ANNUAL REPORT 2011

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Československá obchodní banka, a. s.

MMXI

Business name:	**Československá obchodní banka, a. s.**
Registered office:	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
Legal status:	Joint-stock company
Registration:	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration:	21 December 1964
Business activities:	Bank
ID No.:	00001350
Tax registr. No.:	CZ699000761
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 224 111 111
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz
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	2011	2010	2009
Financial Statements Figures			
Balance sheet at the year end (CZKm)			
Total assets	936,593	885,055	858,972
Loans and receivables	449,291	399,741	395,774
Group deposits [1)]	611,569	596,079	573,147
Debt securities in issue	23,213	24,105	32,572
Subordinated liabilities	11,978	11,974	11,970
Shareholders' equity [2)]	60,303	65,031	68,951
Statement of income (CZKm)			
Operating income	32,759	33,014	39,665
Operating expenses	14,872	14,516	13,640
Impairment of loans and receivables	1,822	3,429	5,477
Profit before tax	12,970	15,338	19,876
Profit for the year [2)]	11,172	13,471	17,368
Underlying profit for the year [2), 3)]	11,222	13,019	10,488
Ratios (%)			
Underlying return on average equity (ROAE) [4)]	18.0	19.6	17.1
Underlying return on average assets (ROAA) [4)]	1.2	1.5	1.2
Underlying cost/income ratio [4)]	45.6	44.7	43.4
Capital adequacy ratio – Bank [5)]	13.61	16.51	12.33
Capital adequacy ratio – ČSOB group [5)]	15.54	18.03	14.98
Leverage ratio [6)]	3.96	4.50	N/A
Loan-to-deposit ratio	72.7	68.5	71.1
General Information (as at the year end)			
Number of employees – ČSOB group [7)]	7,769	7,641	8,018
Number of clients – Bank (thousands)	3,096	3,078	3,064
Number of branches – Bank [8)]	314	301	300
ATMs [9)]	831	782	734
Financial Market Rates [10)]			
CZK/EUR exchange rate (average)	24.6	25.3	26.4
Interest rate (three month PRIBOR; average; in %)	1.19	1.31	2.19

Credit Rating [11)] (as at 31 December 2011)	Long-term Rating Effective since	Long-term	Short-term	Financial Strength	Individual	Support
Moody's	13 December 2002	A1	Prime-1	C		
Fitch	14 May 2009	A-	F2		C	1

1) Deposits received from other than credit institutions.
2) Attributable to equity holders of the Bank.
3) For definition please refer to page 13.
4) As at the year end; for definition please refer to page 6.
5) 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.
6) Tier 1 capital/non-risk value assets (according to Basel III).
7) Full-time equivalent employees.
8) Includes ČSOB branches and PSB financial centers, i.e. without approximately 3,200 post offices.
9) Includes ČSOB's and PSB's ATMs, i.e. without 4,968 cash desks of Albert and COOP stores and ČEPRO EuroOil petrol stations.
10) Source: CNB.
11) 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,

I am happy that ČSOB confirms its resilience, high performance and social responsibility year by year. The ČSOB community consisting of some 9,500 people produced a net profit of CZK 11.2 bn in 2011 and continued to cultivate its emotional capital – its distinctive, value creating resource.

The world today is grappling with crisis and is characterized by a high degree of uncertainty. Changes are faster and deeper than ever before. The ČSOB group is solidly rooted in the Czech Republic. On this home market, we grew in 2011, took more client funds under management and extended loans to our clients with full responsibility.

We managed to significantly grow our loan portfolio, while the cost of risk halved. Group deposits were also on the increase. We launched innovations and enhancements of our existing products, both of which are appreciated by our clients. Such business successes allow for high profitability, strong capitalization and liquidity.

The portfolio of Greek government bonds caused a considerable loss in 2011. Since 2010, we had been trying to sell down our position. The remaining exposure was written down by 69% in 2011.

The return on average equity was 18% last year, nonetheless. The net interest margin – the key to the net interest income which represented 3/4 of our operating income – remained stable year on year. On the cost side, we achieved satisfactory efficiency as measured by the underlying cost-to-income ratio which was 46% in 2011. At the ČSOB group, we cherish the variety of subsidiaries and brands. Colleagues from all the companies of our group delivered laudable performance in 2011. The combination of multicolor distribution and wide product offer benefits clients and at the same time allows the ČSOB group to offer its services very efficiently and consider varying needs and preferences of various clients.

I have mentioned the emotional capital above. It cannot be recorded in financial statements but is crucial to continual achieving of great results. Our hierarchy is a bit flatter again and we are not such distrustful pessimists. We are a bit more open and emphatic in our manifold partnerships, we are significantly more satisfied and motivated than two years ago and we share the joy of every victory of ours – such are the results of our regular survey of employee satisfaction and motivation. People from ČSOB get opportunities for personal growth and participation in social responsibility, which is becoming an omnipresent constant of our work. For example, we provided more support to an issue important to us, the promotion of financial literacy among the Czech public, which goes hand in hand with our role of a responsible credit provider. There are many internal activities, e.g. the successful Program for Mums and Dads or additional ecological measures.

The entire ČSOB team deserves my heartfelt thanks for their energy and loyalty which were the base for the excellent results of 2011. I look forward to meeting again and to successful cooperation in 2012!

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 2011, the Czech economy grew by 1.7%, i.e., 0.9 percentage point less than in 2010. The economy was primarily curbed by muted domestic consumption, followed by declining investment. Declining foreign demand also started to affect the performance of the economy over the course of the year. Hence quarter-on-quarter gross domestic product (GDP) began falling in the middle of the year and the economy entered a stage of a moderate recession. Nonetheless, the significant economic deceleration still had not a strong impact on the labour market thus far, with the end-of-year unemployment rate standing at 8.6%. A more important effect than the rise in unemployment was the significant wage growth deceleration, also affected by public sector austerity.

The restrictive fiscal measures, also based on increases in excise duties, an increase in the lower value added tax (VAT) rate, and the continuing price deregulation, had negative effects on inflation in late 2011 and early 2012. In spite of declining foreign demand, the Czech Republic's foreign trade figures keep improving, notwithstanding high prices of energy commodities. The record-breaking trade surplus also had a positive effect on the reduction of the current account deficit, which had fallen to -2% of GDP. This deficit is primarily due to the strong dividend outflow from businesses under foreign control, i.e., not by any internal imbalance of the economy.

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

Indicator [1]	Measurement Unit	2011	2010	2009	2008	2007
Nominal GDP	CZKbn	3,809	3,775	3,739	3,848	3,663
Real GDP growth	% change, Y / Y	1.7	2.7	(4.7)	3.1	5.7
Real GDP per capita	CZKths	344.5	338.0	330.2	348.6	341.6
Real GDP growth per capita	% change, Y / Y	1.9	2.3	(5.3)	2.0	5.2
Inflation rate (CPI)	%, year end	2.4	2.3	1.0	3.6	5.4
Unemployment rate	%, average	6.7	7.3	6.7	4.4	5.4
General government budget balance/Nominal GDP	%	(3.1)	(4.8)	(5.8)	(2.2)	(0.7)
General government debt	CZKbn	1,567.8	1,436.4	1,285.4	1,104.3	1,023.8
General government debt/Nominal GDP	%	41.2	38.1	34.4	28.7	27.9
Exports of goods and services [2]	% change, Y / Y	11.0	14.8	(9.9)	(0.6)	11.3
Imports of goods and services [2]	% change, Y / Y	10.3	17.5	(12.9)	(0.3)	12.0
Trade balance/Nominal GDP [2]	%	2.5	1.4	2.3	0.7	1.3
Interest rate (three month PRIBOR) [2]	%, average	1.2	1.3	2.2	4.0	3.1
CZK/EUR exchange rate [2]	average	24.6	25.3	26.4	24.9	27.8

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

ČSOB is a wholly-owned subsidiary of KBC Bank. KBC Bank is fully owned by KBC Group. 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 customers. It concentrates on its home markets of Belgium and selected 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.

The strategy of the ČSOB group is fully aligned with KBC's strategy for the region of Central and Eastern Europe, where KBC aims to engage in the full range of banking and insurance activities and serve all target customer groups, including retail as well as SME, corporate and institutional clients.

1. Highlights and Main Events

Highlights

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

Business activities of the ČSOB group developed favorably in 2011 and broadly in line with the Board of Directors' expectations at the year beginning:

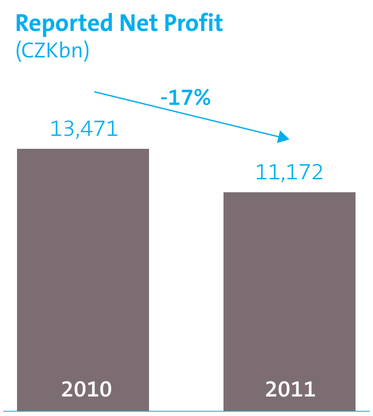
- **Credit portfolio** had been rising for six consecutive quarters to reach CZK 441.1 bn by the end of 2011, which was a 10% increase year on year. The growth accelerated in 2H 2011, mainly thanks to corporate loans (+24% year on year) and mortgages (+13% year on year).
- **Group Deposits** had climbed to CZK 611.6 bn (+3% year on year).

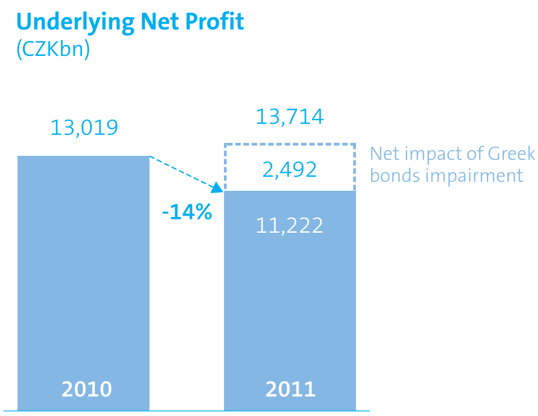
While the pre-impairment underlying profitability from business operations of the ČSOB group improved, the impairments on Greek government bonds had a negative impact:

- The ČSOB group **reported a net profit** of CZK 11.2 bn in 2011, which includes an impairment of Greek bonds in the AFS portfolio of CZK 2.5 bn (after tax). As a result, the reported profit was 17% lower year on year.
- The 2011 **underlying net profit** of the ČSOB group also reached CZK 11.2 bn and includes the Greek bond impairment as well. The figure is 14% lower year on year.
- **Credit costs** further decreased to CZK 1.8 bn and the **credit cost ratio** fell to 0.36%.

The ČSOB group maintains strong capital and liquidity position. The figures as at 31 December 2011 were:

- The **consolidated capital adequacy** at 15.5% and the (core) **Tier 1 ratio** at 11.7%.
- The **loan to deposit ratio** at 72.7% and **net stable funding ratio** at 135.1%.





