus different accounting of ICT expenses.<sup>2</sup> Net of this shift, pro forma **staff expenses** increased by 6% Y/Y, mainly due to creation of accruals for performance-based bonuses (derived from positive underlying profit development), a slight growth of overall number of employees, and regular annual salary adjustment. Pro forma **general administrative expenses** (GAE) were influenced by increased business-driven demand for ICT services, a relatively lower level of capitalization of smaller-scale ICT development and increased marketing expenses.

The decline in **loan impairments** was driven by corporate lending, SME loans and leasing each of which profited from improved economic situation in the Czech Republic. On the other hand, mortgages and consumer finance remained under pressure as unemployment in the Czech Republic remained elevated, although the first signs of improvement in retail credit costs are visible in the fourth quarter.

<sup>2</sup> In June 2009, ICT services of ČSOB and ČSOB Pojišťovna were put under one management structure and transferred to the Czech Branch of KBC Global Services (KBC GS CZ). The ICT services of ČSOB Leasing followed in January 2010. Thus, part of staff expenses and amortization is newly included in general administrative expenses. For comparison purposes, please find pro forma values which eliminate the impact of the transfer next to P&L tables at the end of the press release.



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## **Balance Sheet Review**

**Group lending increased by 1% Y/Y** (and by 2% Q/Q) to CZK 413.7bn as total volumes increased in the second half of the year after a decline in the first quarter. Housing loans and consumer finance continued growing. Corporate loans began to revive after hitting the bottom in 3Q 2010. SME loans and leasing declined both Y/Y and Q/Q.

**Housing loans** grew by 8% Y/Y with **mortgages** growing by 7% to CZK 144.9 bn and **building savings loans** by 9% to CZK 71.9bn. Higher sales of mortgages in 2Q, 3Q and 4Q reflected the rebounding demand for residential real estate. The increased demand also includes catch-up purchases by people who were postponing their investment in previous quarters. New sales were also aided by clients' concerns about potential VAT increase. The share of housing loans on group lending grew to 52% in FY 2010 from 49% in FY 2009. **Consumer loans** increased by 4% Y/Y to CZK 18.2bn, driven mainly by credit cards and overdrafts.

**SME loans** decreased by 6% Y/Y. The decline was evenly spread across short-term loans and long-term investment loans. **Leasing** declined by 20% Y/Y to CZK 23.3bn.

The volume of **corporate loans** went down Y/Y by 9% to 76.5 bn but the quarterly development of corporate loans turned to positive in 4Q 2010 after bottoming out in 3Q 2010.

**Group deposits grew by 4% Y/Y** (and by 3% Q/Q) to CZK 596.1bn. All major products of group deposits – client deposits, building savings deposits and pension funds – showed an increase Y/Y.

The largest contributor to the group deposits growth were **client deposits** (CZK +23.5bn, +5% Y/Y). Within client deposits, saving deposits reached a 37% Y/Y growth. About half of the increase can be attributed to inflow from term deposits, which decreased by 32% Y/Y. Current accounts remained flat Y/Y. AUM in both ČSOB **pension funds** kept increasing Q/Q.

AUM in **mutual funds** decreased by 10% Y/Y to CZK 62.7bn. Clients still prefer transferring their money from maturing money market funds and bond funds into saving accounts rather than investing the money back into new funds. One of its effects, which contributed to the strong growth of savings accounts (+9% Q/Q), is the strengthening of ČSOB's liquidity.

## **Risk Management Review**

**Total capital ratio** reached 18.03% as at 31 December 2010, compared to 14.98% as at 31 December 2009. **Liquidity** further increased with loan to deposit ratio declining to 68.5% as of 31 December 2010 from 71.1% a year ago. **Non-performing loans** (more than 90 days overdue, according to the ČSOB methodology, in line with the KBC group methodology) decreased during the fourth quarter and accounted for 4.05% of gross loans as at 31 December 2010. **Credit cost ratio** (CCR) for FY 2010 stood at 0.75%, compared to 1.12% for FY 2009.