The charts show the net profit attributable to owners of the parent.

Financial Ratios

	2011 (%)	2010 (%)	Y/Y Change (pp)
Underlying return on average equity (Underlying ROAE) [1)]	18.0	19.6	(1.6)
Reported return on average equity (ROAE) [2)]	17.9	20.3	(2.4)
Underlying return on average assets (Underlying ROAA) [3)]	1.24	1.50	(0.26)
Reported return on average assets (ROAA) [4)]	1.23	1.55	(0.32)
Net interest margin [5)]	3.35	3.36	(0.01)
Underlying cost/income ratio [6)]	45.6	44.7	0.9
Reported cost/income ratio [7)]	45.4	44.0	1.4
Credit Cost Ratio [8)]	0.36	0.75	(0.39)

	31. 12. 2011 (%)	31. 12. 2010 (%)	Y/Y Change (pp)
Loan-to-deposit ratio [9)]	72.7	68.5	4.2
Capital adequacy ratio [10)]	15.54	18.03	(2.49)

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 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 year.

9) Loan-to-deposit ratio is calculated as a ratio of gross loans and advances given to clients other than banks (numerator) to deposits received excluding repo transactions with credit institutions and pension funds clients deposits (denominator).

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.

pp = percentage point

Main Events

On 13 May 2011, KBC Bank approved **distribution** of the non-consolidated net **profit for the year 2010** in total amount of CZK 12.8 bn and the non-distributed profit from previous years in total amount of CZK 5.0 bn. The **dividend** per share was CZK 60.87. Dividends were paid on 18 May 2011.

Personnel changes in the ČSOB's bodies:

- Patrick Vanden Avenne was elected a member of the ČSOB's Supervisory Board (to a new term in office) with effect from 15 June 2011. He has been a member of ČSOB's Supervisory Board since April 2006.
- Dirk Mampaey was dismissed from the ČSOB's Supervisory Board and from the ČSOB's Audit Committee with effect from 30 June 2011.
- Philip Marck was elected a member of the ČSOB's Supervisory Board and a member of the ČSOB's Audit Committee with effect from 1 July 2011. He replaced Dirk Mampaey in both bodies.

KBC Group amended the strategic plan as approved by the European Commission in 2009; the **new strategic plan** was approved by the European Commission on 27 July 2011. KBC Group replaced the originally planned transaction: (i) IPOs of a minority stake of ČSOB and K&H Bank (Hungary) and (ii) the sale and lease back of KBC's headquarter offices in Belgium by the following: (i) the divestment of KBC's Polish banking and insurance subsidiaries, Kredyt Bank and Warta, and (ii) the sale or unwind of selected ABS and CDO assets. The rationale behind the amendment was that some measures presented in the original plan had become less effective due to changes in the regulatory environment (especially Basel III and IFRS) and the difficulty involved in floating K&H Bank in the prevailing circumstances.

The two pension funds of the ČSOB group, **ČSOB PF Progres and ČSOB PF Stabilita, merged** on 30 November 2011. Merger of the two 100% owned pension funds within the ČSOB group is a step in line with the transformation pension funds into pension companies, which will offer different investment strategies from beginning 2013.

ČSOB Investiční společnost merged with ČSOB Asset Management on 31 December 2011. ČSOB IS became a successor company and afterwards was renamed to ČSOB Asset Management, a.s., investiční společnost. In relation to the merger, the amount of the share capital of the succession company, ČSOB AM/IS, was increased from CZK 216 m to CZK 499 m and the number of shares issued changed from 216 to 499 (each with a nominal value of CZK 1 m).

Awards

In 2011, ČSOB was the first Czech bank ever to receive an award by the three highly prestigious international financial magazines, The Banker, Euromoney and Global Finance.

Major awards won by the ČSOB group in 2011 included:

- Banker magazine: Bank of the Year 2011 in the Czech Republic
- Global Finance: Best Bank 2011 Czech Republic
- EMEA Finance magazine: Best Bank Czech Republic
- Euromoney Awards for Excellence: Best Bank 2011 Czech Republic

Specialized awards:

- Global Finance Best Trade Finance 2011
- Global Finance Best Foreign Exchange Provider 2011
- Global Finance Best Sub-custodian 2011
- Best Bank in Acquisition Finance 2011 in Eastern Europe
- The *Zlatá koruna* 2011 contest awarded ČSOB Leasing best in retail and SME leasing categories and three additional prizes for various ČSOB group companies.
- The *Hospodářské noviny* daily awarded PSB as the most client friendly bank in Czech Republic.
- In the Bank of the Year 2011 contest, ČSOB named the Bank without Barriers. In total 11 categories, the ČSOB group won a gold, two silver and four bronze medals.

Innovation Leadership in 2011

Enhancing the Product Offer:

ČSOB and PSB further increased the security of paying with a card at the Internet, using the **3D Secure service**. ČSOB is the only major Czech bank to offer such service. After entering the card data in one of the selected e-shops (Czech or abroad), an SMS key is sent to client to confirm the payment. The access to Internet banking application was secured further by requiring an SMS key or a certificate at a card.

ČSOB and PSB under the Era brand launched a **banking application for smartphones and tablets**. The free-of-charge application can be used by ČSOB and PSB clients as well as other banks' customers (only selected functions available to the latter). Within two weeks from the launch, over 20,000 clients downloaded it and made over 5,000 transactions in the total of CZK 42 m.

ČSOB launched a new solution for businesses, the **Deposit card**. Using the deposit ATMs, employees of the client companies are able to deposit cash into the ATM at any time of the day. The card only allows depositing the money to a specific account number and checking the balance. The deposits are free of charge.

Hypoteční banka (HB) launched its proprietary real estate price index, **HB index**. It captures prices in transactions by HB's clients financed by mortgages. HB also launched two innovative **products with progressive or degressive repayment of the mortgage**. They are aimed e.g. at graduates who can increase their installments with their remuneration or e.g. managers who may decrease their installments after they or their spouse stays home with a child.

ČSOB enhanced its **ČSOB Credit Card**. The grace period was extended 10 days to 55 days. The free insurance of the goods purchased with the card against damage, destruction and theft was expanded to 180 days. And the 24 month statutory guarantee is now automatically extended by 12 months free of charge.

ČMSS introduced the **On-line Account from the Fox** which combines the flexibility of Internet banking and low fees. Further benefits may be reaped if the client uses the Maxkarta card.

Enhancing Distribution:

In 2011, **ČSOB branches** started to **adjust their office hours** to meet the clients' needs; more than 60% of branches opted for an adjustment, including opening at weekends.

Hypoteční banka opened a **virtual branch** for clients for whom it's difficult to visit a standard branch. It offers a conversation with live banker over the Internet between 5pm and 9pm.

Via its distribution channels, **ČMSS** began **to offer life and property insurance by ČSOB Pojišťovna** in 2011.

2. Financial Results

All financial figures hereinafter were drawn from ČSOB's 2011 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

	2011 (CZKm)	2010 (CZKm)	Y/Y Change (%)
Interest income	33,318	33,384	(0.2)
Interest expense	(8,510)	(9,109)	(6.6)
Net interest income	24,808	24,275	2.2
Fee and commission income	9,040	8,872	1.9
Fee and commission expense	(3,672)	(3,432)	7.0
Net fee and commission income	5,368	5,440	(1.3)
Dividend income	41	45	(8.2)
Net gains from financial instruments at fair value through profit or loss	1,460	1,823	(20.0)
Net realized gains on available-for-sale financial assets	642	86	649.6
Other net income	440	1,345	(67.3)
Operating income	32,759	33,014	(0.8)
Staff expenses	(6,779)	(6,414)	5.7
General administrative expenses	(7,182)	(7,053)	1.8
Depreciation and amortization	(911)	(1,049)	(13.2)
Operating expenses	(14,872)	(14,516)	2.5
Impairment losses	(5,062)	(3,386)	49.5
In which Impairment on loans and receivables	(1,822)	(3,429)	(46.8)
Share of profit of associates	145	226	(35.7)
Profit before tax	12,970	15,338	(15.4)
Income tax expense	(1,764)	(1,776)	(0.7)
Profit for the year	11,206	13,562	(17.4)
Attributable to:			
Owners of the parent	11,172	13,471	(17.1)
Non-controlling interests	34	91	(63.5)

Discussion of the Main Statement of Income Items

With a 75.7% share, the **net interest income** is the largest part of the operating income. The ČSOB group generated 2.2% higher NII in 2011 compared to 2010. The growth was driven by the increase in the volume of credit portfolio loans (especially mortgages and corporate loans). The NII from other than credit institutions grew 4.2%. The net interest margin remained stable compared to 2010. The reduction of selected sovereign bonds had on the other hand a negative impact on NII.

Among the different reporting segments, the highest contribution came from the Retail/SME segment which represents 76.3% of the consolidated NII; the segment's NII grew 6.3% year on year. The corporate segment, making up 9.4% of the consolidated NII, grew 5.5% year on year. The remaining two segments, Financial markets and Group Center (where the aforementioned reduction of sovereign bonds is reported), decreased year on year by 37.6% and 9.5%, respectively.

The **net fee and commission income** (NFCI) decreased by 1.3% in 2011 vs. 2010. The decrease was primarily due to higher payments to the deposit insurance fund by CZK 177 m year on year in relation to the annual deposit insurance premium went up from 10 to 16 bps effective since mid-2010. Excluding the contribution to the fund, the NFCI would show a slight growth of 1.7% year on year.

Staff expenses represent 45.6% of the ČSOB group's operating expenses in 2011. It includes wages and salaries, variable compensation and social security charges. The total staff expenses grew 5.7% year on year due to the regular annual wage adjustment as well as the increased number of employees.

General administrative expenses (GAE) contribute 48.3% to the ČSOB group's operating expenses in 2011. GAE include rental, maintenance and operating expenses on buildings, IT costs and communication expenses, professional fees, marketing and entertainment expenses and other miscellaneous expenses. GAE showed a slight year-on-year increase of 1.8%.

IT expenses are the largest single item of GAE, with a 39% share in the total GAE in 2011. This item showed a minuscule increase (0.8% year on year). Other major items of GAE also grew in 2011: marketing expenses (12.9% of GAE) by 8.5% year on year due to a higher number of marketing campaigns in 2011 compared to 2010. Rental expenses (8.8% of GAE) increased by 6.6%.

Impairment losses comprise estimates of 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 impairments went up significantly by 49.5% year on year.

This trend is a result of two contradictory developments: **impairments on loans and receivables** (also referred to as credit costs) prolonged the decrease from 2010 into 2011 as they dropped by 46.8% year on year to CZK 1.8 bn. The **impairments on available-for-sale assets** expanded significantly from CZK 5 m to CZK 3.1 bn, which is related to impairments of Greek bonds. For further detail on the impairment please refer to the next section.

As a result of the above trends, the **total consolidated net profit of ČSOB** reached CZK 11,206 m, i.e. 17.4% less year on year. The profit attributable to owners of the parent equaled CZK 11,172 m (17.1% lower than the comparable figure for 2010).

Consolidated Statement of Financial Position

(Condensed)

	2011 (CZKm)	2010 (CZKm)	Y/Y Change (%)
Financial assets held for trading	176,703	173,810	1.7
Available-for-sale financial assets	87,404	102,521	(14.7)
Held-to-maturity investments	139,423	150,240	(7.2)
Loans and receivables	449,291	399,741	12.4
Total assets	936,593	885,055	5.8
Financial liabilities held for trading	165,914	138,870	19.5
Deposits received from other than credit institutions	611,569	596,079	2.6
Total liabilities	875,410	819,215	6.9
Total equity	61,183	65,840	(7.1)
Total liabilities and equity	936,593	885,055	5.8

Discussion of the Statement of Financial Position Items

Total consolidated assets of ČSOB grew 5.8% year on year. The items contributing to the increase were loans and receivables (added CZK 49.6 bn between the year ends of 2010 and 2011; represented 48% of the asset total) as well as cash and balances with the central bank. This was partly offset by decreases in available-for-sale financial assets and held-to-maturity investments. Loans and receivables are further discussed in the Business Results section below.

Before going into the discussion of the individual balance sheet items, the Board of Directors would like to outline the measures undertaken vis-à-vis the outcome of the financial crisis.

- **Focus on client business:** As first signs of modest recovery surfaced in late 2010, the Board of Directors had turned its focus to the growth of the loan portfolio during 2011, without compromising on ČSOB's cautious approach to risk. This had implications for the balance sheet: the amount of loans and receivables grew sharply on the expense of securities portfolios.
- **Maintaining high liquidity:** ČSOB maintains very healthy liquidity as measured by both the loan-to-deposit ratio (72.7% at 2011 year end) and the net stable funding ratio* (135.1% at 2011 year end).
- **Reducing the exposure to Greece:** In 2010, the Board of Directors decided to gradually sell down its portfolio of Greek bonds and classified them as available for sale assets. CZK 3.9 bn of the bonds had been sold by the year end. After the rescue plan for Greece was approved in July 2011, ČSOB impaired its portfolio of Greek government bonds. The carrying amount of the remaining Greek government bonds was CZK 1.6 bn as at 31 December 2011; therefore 69% of the nominal value had been impaired.
- **Reducing the exposure to Hungary:** Due to significant deterioration of Hungary's creditworthiness, the Board of Directors decided to gradually sell the portfolio of bonds issued by the Hungarian government, which had been accomplished by the 2011 year end.
- **Limiting the exposure to other countries:** ČSOB has no exposure to Ireland and Portugal. Book value of ČSOB's Italian bonds is CZK 1.0 bn and Spanish bonds CZK 0.6 bn. The book value of these bonds (which reflects their amortized cost) is close to the fair value.

* *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).*

Further sensitivity of ČSOB's profit to development in the PIIGS countries is limited, given the percentage of the impairments already booked on Greek bonds and relatively low exposure to the governments of Spain and Italy in relation to the profit of ČSOB (as in 2011). With the information at hand as of the date of issue of this Annual Report, the Board of Directors believes no impairments are imminent to bonds issued by Spain and Italy.

As mentioned above, the aggregate amount of securities portfolios decreased over 2011 with the year-on-year changes being as follows:

- Financial assets at fair value through profit or loss increased slightly by 1.5% to CZK 187.7 bn.
- Available-for-sale financial assets decreased by 14.7% to CZK 87.4 bn.
- Held-to-maturity investments decreased by 7.2% to CZK 139.4 bn.

ČSOB actively reduced the amounts of government bonds which are the dominant part of securities portfolios, which was the main contributor to the downward trend. The reductions were split among the three categories as follows:

- Financial assets at fair value through profit or loss: decreased by 15.5% to CZK 30.2 bn.
- Available-for-sale financial assets: decreased by 18.0% to CZK 57.0 bn.
- Held-to-maturity investments: decreased by 6.4% to CZK 132.7 bn.

Further discussion of the portfolios can be found in the accompanying notes to the 2011 consolidated financial statements, incl. the breakdown of exposure per type of borrower (Notes no. 16-18) or per country (Note no. 39).

No treasury shares were held by the ČSOB group at 31 December 2011 and 2010.

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 optimum capital structure, the ČSOB group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Between 31 December 2010 and 31 December 2011, the ČSOB group's **capital requirement increase** was mainly driven by two factors:

- 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.
- The **implementation of Capital Requirement Directive 3** (CRD 3) and hence the increase in the market risk capital charge due to the introduction of stressed VAR.

Consolidated Capitalization and Risk Weighted Assets of the ČSOB Group

(CZKm, unless indicated otherwise)	2011	2010	Y/Y Change (%)
Share capital and premium	13,364	13,364	0.0
Reserve funds and retained profit	30,322	35,060	(13.5)
Goodwill and intangibles	(3,314)	(3,625)	(8.6)
Negative valuation difference from real value changes in realized capital instruments	0	(70)	(100)
Minority interest	892	854	4.4
Core Tier 1 capital	41,264	45,583	(9.5)
Tier 1 capital	41,264	45,583	(9.5)
Tier 2 capital	14,080	12,564	12.1
Deductible items of Tier 1 *	(470)	(313)	50.2
Deductible items of Tier 2 *	(470)	(313)	50.2
Total capital	54,404	57,522	(5.4)
Capital requirement on credit and settlement risk	22,966	21,564	6.5
Capital requirement on market risk	1,382	613	125.4
Capital requirement on operational risk	3,660	3,354	9.1
Total capital requirement	28,008	25,530	9.7
Risk weighted assets	350,101	319,124	9.7
Tier 1 ratio (in %)	11.65	14.19	(2.54)pp
Core Tier 1 ratio (in %)	11.65	14.19	(2.54)pp
Capital adequacy ratio (in %)	15.54	18.03	(2.49)pp

Calculation is based on ČNB rules.

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

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

Consolidated Statement of Income – Underlying

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

The ČSOB group calculates the underlying net profit attributable to equity holders of ČSOB and the 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 EU IFRS net profit attributable to equity holders of ČSOB and operating income by segment, respectively. The majority of the adjustments has historically related to the adverse impact of the global financial crisis, which the Board of Directors believes to be of a non-recurring nature. The Board of Directors further believes that the application of these adjustments provides supplemental information that more closely reflects the underlying financial performance of the ČSOB group's business and enhances the comparability of the financial information across the relevant periods.

Although the general approach to calculation of the underlying profit aims to exclude the impact of the financial crisis, the methodology calls for revaluations of available-for-sale assets to be included in the underlying result. Hence, the impairments taken on Greek government bonds are included in the underlying net profit.

The underlying net profit reached CZK 11.2 bn (14% lower year on year) and was CZK 50 m higher than the net profit under IFRS. The main extraordinary item, for which the reported net profit was adjusted, was a positive revaluation of bonds in the FVPL portfolio and non-hedging derivatives.

When comparing the reported net profit year on year, one must bear in mind that the comparison is slightly distorted also by one-off items in the 2010 reported net profit (totaling CZK 452 m), wherein the largest item was a settlement payment received from KBC GS CZ for the transfer of ICT services.

Consolidated Statement of Income – Underlying

	2011 (CZKm)	2010 (CZKm)	Y/Y Change (%)
Interest income	33,318	33,384	(0.2)
Interest expense	(8,510)	(9,109)	(6.6)
Net interest income	24,808	24,275	2.2
Net fee and commission income	5,368	5,440	(1.3)
Net gains from financial instruments at FVPL *	1,335	1,631	(18.2)
Other operating income *	1,123	1,131	(0.7)
Operating income *	32,634	32,477	0.5
Staff expenses	(6,779)	(6,414)	5.7
General administrative expenses	(7,182)	(7,053)	1.8
Depreciation and amortisation	(911)	(1,049)	(13.2)
Operating expenses	(14,872)	(14,516)	2.5
Impairment losses *	(4,911)	(3,386)	45.1
In which Impairment on loans and receivables	(1,822)	(3,429)	(46.8)
In which Impairment on available-for-sale securities	(3,062)	(5)	>100
Share of profit of associates *	145	206	(29.8)
Profit before tax *	12,996	14,781	(12.1)
Income tax expense *	(1,741)	(1,671)	4.1
Profit for the year *	11,255	13,110	(14.1)
Attributable to:			
Owners of the parent *	11,222	13,019	(13.8)
Non-controlling interests	34	91	(63.5)

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.*

Credit Rating

In this section, the Board of Directors discusses events related to ČSOB's credit ratings between 1 January 2011 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").

On 30 November 2011, **Moody's** changed the outlook on Czech banking system as a whole from stable to negative. There was no change to individual ratings of Czech banks, the release commented on the trends to be seen in the economy and banking sector in the coming 12-18 months. The change in outlook primarily reflected the agency's view that the banks' operating environment would weaken, amidst a broader EU economic slowdown. This would – the agency argued – create renewed pressures on asset quality and impair the banks' profitability and capitalization. At the same time, Moody's recognized that the banking system enters this more challenging period with high capital buffers and a stable deposit funding base.

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 22 December 2011, **Fitch** placed on rating watch negative nine subsidiaries of major European banks in Central and Eastern Europe and the Commonwealth of Independent States, which also included ČSOB.

Following a downgrade of Belgium to AA, KBC credit rating was downgraded one notch to A- on 31 January 2012. On 3 February 2012, Fitch also downgraded ČSOB one notch to BBB+.

The Board of Directors's Assessment of 2011 and Expectations for 2012

In 2011, the Czech Republic's real GDP increased by 1.7% year on year, which created a favorable environment for the banking sector. The market for company loans and especially mortgages expanded significantly. Building savings loans (as well as the savings) stagnated due to insecurity among clients on the building savings system. Both corporate and retail deposits grew with a solid pace while mutual funds continued to lose their preference among clients.

Year of 2011 was successful for the ČSOB group, which saw growth of group deposits and especially credit portfolio. The ČSOB group succeeded the most in loans for the corporate segment and in mortgages. Credit cost took an opposite path and returned to pre-crisis levels. However, ČSOB was hit by the negative development in Greece which was duly reflected in the impairment of the country's government bonds. Without this single influence, ČSOB would meet its 2011 business plan.

ČSOB builds 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. In 2011, ČSOB witnessed increased cautiousness on the part of its clients, visible especially among SMEs and corporates but also among mortgage clients.

In addition to the above, the Board of Directors would like **to discuss the development of risk-related variables**:

- **The credit cost ratio** contracted to 36 bps in comparison with 75 bps for 2010 due to the decrease in impairments on loans and receivables. The most significant improvement of credit costs was recorded in SME and corporate loans, but was also seen in all areas of retail lending – mortgages, building savings loans and consumer finance.
- **The NPL ratio** * decreased by 17 bps year on year to 3.88%. The NPL ratio was positively influenced by the growth of credit portfolio. Non-performing loans were dropping in certain sectors but overall NPL showed a growth.
- **The provision coverage of NPLs** stands at high 73.5%. Housing loans (mortgages and building savings loans), representing more than a half of the group's loan portfolio, require less provisioning given the fact they are largely secured by collateral. The NPLs from the remaining part of the portfolio are fully covered by allowances, i.e. showing the coverage ratio above 100%.