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## **Main events of 2010**

- As at 30 September 2010, the **Moody's** rating agency confirmed the long-term rating of ČSOB at A1 and the short-term rating at Prime-1. The **Fitch** rating agency confirmed long-term rating of ČSOB at A- and short-term at F2 on 15 October.
- As at 14 September 2010, **ČSOB's shares** were converted back from bearer shares into registered shares in reaction to the new Czech legislation.
- In July, the **General factoring claim** to CZK 40bn against ČSOB was fully dismissed. In December, the **J. Ring claim** of ČSOB against the Czech Ministry of Finance (CZK 1.6bn) was fully acknowledged and the Ministry of Finance's counter-claim (CZK 33.3bn) was fully dismissed.
- **Top Management:** In May 2010, ČSOB's Top Management was enlarged to eight members – four BoD members and four other Senior Executive Officers. Former Chief Financial and Risk Officer (CFRO) and BoD member, Mr. Hendrik Scheerlinck left for the position of the CEO of KBC's Hungarian subsidiary K&H; the CFRO position in ČSOB was split into two. Mr. Bartel Puelinckx was appointed the new CFO of ČSOB, Mr. Koen Wilmots the CRO of ČSOB and Mr. Jiří Vévoda was appointed to until-then-vacant position of Chief Staff Officer (CSO) of ČSOB. On 8 December 2010, all three were appointed as BoD members. As of 1 January 2011, Mr. Karel Svoboda was appointed the CEO of ČSOB Pension Fund Stabilita and left the position of the Senior Executive Officer of ČSOB responsible for Operations and Facilities. This position in ČSOB's Top Management ceased to exist and responsibilities of Operations and Facilities were distributed among the existing Board of Directors.
- **Supervisory board:** As of 23 June 2010, Mr. František Hupka, Ms. Martina Kantová and Ms. Ladislava Spielbergerová were appointed to the ČSOB supervisory board representing ČSOB employees. As of 29 June 2010, Mr. Marko Voljč was appointed a member of the Supervisory Board of ČSOB to replace Mr. John Hollows. As of 1 December 2010, Mr. Guy Libot was elected a new member of the ČSOB's Supervisory Board and replaced Ms. Riet Docx.
- **ČSOB was named as the best bank or insurer by many organizations:** Euromoney Awards for Excellence, Hospodářské noviny, Global Finance magazine and EMEA Finance magazine. The ČSOB group gained **accolades for individual segments and businesses** as well: MasterCard Corporate Bank of the Year, ACQ Finance Global Awards, Zlatá koruna contest or Global Finance magazine.

Please find more details on the ČSOB group's financial results in the FY 2010 Result Presentation which can be downloaded from:

<http://www.csob.cz/en/CSOB/Investor-relations/Stranky/Financial-and-business-results.aspx>

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## Consolidated P&L – Reported

(CZK m)	FY 2009	FY 2010	Y/Y	
Interest income	34 204	33 038	-3%	
Interest expense	-10 688	-8 280	-23%	
Net interest income	23 516	24 758	+5%	
Net fee and commission income	5 579	5 440	-2%	
Net gains from financial instruments at FVPL*	2 876	1 340	-53%	
Other operating income*	7 694	1 511	-80%	
<b>Operating income</b>	<b>39 665</b>	<b>33 049</b>	<b>-17%</b>	
Staff expenses	-6 218	-6 414	+3%	
General administrative expenses	-5 979	-7 053	+18%	
Depreciation and amortisation	-1 443	-1 084	-25%	
<b>Operating expenses</b>	<b>-13 640</b>	<b>-14 551</b>	<b>+7%</b>	
Impairment losses*	-6 509	-3 386	-48%	
Impairment on loans and receivables	-5 363	-3 489	-35%	
Impairment on available-for-sale securities*	-245	-5	-98%	
Impairment on other assets*	-901	108	+/-	
Share of profit of associates	360	226	-37%	
<b>Profit before tax</b>	<b>19 876</b>	<b>15 338</b>	<b>-23%</b>	
Income tax expense*	-2 459	-1 776	-28%	
<b>Profit for the period</b>	<b>17 417</b>	<b>13 562</b>	<b>-22%</b>	
Attributable to:				
<b>Equity holders of the parent</b>	<b>17 368</b>	<b>13 471</b>	<b>-22%</b>	<b>pro forma</b>
Minority interest	49	91	+86%	<b>Y/Y</b>
				(note 3, p 2)
				+6%
				+9%
				-5%
				<b>+6%</b>

Notes: FVPL = fair value through profit and loss.

Other operating income = Net realised gains on available-for-sale fin. assets, dividend income, other net income.