** 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 the KBC group.*

In 2012, the ČSOB group will continue to focus on the provision of high quality service to its 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 an expansion of its client base. ČSOB's macroeconomic outlook as of the date of this Annual Report show a slight GDP growth in 2012, albeit at a slower pace compared to 2011. This will again create a good foundation for an increasing demand by Czech households and companies for banking products and services. The ČSOB group will endeavor to maintain high profitability while sticking to its focus on asset quality. Strong capital and liquidity positions of the ČSOB group allow it to grow the credit portfolio faster than its group deposits without abandoning its independence from market funding. The Board of Directors assumes that the positive state of low credit costs as was the case in 2011 cannot be sustained and they will increase in 2012.

3. 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.

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, and particularly on the ČSOB group's level of net interest income and net interest margin:
   - An increase in interest rates may have a favorable effect on margins.
   - On the other hand, an increase in interest rates may also increase funding costs and result in a more cautious approach of customers towards borrowing, thereby driving down loan volumes.

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 no. 39 to the consolidated financial statements.

5. ČSOB, as any bank, is influenced by the **regulatory environment** in force and in making. In 2011, ČSOB analyzed impact of the Basel III regulation and incorporated major changes and ratios 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:** The sector is becoming more competitive, particularly in the retail sector, where new entrants have recently offered mainly higher deposit interest rates. Moreover, 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

1

Building Savings Loans [1]	43.8%	↘
Building Savings Deposits [1]	36.4%	↗
Mortgages [1]	29.2%	↗
Housing Loans [1), 4)]	34.8%	↗
Mutual Funds [1]	31.0%	↗

2

Deposits [1]	21.6%	↘
Total Loans and Leases [1]	18.3%	↗
Factoring [2]	21.9%	↘
Leasing [2]	12.1%	↗

3

Pension Funds [3]	15.7%	↘
Corporate / SME Loans [1]	13.5%	↗
Other Retail Loans [1), 5)]	14.9%	↗

Insurance	Market Share		Rank
Life [2), 6)]	7.4%	↘	5
Non-life [2]	5.7%	↗	6
Total [2), 6)]	6.3%	↘	5

Arrows show year on year change. Market shares as at 31 December 2011.

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 40.2% of ČSOB's assets and 63.6% of ČSOB's liabilities**.

The segment focuses on deposits, lending, mutual and pension funds and certain ancillary services for retail and SME customers. Retail customers comprise private individuals and entrepreneurs. The former include affluent (with total savings 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 2011, the ČSOB group had more than 4 million unique retail and SME customers in the Czech Republic.

** Internally set limit.*

Most notable events and trends in the sector included:

- One of the key topics of 2011 in the ČSOB-branded retail subsegment was **enhancing the existing payment products**. Based on a survey among its self-employed clients, ČSOB started offering a personal current account in addition to the business current account, so that the clients are able to manage their business and personal finances easily. Family package to the Active current account was launched, providing active clients (with many transactions or several debit cards) with additional transactions for a flat fee. Deposit ATMs were installed in large numbers during 2011.
- After separating the **SME** subsegment into a separate management line in 2010, ČSOB implemented the new managerial system and staffed the SME branches in 2011 to allow for more focus and a faster growth. The new concept was proved as the year on year increase of the new business reached 63%.
- **New products** were launched under the **Era** brand: Era United loan for consolidation of loans and Era Online account – a current account through which all Era products may be provided.
- The **3D secure** application for payments with a payment card over the Internet was launched. Within the first five weeks, over 36,000 ČSOB and PSB clients were using the service. As of 2011 year end, over 75,000 payment cards had the service activated. As of the date of this Annual Report, the number exceeded 100,000.
- **ČSOB Private Banking** enjoyed a stable number of clients and a growth of 23% year on year in the volume of sales of investment products. ČSOB Private Banking offered its clients a special issue of mortgage bonds by Hypoteční banka.

- ČSOB was the **most successful institution** in the Czech Republic **in distributing Czech government bonds for retail clients** with a total of CZK 10 bn sold to retail and private banking clients.
- Although being number one in its market, **ČMSS** managed to increase its market shares both in new building savings contracts as well as in new loan business. ČMSS exceeded a 50% market share in both domains. Despite difficult market conditions, ČMSS was able to maintain its very strong financial performance and stability with more than satisfactory levels of the net profit, capital adequacy, the cost income ratio and very low credit costs.
- Year 2011 saw the second highest amount of mortgages granted, after the pre-crisis year of 2007 in the Czech Republic. **Hypoteční banka** was the most important mortgage provider with a 28% share in newly granted volumes.

Retail and SME: Key Volumes

	2011 (CZKm)	2010 (CZKm)	Y/Y Change (%)
Credit portfolio – retail (consumer loans and mortgages)	180,591	163,085	10.7
Credit portfolio – SME	66,039	62,936	4.9
Credit portfolio – building savings loans (55%)	71,656	71,946	(0.4)
Credit portfolio – leasing	22,843	23,325	(2.1)
Building savings (55%)	85,978	86,139	(0.2)

All mortgages provided via various distribution channels are booked in Hypoteční banka. During 2011, approximately 20,000 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 five years.

SME: Credit Portfolio Volumes by Type

	As at 31 December 2011	
	(%)	(CZKm)
Investment loans	68	44,809
Short term loans	32	21,230
Total	100	66,039

Corporate

Corporate banking includes the corporate services of ČSOB and ČSOB Factoring. **With a 10.8% share in both assets and liabilities of ČSOB,** 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. ČSOB's corporate segment principally targets medium-sized or mid-cap corporations, and seeks to combine local market expertise and products and standards of service customary in developed markets. As at 31 December 2011, the ČSOB group had over 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. Thanks to the range of its products combined with its distribution network, the ČSOB group is 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 portfoilo have continuously grown since February 2011 and reached CZK 95.2 bn which helped to improve ČSOB's market share. The asset growth is accompanied by a low growth in impairments and improving structure of the credit portfolio. Off-balance-sheet exposure also grew by more than 10% year on year.
- The most successful innovations of 2011 included: new interest rate hedging products (loans with an embedded hedging), operating financing of receivables using the administration system of ČSOB Factoring and many enhancements of payment card acceptance, e.g. contactless card acceptanse or electronic bills archiving.
- The corporate and institutional banking of ČSOB intensified its cooperation within the ČSOB group; that with ČSOB Leasing was the most dynamic one. The corporate and retail segments of ČSOB approach together large corporations with a large retail client base.

Corporate: Key Volumes

	2011 (CZKm)	2010 (CZKm)	Y/Y Change (%)
Corporate credit portfolio	95,224	76,501	24.5
Factoring	4,142	3,560	16.3
Total	99,366	80,061	24.1

Financial Markets

The Financial markets segment **represents 21.4% of ČSOB group's assets and 18.9% 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 tool for sales activities. Income generated directly from customers is accounted for within the retail/SME and corporate segments, while the operating income reported within the Financial markets segment is generated primarily from proprietary trading by the ČSOB group.

Group Center

The Group Center **comprises 27.6% of ČSOB group's assets and 6.7% of its liabilities**. The segment comprises of the following:

- The ČSOB group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the corporate and retail plus 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 gain on disposal of ICT business (only in 2010).

ALM was transferred from the Financial markets and ALM segment to the Group Center segment in 2011. All 2010 figures were reclassified to allow for like-to-like comparison.

Insurance

As at 31 December 2011, **ČSOB Pojišťovna** was the fifth largest life insurance company in the Czech Republic with a 7.4% market share in terms of gross written premiums and the sixth largest non-life insurance company in the Czech Republic with a 5.7% 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 both individuals and fleets), house, accident, travel and industrial insurance. As at 31 December 2011, ČSOB Pojišťovna had approximately 927,000 customers, comprising of individuals and business entities (including SME's as well as large corporations). Insurance products are mainly distributed through financial advisors, brokers and ČSOB group's branches.

ČSOB Pojišťovna is **rated by Standard & Poor's Rating Services**. Following a rating watch negative on the sovereign rating of Belgium, the agency lowered the long-term rating on KBC Group on 8 December 2011 by one notch to BBB+ and the long-term rating on its core insurance operation KBC Insurance by one notch to A-. On the same day, ČSOB Pojišťovna's rating was downgraded one notch to BBB+ with a stable outlook.

Most notable events and trends in the sector included:

- 2011 brought significant success in **bancassurance**. The *ČSOB Duo Bonus 1* tranche of the Maximal Invest unit-linked life insurance product exceeded CZK 1.5 bn in volume, making it the most successful Maximal Invest tranche in ČSOB group's history. Distribution of life and property insurance via ČMSS was also launched and begins to bear fruit.
- In mid-2011, ČSOB Pojišťovna launched the *Naše Auto* **car insurance**, where the price is based rather on the history of the driver, than the characteristics of the car. This was an attractive approach: ČSOB Pojišťovna covered over 400,000 cars by the end of 2011.
- **Fast claim processing and settlement:** While no large scale damages occurred in 2011, the number of standard claims increased to over 190,000; a total of CZK 6.8 bn was distributed to clients. Benefits for common damages under non-life policies (cars, houses, property), i.e. over 80% of clients, are paid within 2-3 days.

Insurance: Key Figures

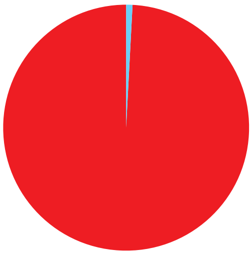
	2011 (CZKm)	2010 (CZKm)	Y/Y Change (%)
Single life insurance	5,367	3,609	48.7
Regular life insurance	2,819	2,682	5.1
Life insurance total	8,186	6,291	30.1
Non-life total	4,026	3,944	2.1
Total	12,212	10,235	19.3
Amount of benefits paid to clients	6,769	5,332	26.9
Number of cases settled	190,205	182,078	4.5

ČSOB Group Synergies

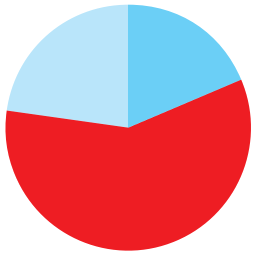
The concept of multibranding and multichannel distribution gives the ČSOB group an opportunity to better serve its target customer groups. The following charts document the cross-selling activities within the ČSOB group. This distribution model allows the ČSOB group to combine diversification with specialization.

ČSOB+PSB
ČSOB PF Stabilita
ČSOB Factoring
ČSOB Pojišťovna
ČMSS
ČSOB AM/IS
Hypoteční banka
ČSOB Leasing

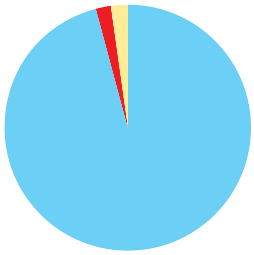
Building Savings
2011 Number of New Contracts



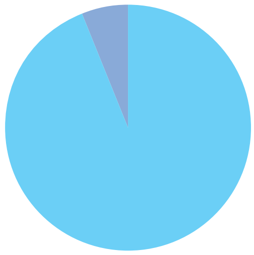
Pension Funds
2011 New Sales



Mutual Funds
2011 New Sales



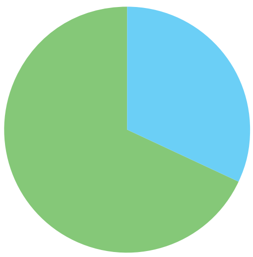
Factoring
2011 New Turnover



The charts show the volumes of new business for mutual and pension funds and factoring via various distribution channels of the ČSOB group in 2011. The number of new contracts concluded in 2011 is shown in the building savings chart.

Investment funds are distributed exclusively through the channels of the ČSOB group. For other products, distribution by third parties is included in the figures for the respective product companies, i.e. ČSOB PF Stabilita for pension funds, ČMSS for building savings and ČSOB Factoring for factoring.

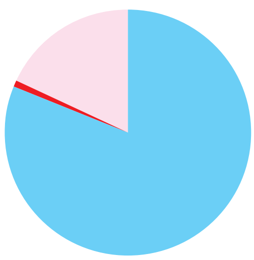
Mortgages
2011 Gross Sales



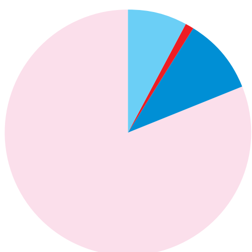
The chart shows the distribution of gross sales of mortgages per brand.

The volume of mortgages distributed under brands outside the ČSOB group is negligible. The volume of business originated by third parties is included under the brand of the company with which the third party distributor cooperates.

Life Insurance
2011 Gross Written Premium



Non-life Insurance
2011 Gross Written Premium



The charts show the distribution of gross written premium via various distribution channels of the ČSOB group.

The volumes represent the whole 2011. New business originated by third parties is not included in the calculation.

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 markets 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 legal entity, fully controlled by KBC Bank via 100% of voting rights.

ČSOB

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

ČSOB is operating under two recognized brands in the Czech Republic – ČSOB and Poštovní spořitelna (Postal Savings Bank – PSB). It provides its services to all groups of customers, i.e. retail as well as SME, corporate and institutional clients. Clients are served via ČSOB branches, PSB's Financial Centers and post offices of the Czech Post. Services under the ČSOB and PSB brands are also distributed through the entire ČSOB group and through various direct banking channels. Since 2010, PSB offers its customers a range of modern banking products under the brand Era. 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 customers a wide range of banking products and services, including the products and services of the entire ČSOB group. The ČSOB group's product portfolio includes financing housing needs (mortgages and building savings loans), insurance and pension fund products, collective investment products and asset management and specialized services (leasing and factoring). The ČSOB group conducts its operations in the Czech Republic through a number of subsidiaries, and operates through four leading brands, namely ČSOB, PSB, Hypoteční banka and ČMSS. ČSOB group provides its services to all groups of customers, i.e. retail as well as SME, corporate and institutional clients.

As of the end of 2011, ČSOB group served for 4 million customers and employed over 7.8 thousand employees (FTEs).

With total assets of CZK 936.6 bn as at 31 December 2011 and total net profit of CZK 11.2 bn in 2011, the ČSOB group is one of the top three banking groups in the Czech Republic. As at 31 December 2011 the ČSOB group had CZK 611.6 bn of group deposits and a credit portfolio of CZK 441.1 bn.

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

ČSOB Group in Figures

(as at 31 December 2011)

Employees (FTEs)	7,769
Customers	>4 million
of which ČSOB and PSB	3,096 ths
Users of internet banking (ČSOB and PSB)	1,237 ths
Branches and advisory centers	593
ČSOB retail / SME branches	241
ČSOB corporate branches	11
PSB branches ("Financial centers")	62
Other [1]	279
PSB outlets of Czech Post network	ca. 3,200
ATMs [2]	831

1) Including branches of Hypoteční banka, ČSOB Leasing and ČSOB Pojišťovna and advisory centers of ČMSS.
2) Doesn't include cash desks with the CashBack service in Albert and COOP stores and ČEPRO EuroOil petrol stations.

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 customers. 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 2011, KBC Group served approximately 9 million customers in its five home markets and employed close to 48 thousand employees (FTEs), nearly 29 thousand of whom in Central and Eastern Europe. For more information please refer to the 2011 Annual Report of KBC Group available on www.kbc.com.

KBC Group's Shareholders

(as at 31 December 2011)

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

Source: www.kbc.com.

KBC Group's shares are traded publicly on the Euronext Exchange in Brussels and on the Luxembourg Stock Exchange.

KBC Group in Figures

(as at 31 December 2011)

Total assets	EURbn	285.4
Loans and advances to customers	EURbn	138.3
Deposits from customers and debt securities	EURbn	165.2
Net profit	EURm	13
Underlying net profit	EURm	1,098
Tier 1 ratio, group level (Basel II)	%	12.3
Cost/income ratio, banking (based on underlying profit)	%	60

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

Long-term Ratings

(as at 31 December 2011)

Long-term Ratings	Fitch	Moody's	S & P
KBC Bank	A	A1	A-
KBC Insurance	A	-	A-
KBC Group	A	A2	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.

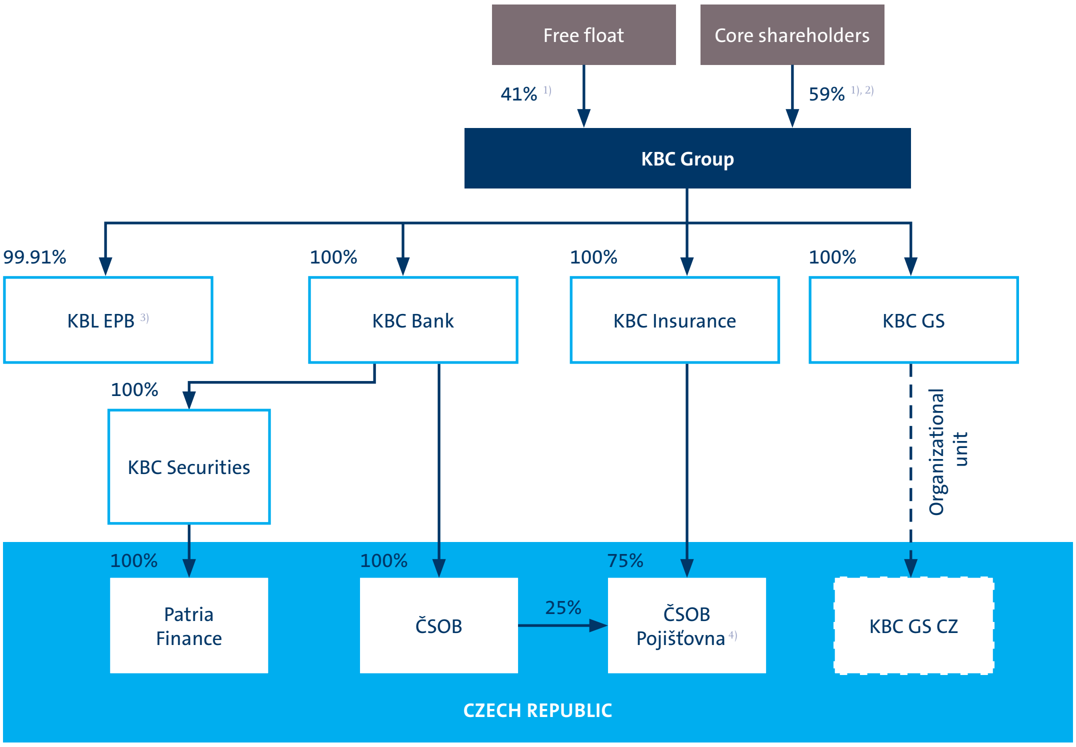
KBC Group and KBC Bank control ČSOB as they dispose with 100% of votes, based on the KBC Bank's ownership interest in ČSOB. ČSOB meticulously follows the legislation applicable on the territory of the Czech Republic to prevent any abuse of this control. ČSOB did not hold any shares of KBC or KBC Group between 1 January and 31 December 2011.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2011 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 2011)



Percentages in the chart denote the ownership interest.

1) Source: www.kbc.com.
2) Including 5% of shares owned by KBC group companies.
3) In October 2011, the KBC Group reached an agreement with Precision Capital (a Luxembourg entity) for the sale of its subsidiary KBL EPB (closing expected in the first six months of 2012).
4) Voting rights in ČSOB Pojišťovna are distributed as follows: 40% ČSOB, 60% KBC Insurance.

For a detailed overview of companies of the KBC group please refer to pages 189 – 195 of the 2011 Annual Report of KBC Group.

Corporate Social Responsibility

In the ČSOB group, social responsibility is a foundation stone of its corporate philosophy and an essential element of business.

ČSOB feels responsible for not only its clients' financial means but also for the society in which ČSOB conducts its business. Clients, suppliers, consumers, the environment and employees are important partners that's why ČSOB's, corporate social responsibility is a long-term investment into a sustainable future and **a testimonial to a way of thinking and behaving as well as an overall approach to business**.

Awards in 2011

In addition to the range of honors received by ČSOB for corporate social responsibility, there was a noteworthy award in the Bank of the Year competition: **the first place** in the category **Bank without Barriers**. ČSOB was selected by the disabled from all regions of the Czech Republic as the bank whith the easiest access.

Corporate Social Responsibility from the Perspective of...

What We Bring Our Clients

Clients naturally play a key role in the ČSOB group. At ČSOB contact points, trained advisors provide clients with accurate and impartial information. The quality of the branch and advisory network is guaranteed by a complex system of training and client satisfaction research. **The ČSOB group strictly adheres to ethical principles in business and always approaches financing responsibly.**

An intensive campaign communicating ČSOB's philanthropic activities for both the public and clients continued in 2011. The public had an opportunity to participate in philanthropic activities, especially the nomination of local mayors in towns and villages with population of up to 2,000 within the "ČSOB and ERA Support Regions" program.

Our Employees Are Key for Us

Employees are the backbone of the ČSOB group and **employee care is one of the most essential elements of corporate social responsibility**. Therefore, the ČSOB group has created an environment in which employees feel good, both within and outside their working activities. During the job selection process and employee evaluation, each individual is respected regardless of gender, race, belief or opinion.