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

## Consolidated P&L – Underlying

(CZK m)	FY 2009	FY 2010	Y/Y	
Interest income	34 204	33 038	-3%	
Interest expense	-10 688	-8 280	-23%	
Net interest income	23 516	24 758	+5%	
Net fee and commission income	5 579	5 440	-2%	
Net gains from financial instruments at FVPL*	707	1 148	+63%	
Other operating income*	1 603	1 166	-27%	
<b>Operating income</b>	<b>31 405</b>	<b>32 512</b>	<b>+4%</b>	
Staff expenses	-6 218	-6 414	+3%	
General administrative expenses	-5 979	-7 053	+18%	
Depreciation and amortisation	-1 443	-1 084	-25%	
<b>Operating expenses</b>	<b>-13 640</b>	<b>-14 551</b>	<b>+7%</b>	
Impairment losses*	-5 660	-3 386	-40%	
Impairment on loans and receivables	-5 363	-3 489	-35%	
Impairment on available-for-sale securities*	0	-5	N/A	
Impairment on other assets*	-297	108	+/-	
Share of profit of associates	360	206	-43%	
<b>Profit before tax</b>	<b>12 465</b>	<b>14 781</b>	<b>+19%</b>	
Income tax expense*	-1 928	-1 671	-13%	
<b>Profit for the period</b>	<b>10 537</b>	<b>13 110</b>	<b>+24%</b>	
Attributable to:				
<b>Equity holders of the parent</b>	<b>10 488</b>	<b>13 019</b>	<b>+24%</b>	<b>pro forma</b>
Minority interest	49	91	+86%	<b>Y/Y</b>
				(note 3, p 2)
				+6%
				+9%
				-5%
				<b>+6%</b>

Notes: FVPL = fair value through profit and loss.

Other operating income = Net realised gains on available-for-sale fin. assets, dividend income, other net income.

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



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## Consolidated Balance Sheet – Assets

(CZK m)	31/12 2009	30/12 2010	Ytd
Cash and balances with central banks	23 050	21 164	-8%
Financial assets held for trading	160 117	173 810	+9%
Financial assets designated at fair value through P/L	16 987	11 132	-34%
Available-for-sale financial assets	101 567	102 521	+1%
Loans and receivables - net	395 774	399 741	+1%
<i>Loans and receivables to credit institutions - gross</i>	8 945	14 137	+58%
<i>Loans and receivables to which other than credit institutions - gross</i>	396 894	397 445	+0%
<i>Allowance for impairment losses</i>	-10 720	-12 466	+16%
<i>Accrued interest income</i>	655	625	-5%
Held-to-maturity investments	132 761	150 240	+13%
Derivatives used for hedging	8 040	9 437	+17%
Current tax assets	27	39	+44%
Deferred tax assets	271	488	+80%
Investments in associate	1 196	1 163	-3%
Investment property	791	713	-10%
Property and equipment	8 468	8 057	-5%
Goodwill and other intangible assets	3 922	3 625	-8%
Non-current assets held-for-sale	919	140	-85%
Other assets	5 082	2 785	-45%
<b>Total assets</b>	<b>858 972</b>	<b>885 055</b>	<b>+3%</b>

## Consolidated Balance Sheet – Liabilities and Equity

(CZK m)	31/12 2009	30/12 2010	Ytd
Financial liabilities held for trading	23 036	21 096	-8%
Financial liabilities at fair value through P/L	105 057	117 774	+12%
Financial liabilities at amortised cost	644 982	663 418	+3%
<i>of which Deposits received from credit institutions</i>	26 027	30 442	+17%
<i>of which Deposits received from other than credit institut.</i>	573 148	596 078	+4%
<i>of which Debt securities in issue</i>	32 572	24 105	-26%
<i>of which Subordinated liabilities</i>	11 970	11 974	+0%
<i>of which Accrued interest expenses</i>	1 265	819	-35%
Derivatives used for hedging	5 158	5 567	+8%
Current tax liabilities	883	1 203	+36%
Deferred tax liabilities	603	830	+38%
Provisions	758	651	-14%
Other liabilities	8 644	8 676	+0%
<b>Total liabilities</b>	<b>789 121</b>	<b>819 215</b>	<b>+4%</b>
Share capital	5 855	5 855	0%
Share premium account	7 509	7 509	0%
Statutory reserve	18 687	18 687	0%
Retained earnings	34 478	30 560	-11%
Available-for-sale reserve	2 814	2 422	-14%
Cash flow hedge reserve	-393	-2	-99%
Foreign currency translation reserve	1	0	-100%
<b>Parent shareholders' equity</b>	<b>68 951</b>	<b>65 031</b>	<b>-6%</b>
Minority interest	900	809	-10%
<b>Total equity</b>	<b>69 851</b>	<b>65 840</b>	<b>-6%</b>
<b>Total liabilities and equity</b>	<b>858 972</b>	<b>885 055</b>	<b>+3%</b>