This is illustrated by the ČSOB group offering suitable conditions for the work/life balance by means of reduced contracts and flexible working hours for employees etc. This is further supplemented by the successful "Program for Mums and Dads". Every employee has the opportunity to take advantage of a wide offer of courses and training according to their needs and goals.

We Care about the Environment

The ČSOB headquarters is located in an **environmentally friendly building in Prague - Radlice**. The building has received many awards and was the only of its kind in Europe in 2008 to receive a LEED gold certificate as an internationally recognized award for its environmental friendliness as well as additional accolades. ČSOB included the World Bank Equator Principles into its approval process, used by the banking sector to designate, evaluate and manage social and environmental risks in project financing. Furthermore, the ČSOB group finances renewable resource projects and supports the environment through its philanthropic projects. Employees are inspired by internal campaigns and internal communication to adopt a more considerate and healthier lifestyle.

Our Community

Focus on education and **financial literacy, support of the disadvantaged and the disabled** and **Internet safety** are foremost among philanthropic priorities. The "ČSOB and ERA Support Regions" program and the "Helping Together" volunteer initiative also rank high on the list of priorities.

Philantropic Projects

We Educate...

- ČSOB and PSB co-operate with the Association of Citizens' Advisory and the Advisory for Financial Straits to improve financial literacy. Advice is offered free of charge to individuals unable to repay debt due to changes in their life situations. At the same time, advice is given on how to incur debt responsibly and thereby avoid problems with regular and timely repayment.

- The ČSOB Education Fund program supported eleven projects with a combined total cost of CZK 1 m, aimed at improving financial literacy. ČSOB is the general partner in the nation-wide financial literacy competition for schools and the "Dry Run of Life" program, organized by the Múzy dětem (Muses to Children) society, for children from orphanages.

- CZK 1.1 m was donated to the Education Fund for scholarships for the physically disabled and the socially disadvantaged as a part of a joint project by ČSOB and the Committee of Good Will – the Olga Havlova Foundation. More than CZK 19 m has been distributed over sixteen years co-operation. The Very Good Creation competition was newly organized for scholarship awardees, allowing them to demonstrate their extraordinary talents.

- Together with the Foundation for Employment of the Disabled and the Ergotep cooperative for the disabled, PSB organized seminars for non-profit organizations to share the know-how in corporate social responsibility, project management, marketing, central procurement and personnel.

We Support Regions...

- ČSOB and PSB provided a total of CZK 2.1 m in small grants supporting community life, cultural heritage and landscape renewal.

- ČSOB supported landscape renewal and environmental care with three large community grants of CZK 300 ths each.

- PSB donated CZK 250 ths to the winner of the third "ERA Mayor of the Year": Pavel Kašpárek, the Mayor of Úsilné, won the prize for his municipality.

Our Employees Help...

- The ČSOB Helping Together volunteer program supported 41 projects, donating a total of CZK 1 m to employee projects providing long-term assistance to non-profit organizations.
- Over 500 ČSOB employees participated in volunteer days across the Czech Republic.
- Two collections were organized for the Sue Ryder Home charity stores. Nearly CZK 100 ths was raised by the sale of goods and all monies were donated to senior care. In addition, a charity market raising funds for the Cystic Fibrosis Club and regular fair-trade markets took place.
- The ČSOB football team participated in a charity tournament to support Sue Ryder Home.
- ČSOB employees bought more than CZK 53 ths worth of basic needs goods for abandoned children from the Thomayer Hospital Children's Centre.
- 145 ČSOB Goodwill runners from among ČSOB employess participated in the Prague International Marathon, helping the Committee of Good Will – the Olga Havlova Foundation to contribute more than CZK 176 ths to fund studies of disabled students; ČSOB employees contributed CZK 22.5 ths to the Committee of Good Will – the Olga Havlova Foundation by participating in the *Jizerská padesátka* 50 km cross-country skiing race.
- The six months employee campaign "Who if not me?" inspired employees to reflect upon all possible meanings of the word "help".
- ČSOB employees also helped in the holiday season by buying gifts for 228 children from orphanages in Dlažkovice, Liptál, Krompach, Mašťov, Planá u Mariánských Lázní and Vrbno pod Pradědem.

We Break Down Barriers...

- 2011 saw PSB to continue its long-term co-operation with the Ergotep cooperative for the disabled. Ergotep provides i.a. web projects for PSB, such as the PaySecCUP contest which is a part of the www.bezpecne-online.cz project.
- PSB is the general partner of the Linka bezpečí help line and has supported and co-operated with Konto Bariéry, the Mathilda foundation, the Rehabilitation Centre Kladruby, the Artevide foundation, the Centrum Paraple benevolent society, the Czech Paraplegic Association, the Kontakt bB association and boNGO.

For more information please refer to the ČSOB Group 2011 Sustainable Development Report at www.csob.cz.

NOTES

ČSOB Group

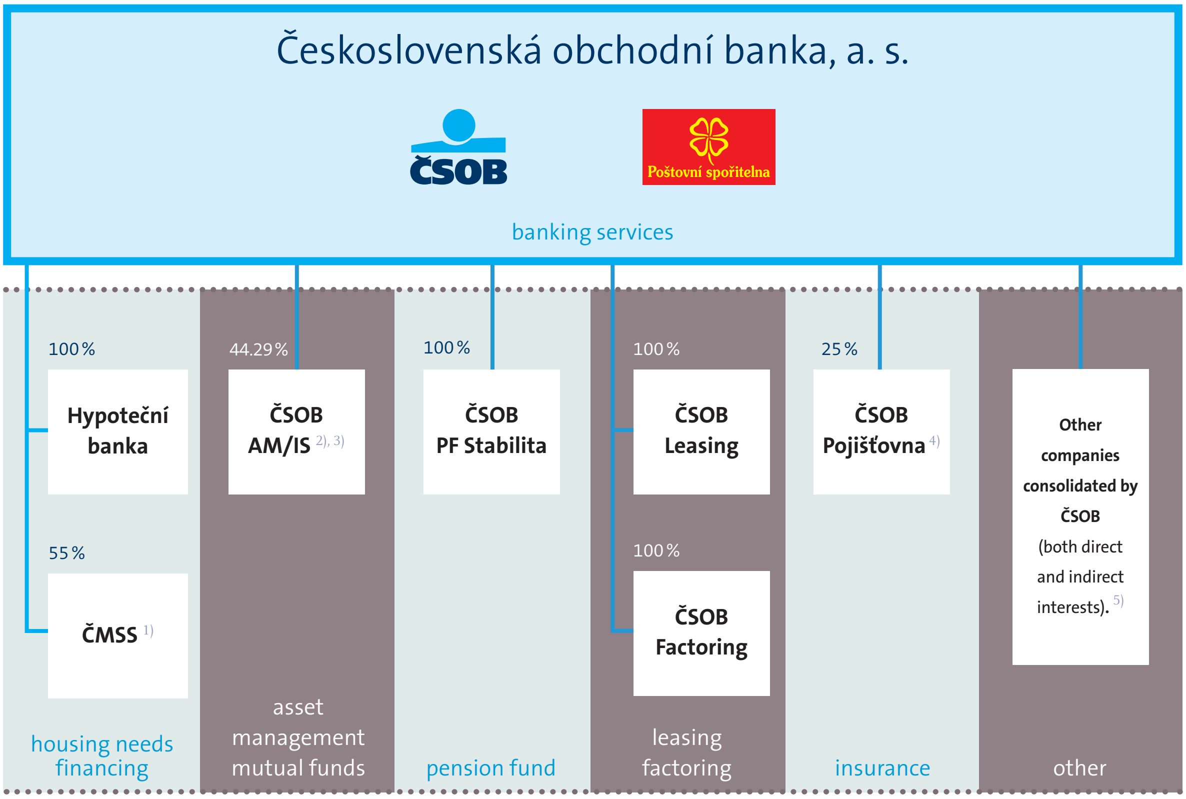
The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bancassurance KBC group which is active in Belgium and the CEE region.

As at 31 December 2011, ČSOB had ownership interests in 33 legal entities and, in addition to ČSOB, other 25 companies were included in the group of consolidated companies.

The ČSOB group offers its clients in the Czech Republic the following types of services:
banking services, building savings and mortgages, asset management, mutual fund, securities brokerage, pension funds, leasing, factoring and insurance.

ČSOB's Consolidated Group

(as at 31 December 2011, 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 2011.

1) 45% of shares owned by Bausparkasse Schwäbisch Hall; a proportional consolidated subsidiary of ČSOB.
2) 55.71% of shares owned by KBC Participations Renta; a fully consolidated subsidiary of ČSOB.
3) On 31 December 2011 ČSOB IS and ČSOB AM merged (the latter company was dissolved). The business name of ČSOB IS was changed to ČSOB Asset Management, a.s., investiční společnost.
4) 75% of shares owned by KBC Insurance; subsidiary consolidated in ČSOB by an equity method.
5) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2011.

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 5,076,333.5 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 mortgage insurance.

In 2011, Hypoteční banka provided more than 21,000 mortgage loans in total volume of CZK 35.8 bn. Maintained its position as leader in the market for new mortgage loans with a market share of 28%.

Indicator *		2011	2010
Total assets	CZKm	181,002	163,243
Loans and advances to customers	CZKm	162,787	145,070
Total equity	CZKm	24,460	21,085
Profit for the year after tax	CZKm	2,631	1,848
** EU IFRS, audited.*			
Branches		27	27
Agents and brokers	ca.	2,500	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

Contact

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

ČMSS belongs to the leading providers of financial services in the Czech Republic. Despite unfavourable market situation in 2011 ČMSS reached the highest market share of total target amount in its history and highest market share of loans volume in last 10 years.

In 2011, ČMSS has intermediated more than 283,000 new contracts on building savings and granted loans in the volume of more than CZK 27 bn. The total volume of loans granted since entering the market in 1993 reached CZK 270 bn.

Indicator *		2011	2010
Total assets	CZKm	170,878	168,936
Volume of loans and bridging loans (Retail)	CZKm	128,266	129,121
Volume of client deposits	CZKm	159,304	157,652
Total equity	CZKm	10,010	9,632
Profit for the year after tax	CZKm	2,073	2,031
** EU IFRS, audited.*			
Advisory centers		151	151
Tied agents	ca.	2,700	2,900

ČSOB Asset Management, a.s., investiční společnost

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:	55.71% KBC Participations Renta 44.29% ČSOB

Contact

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

Indicator		2011	2010 3)
Total assets managed by ČSOB AM/IS 1)	CZKm	137,176	146,818
Total assets in funds distributed by CSOB Group 1), 2)	CZKm	69,506	75,696

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.
3) Data for 2010 are reclassified and reported in accordance with the methodology used in 2011, i.e. together for the merged companies CSOB AM and CSOB IS.

Merger of ČSOB IS and ČSOB AM

With the effectiveness as at 31 December 2011 (recorded by an entry in the Register of Companies), within a national merger by acquisition (hereinafter the “merger”), the company ČSOB Asset Management, a.s., člen skupiny ČSOB, ID: 63999463, with registered seat at Radlická 333/150, 150 57 Prague 5, (hereinafter the “Dissolved Company”) was dissolved without liquidation and that it was merged with the company ČSOB Investiční společnost, a.s., člen skupiny ČSOB, ID: 25677888, with registered seat at Radlická 333/150, 150 57 Prague 5, (hereinafter “Successor Company”).

The Successor Company is a universal legal successor of the Dissolved Company. All assets and liabilities and rights and obligations of the Dissolved Company were transferred to the Successor Company in accordance with the relevant provisions of the Czech Act No. 125/2008 Coll. on Transformations, as subsequently amended.

Within the merger then name of the Successor Company changed with the effectiveness as at 31 December 2011 to “ČSOB Asset Managemenet, a.s., investiční společnost” (hereinafter the “ČSOB AM/IS”).

In relation to the merger, the amount of the share capital of the successor company ČSOB Asset Management, a.s., investiční společnost was increased from CZK 216 m to CZK 499 m. The number of shares issued changed from 216 to 499 (each with a nominal value of CZK 1 m).

ČSOB AM/IS

- 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, PSB financial centers and ČMSS agents.

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 297,167 ths *
Shareholders:	100% ČSOB

** Registered capital was increased to CZK 300 m on 25 January 2012.*

Penzijní fond Stabilita

Contact

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

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

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

Indicator		2011	2010	
			PF Stabilita	PF Progres
Funds registered in favour of participants	CZKm	28,650	17,763	9,271
– of which contributions of participants	CZKm	22,629	13,915	7,469
Profit for the year after tax *	CZKm	199	171	99
Customers	ca.	722,000	430,000	310,000

** EU IFRS, unaudited.*

Merger of ČSOB's pension funds

On 30 November 2011, ČSOB Penzijní fond Progres, a. s., člen skupiny ČSOB, registered address Radlická 333/150, Praha 5, postal code 150 57, ID number 60917776 (the dissolved company) merged with ČSOB Penzijní fond Stabilita, a. s., člen skupiny ČSOB, registered address Radlická 333/150, Praha 5, postal code 150 57, ID number 61859265 (the succession company).

Merger of the two pension funds within the ČSOB group is a logical step vis-á-vis the transformation in making of Czech pension funds into pension companies which will offer different investment strategies through various participation funds beginning 2013.

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

ČSOB Leasing

Contact

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

ČSOB Leasing provides financing of cars, trucks, machinery& equipment, technologies (incl. big ticket financing).

ČSOB Leasing provides customers with a wide range of financial products for financing of productive assets (i.e. financial leasing, asset loan and full service leasing).

Products are distributed via own distribution, through distribution of ČSOB or third-parties.

Indicator		2011	2010
Volume of new leasing business	CZKm	12,185	9,590
Total assets *	CZKm	23,726	23,571
Profit for the year after tax *	CZKm	570	423
** EU IFRS, unaudited.*			
Branches		13	12

ČSOB Factoring, a.s.

ČSOB Factoring

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 for twenty years. Thanks to the quality of service still maintains a market share above 20%. The volume of receivables assigned to ČSOB Factoring increased by 10% and reached CZK 28.7 bn in 2011.

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		2011	2010
Turnover of receivables	CZKm	28,697	26,000
Total assets *	CZKm	3,920	3,349
Profit for the year after tax *	CZKm	84	48

** 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	75% KBC Insurance
	25% ČSOB
% of voting rights	60% KBC Insurance
	40% ČSOB

** As at 11 July 2011, the registered capital of ČSOB Pojišťovna was increased; the shares in registered capital and the shares in voting rights remained unchanged.*

Contact

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

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

Insurance products are mainly distributed through tied agents, brokers and ČSOB group's branches.

In 2011, ČSOB Pojišťovna received an award for the best web in the Czech Republic – WebTop100.

Indicator *		2011	2010
Gross written premium life insurance	CZKm	8,186	6,291
Gross written premium non-life insurance	CZKm	4,026	3,944
Profit for the year after tax	CZKm	605	751

** EU IFRS, audited.*

Branches		88	89
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	ca.	927,000	883,000

Companies of the ČSOB Group

(as at 31 December 2011)

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
Controlled Companies									
25636855	**Auxilium, a.s.** Advisory services	Praha 5, Radlická 333/150	1,000,000,000	100.00	100.00	none	100.00	none	Y
63987686	**Bankovní informační technologie, s.r.o.** Automated data processing and software development; creation of a network of payment card reading terminals	Praha 5, Radlická 333/150	20,000,000	100.00	100.00	none	100.00	none	Y
26760401	**Centrum Radlická a.s.** Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	500,000,000	100.00	100.00	none	100.00	none	Y
25677888	**ČSOB Asset Management, a.s., investiční společnost** [3] Collective investment and asset management	Praha 5, Radlická 333/150	499,000,000	44.29	44.29	none	44.29	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
27081907	**ČSOB Investment Banking Services, a.s., a member of the ČSOB group** Activity of entrepreneurial, financial, economic and organisation advisors	Praha 5, Radlická 333/150	2,000,000,000	100.00	100.00	none	100.00	none	Y
63998980	**ČSOB Leasing, a.s.** [4] Leasing	Praha 4, Na Pankráci 310/60	3,050,000,000	100.00	100.00	none	50.82	none	Y
27151221	**ČSOB Leasing pojišťovací makléř, s.r.o.** Insurance broker	Praha 4, Na Pankráci 60/310	2,000,000	100.00	none	100.00	100.00	ČSOB Leasing	Y
61859265	**ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group** [7] Pension insurance	Praha 5, Radlická 333/150	297,167,000	100.00	100.00	none	100.00	none	Y
27924068	**ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group** [5], [8] Collective investment	Praha 5, Radlická 333/150	907,000,000	70.67	59.76	10.91	95.59	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.** Mortgage banking	Praha 5, Radlická 333/150	5,076,333,500	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	70.67	none	70.67	95.59	ČSOB Property fund	Y

Legal Entity				Share of ČSOB in:				Indirect Share of ČSOB via	Cons. EU IFRS [1]
ID No.	Business Name of Legal Entity Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights		
				Total	Direct	Indirect			
			CZK	%	%	%	%		Y/N
Controlled Companies									
00000949	**MOTOKOV a.s., in liquidation** Wholesale of machines and technical equipment	Praha 8, Thámova 181/20	62,000,000	70.09	0.50	69.59	70.09	ČSOB IBS	Y
00548219	**MOTOKOV International a.s., in liquidation liquidation** Other financial intermediary activity	Praha 8, Thámova 181/20	2,150,000	94.91	none	94.91	94.91	ČSOB IBS	Y
36859516	**Property LM, s.r.o.** Real estate activity; rent of flats and non-residential spaces	Bratislava, Medená 22/98, Slovak Republic	129,000	70.67	none	70.67	95.59	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	48,091,200	70.67	none	70.67	95.59	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	8,177,474	100.00	100.00	none	100.00	none	Y
Joint Venture									
49241397	**Českomoravská stavební spořitelna, a.s.** Building savings bank	Praha 10, Vinohradská 3218/169	1,500,000,000	55.00	55.00	none	55.00	none	Y
Others									
26199696	**CBCB - Czech Banking Credit Bureau, a.s.** Software development, IT advisory, data processing, network administration databank services	Praha 4, Na Vítězné pláni 1719/4	1,200,000	20.00	20.00	none	20.00	none	Y
45534306	**ČSOB Pojišťovna, a.s, a member of the ČSOB holding** Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,796,248,000	25.00	25.00	none	40.00	none	Y
27479714	**ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding** Insurance brokerage	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	400,000	25.00	none	25.00	40.00	ČSOB Pojišťovna	Y
60736682	**E.T.I., a.s. in liquidation** Operation of electricity stations	Ratíškovice 502	45,000,000	10.00	10.00	none	10.00	none	N
45316619	**IP Exit, a.s.** [6] No activity	Praha 1, Senovážné náměstí 32	13,382,866,400	27.42	10.77	16.65	27.39	ČSOB IBS, ČSOB Pojišťovna	Y
63078104	**Premiéra TV, a.s.** No activity	Praha 8, Pod Hájkem 1	29,000,000	29.00	29.00	none	29.00	none	Y

Legal Entity				Share of ČSOB in:					Indirect Share of ČSOB via	Cons. EU IFRS [1]
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights			
				Total	Direct	Indirect				
			CZK	%	%	%	%			Y/N
Others										
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 2011.
2) ID No. 99999999 – a foreign entity.
3) Shares in registered capital: ČSOB 44.29%, KBC Participations Renta 55.71%;
shares in voting rights: ČSOB 44.29%, KBC Participations Renta 55.71%.
4) Shares in in voting rights: ČSOB 50.82%, KBC Lease Holding 49.18%.
5) Shares in registered capital: ČSOB 59.76%, ČSOB AM/IS 4.41%, ČSOB Pojišťovna 35.83%;
shares in voting rights: ČSOB 95.59%, ČSOB AM/IS 4.41%.
6) Shares in registered capital: ČSOB 10.77%, ČSOB IBS 16.62%, ČSOB Pojišťovna 0.11%;
shares in voting rights: ČSOB 10.77%, ČSOB IBS 16.62%.
7) Registered capital increased to CZK 300 m on 25 January 2012.
8) 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%.

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

Managing and Supervisory Bodies

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

ČSOB's Board of Directors

As at 31 December 2011, 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. 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.

First Name and Surname	Position	Membership since	The Beginning of the Member's Current Term of Office
Pavel Kavánek	Chairman* Chief Executive Officer	17. 10. 1990	20. 5. 2009
Petr Knapp	Member Senior Executive Officer, Corporate Banking	20. 5. 1996	20. 5. 2009
Jan Lamser	Member Senior Executive Officer, Mass Market	26. 5. 1997	20. 5. 2009
Petr Hutla	Member Senior Executive Officer, Distribution	27. 2. 2008	27. 2. 2008
Bartel Puelinckx	Member Senior Executive Officer, Finance Management	8. 12. 2010	8. 12. 2010
Koen Wilmots	Member Senior Executive Officer, Risk Management	8. 12. 2010	8. 12. 2010
Jiří Vévoda	Member Senior Executive Officer, Products and Staff Functions	8. 12. 2010	8. 12. 2010

As at 31 December 2011.
** Current chairman term since 20 May 2009.*

ČSOB's Top Management

The ČSOB's Top Management **reports directly to the Board of Directors**. The ČSOB's Top Management consists of the Bank's senior employees in the positions of Chief Executive Officer and Senior Executive Officers.

Since 1 January 2011, the ČSOB's Board of Directors has had **seven members** and been identical with the ČSOB's Top Management.

In 2011 there were no personnel changes in the ČSOB's Board of Directors and ČSOB's Top Management.