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## **Corporate social responsibility**

<p><b>We educate...</b></p> <p>ČSOB Education Foundation Program:</p> <ul style="list-style-type: none"><li>- Supporting disabled and disadvantaged students</li><li>- Improving financial literacy</li><li>- Research findings on financial literacy</li><li>- Safer Internet</li></ul>	<p><b>We support regions...</b></p> <ul style="list-style-type: none"><li>- ČSOB and PSB support regions</li><li>- Investment grants for environmental protection</li><li>- PSB's Mayor of the Year Award</li><li>- Small grants to support community life and local care for cultural and natural heritage</li></ul>
<p><b>Our employees help...</b></p> <ul style="list-style-type: none"><li>- Volunteering program We Help Together</li><li>- Volunteering days and employee patronage</li><li>- Charity collections for the Sue Ryder Home</li><li>- Charity football match</li></ul>	<p><b>We break down barriers...</b></p> <ul style="list-style-type: none"><li>- Job opportunities for the disabled</li><li>- Job FAIR without Barriers 2010</li></ul>

## **ČSOB awarded for its CSR in 2010**



### **Top Filantrop Award**

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



### **The "D" (Thanks) Award for the support of the Education Fund**

- ČSOB won the award in the Foundation and Charity in the Czech Republic category for the 16 years of support and financing the studies for young disabled people and involvement of employees in the project.



### **ČSOB at a bronze position in the CSR Award**

- An award in the Large Companies category for the concept of CSR and friendly approach to the environment and community.



### **ČSOB acknowledged in the Olga Havel Award 2010**

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



### **PSB won the Bridges 2009 Award**

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



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## **CSR in 2010**

### **We educate...**



- ČSOB donated CZK 0.9m to the Education Fund and to the Committee of Good Will – The Olga Havel Foundation; the amount will be distributed in scholarships for disabled and disadvantaged students.
- ČSOB Education Foundation Program supported 10 projects to improve financial literacy with a total expenditure of CZK 1m. In addition, ČSOB is the main partner for selected projects to improve financial literacy for low-income groups of people and children.
- ČSOB published research findings on the status of financial literacy in the Czech Republic – common project of ČSOB and Stem/Mark research agency.
- PSB and the Czech National Safer Internet Centre launched the “Safely-Online” project: the [www.bezpecne-online.cz](http://www.bezpecne-online.cz) website gives advice on safe use of the Internet.

### **We support regions...**



- ČSOB and PSB allocated a total of CZK 2.1m in small grants to support community life and local care for cultural and natural heritage.
- Investment grants for environmental protection and landscape restoration were launched – three projects received CZK 300,000 each in 2010.
- PSB's Mayor of the Year Award – an expert panel selected the winner who received CZK 250,000 for his/her municipality.

### **Our employees help...**



- Volunteering program We Help Together – ČSOB supports 37 projects in total amount of CZK 1 m with the aim to motivate ČSOB's employees' patronage of disabled students.
- About 450 ČSOB employees took part in volunteering activities:
  - 300 employees attended volunteering days and helped for 1 day for various Czech NGOs,
  - 50 employees helped people affected by floods in the Liberec region, and
  - 100 employees attended Czech mountains cleanup after the winter.
- Two charity collections of clothes and fashion accessories among employees for the Sue Ryder Home.
- ČSOB football team attended a beneficial football match as a support of the Sue Ryder Home.
- The six-month ecological employee campaign “Šetrně a zdravě” (Considerate and Healthy) concluded with markets offering fair trade products and organic food and with an introduction of environment friendly technologies in the ČSOB headquarters.

### **We break down barriers...**



- PSB supported the festival I Live Just Like You: a consultation center assisting the disabled to find a job and a tent city presenting sheltered workshops from the entire nation.
- PSB hosted Job FAIR without Barriers 2010: students could meet with “barrier-free employers” or be advised on how they could look for an appropriate job and how to prepare themselves for work-related interviews.



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