Areas of Responsibility of ČSOB's Top Management

For description of areas of responsibility managed by ČSOB's Top Management please refer to the ČSOB's Organisation Chart to page 52 of this Annual Report.

ČSOB's Supervisory Board

ČSOB's Supervisory Board oversees the performance of the Board of Directors and had **nine members** as at 31 December 2011. 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.

First Name and Surname	Position	Membership since	The Beginning of the Member's Current Term of Office
Jan Švejnar	Chairman [1]	9. 10. 2003 [2]	20. 5. 2009
Patrick Roland Georges Zeno Vanden Avenne	Member	22. 4. 2006	15. 6. 2011
Hendrik George Adolphe Gerard Soete	Member	24. 2. 2007 [2]	21. 4. 2007
Marko Voljč	Member	29. 6. 2010	29. 6. 2010
Guy Libot	Member	1. 12. 2010	1. 12. 2010
Philip Marck [4]	Member	1. 7. 2011	1. 7. 2011
František Hupka	Member [3]	23. 6. 2005	23. 6. 2010
Martina Kantová	Member [3]	23. 6. 2010	23. 6. 2010
Ladislava Spielbergerová	Member [3]	23. 6. 2010	23. 6. 2010

As at 31 December 2011.
1) Current chairman term since 3 June 2009.
2) Co-opted.
3) Elected by employees.
4) Dirk Mampaey was a member of the ČSOB's Supervisory Board until 30 June 2011.

The Audit Committee

Since 1 January 2010, the Audit Committee has acted as an independent body of ČSOB and had **four members** as at 31 December 2011.

First Name and Surname	Position	
Guy Libot [1]	Chairman	(Member of the ČSOB's Supervisory Board)
Jan Švejnar	Member	(Chairman of the ČSOB's Supervisory Board)
Philip Marck [2]	Member	(Member of the ČSOB's Supervisory Board)
Petr Šobotník [3]	Independent member	(Not a member of any ČSOB body)

As at 31 December 2011.
1) Chairman of the ČSOB's Audit Committee since 1 July 2011.
2) Member of the ČSOB's Audit Committee since 1 July 2011.
3) Member of the ČSOB's Audit Committee since 1 February 2011.

Personnel Changes in the ČSOB's Supervisory Board and ČSOB's Audit Committee in 2011

On 12 January 2011, ČSOB's sole shareholder KBC Bank, exercising the powers of the General Meeting, decided on election of **Petr Šobotník** as a member of **ČSOB's Audit Committee** with effect from 1 February 2011.

On 15 June 2011, ČSOB's sole shareholder KBC Bank, when exercising the powers of the General Meeting, decided about **changes in the ČSOB's Supervisory Board and in the ČSOB's Audit Committee**.

- **Patrick Roland Georges Zeno Vanden Avenne** was elected a member of the ČSOB's Supervisory Board (to a new term in office) with effect from 15 June 2011. He has been a member of ČSOB's Supervisory Board since April 2006.
- **Dirk Mampaey** was recalled from the ČSOB's Supervisory Board and from the ČSOB's Audit Committee with effect from 30 June 2011.
- **Philip Marck** was elected a member of the ČSOB's Supervisory Board and a member of the ČSOB's Audit Committee with effect from 1 July 2011. He replaced Dirk Mampaey in both bodies.

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

The Business Address

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

Československá obchodní banka, a. s.
Radlická 333/150
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 2011, 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 52 of this Annual Report. Descriptions of work and decision-making processes are given in "Corporate Governance" on pages 49 – 51 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 2011, **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	70,656	0	8,457	0
Members of the Supervisory Board	3,921	0	0	0
Other members of the Top Management	No such persons in 2011.			

The income of the Chairman and Members of the Board of Directors in 2011 included: CZK 56,525 ths under the Contracts on the Performance of the Line Management Function, and remuneration totalling CZK 14,131 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 2,237 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 1,684 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 2011, 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 2011 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 (Key Performance Indicators; "KPIs"), including financial (e.g. net underlying profit, operating costs), risk (e.g. credit costs) and other (e.g. number of clients) parameters. 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 during 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 CEO since 1993.

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.

Petr Knapp

(Born on 7 May 1956)

Member of the Board of Directors and Senior Executive Officer, Corporate Banking

He graduated from the University of Economics, Prague.

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

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

Jan Lamser

(Born on 8 December 1966)

Member of the Board of Directors and Senior Executive Officer, Mass Market

He graduated from the Faculty of Mathematics and Physics and of Protestant Theological Faculty at Charles University of Prague; the University of Economics, Prague, and École des Hautes Études Commerciales, Paris.

Mr. Lamser has been working for ČSOB since 1995. He has been a member of the Board of Directors since 1997. He worked in various managerial positions in ČSOB. At present, he is responsible for services provided to mass retail clientele.

Membership in bodies of other companies:
Deputy Chairman of the Supervisory Board of ČMSS (CZ); member of the control commission of the Unijazz Association; 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 Economic Associate Director of Tesla Pardubice – RSD from 1991. He has been working for ČSOB since 1993: first as branch manager in Pardubice and main branch manager in Hradec Králové, then as main branch manager in Prague 1 between 1997 and 2000. He then served as Senior Director, Corporate and Institutional Banking (between 2001 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 (since 16 November 2009). Since 27 February 2008, Petr Hutla has been a member of the Board of Directors. From 14 January 2009 to 31 December 2011, he also headed KBC GS CZ.

Membership in bodies of other companies:
Chairman of the Supervisory Board of Hypoteční banka (CZ); member of the Supervisory Board in: ČSOB AM/IS (CZ) and ČSOB PF Stabilita (CZ); until 31 December 2011 member of the Supervisory Board in: ČSOB Investiční společnost (CZ) and ČSOB Asset Management (CZ); member of the Board of Trustees of Czech Technical University in Prague and member of the Board of Directors of the Nadace Karla Pavlíka (foundation).

Bartel Puelinckx *(Born on 16 December 1965)* Member of the Board of Directors and Senior Executive Officer, Finance Management (Chief Finance Officer)	He studied economics at the University of Leuven (Belgium), and law at the University of Brussels. Mr. Puelinckx has worked in the KBC Group since 1992, in various positions within KBC Bank. In addition, he worked in Hungary's K&H Bank from 2006 to 2010, most recently as Senior Managing Director, Head of HR & Credit Management Division. Since 1 May 2010, he has been a member of ČSOB's Top Management as the Senior Executive Officer, Finance Management. Since 8 December 2010, he has been a member of the Board of Directors. *Membership in bodies of other companies:* None.
Koen Wilmots *(Born on 24 July 1964)* Member of the Board of Directors and Senior Executive Officer, Risk Management (Chief Risk Officer)	He studied law at the Catholic University of Leuven (Belgium), followed by a post-graduate course at the Robert Schuman University in Strasbourg. Mr. Wilmots has worked in the banking sector since 1992, when he took up a position with Kredietbank. He has worked at ČSOB since 1999; his position was Executive Director, Credits until 30 April 2010. Between 1999 and 2005 he was responsible for Corporate Management and Distribution Segment. Since 1 May 2010, he has been a member of ČSOB's Top Management as the Senior Executive Officer, Risk Management. Since 8 December 2010, he has been a member of the Board of Directors. *Membership in bodies of other companies:* Member of the Supervisory Board of Hypoteční banka (CZ).
Jiří Vévoda *(Born on 4 February1977)* Member of the Board of Directors and Senior Executive Officer, Products and Staff Functions (Chief Staff Officer)	He graduated from the Joint European Studies Programme at the Staffordshire University (1999) and the University of Economics, Prague (2001). From 2000 to 2004, Mr. Vévoda worked for GE Capital in the Czech Republic, Ireland, Finland and Sweden. From 2004 to 2010, he worked for McKinsey & Company. Since 1 May 2010, he has been a member of ČSOB's Top Management as the Senior Executive Officer, as at 1 January 2011 responsible for Products and Staff Functions. Since 8 December 2010, he has been a member of the Board of Directors. *Membership in bodies of other companies:* None.

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) and Chairman of the Regional Association's Economic Council (ERAK).

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 has also been in managerial positions in Almanij (a parent company of the KBC Group), Gevaert NV and, later, in KBC Bank and KBC Insurance. After the merger of Almanij and KBC in 2005, he was appointed to the position of Director of KBC Bank and became a member of the Audit Committee at KBC Bank. 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. He is also the Chairman of the Intercoop Europe (Switzerland).

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

Marko Voljč

(Born on 5 December 1949)

Member
of the Supervisory Board

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

Between 1976 and 1979, Mr. Voljč was head of the analytical department of the National Bank of Slovenia. From 1979 through 1992, he worked for the World Bank in Washington D.C. and Mexico City. In 1992, he joined Nova Ljubljanska Banka in Slovenia as its President and the Chief Executive Officer (CEO). In 2004, he became General Manager of the Central Europe Directorate at KBC headquarters in Brussels. In that capacity, he served on the supervisory boards of KBC's banking subsidiaries in Poland, Hungary and the Czech Republic. From May 2006 to April 2010, he was CEO of K&H Bank (KBC Group) in Budapest and also became Country Manager of the Hungarian operations. Since 29 April 2010, he has been CEO of the KBC Group's Central and Eastern Europe and Russia Business Unit and member of the Executive Committee of the KBC Group.

Membership in bodies of other companies:
Member of the Board of Directors in: K&H Bank (Hungary); Chairman of the Supervisory Board in: ČSOB Pojišťovna (CZ), ČSOB (SK), Warta Life and Non-life (Poland) and Absolut Bank (Russia); member of the Supervisory Board in: KredytBank (Poland), CIBank (Bulgaria) and DZI (Bulgaria). Member of the Audit Committees of those companies.

Guy Libot

(Born on 1 March 1963)

Member
of the Supervisory Board

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

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

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

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

Philip Marck

(Born on 4 February 1959)

Member
of the Supervisory Board
Board (since 1 July 2011)

He studied at the Catholic University of Leuven 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.

He is a member of the ČSOB's Audit Committee (since 1 July 2011).

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

František Hupka

(Born on 13 April 1971)

Member
of the Supervisory Board
elected by employees

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

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

Membership in bodies of other companies:
Member of the Management Board of the Occupational Health Insurance Company (OZP).

Martina Kantová

(Born on 31 March 1974)

Member
of the Supervisory Board
elected by employees

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

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

Membership in bodies of other companies:
None.

Ladislava Spielbergerová

(Born on 6 November 1974)

Member of the Supervisory
Board elected by employees

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

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

Membership in bodies of other companies:
None.

Dirk Mampaey

(Born on 25 October 1965)

Member
of the Supervisory Board
(until 30 June 2011)

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

Mr. Mampaey started his professional career at Kredietbank in 1988. He has acquired wide-ranging experience in managerial positions in the areas of corporate banking, strategy and expansion and payments. In 2007 he was appointed Senior General Manager of KBC for Banking in Eastern Europe and Russia. In September 2009 his responsibilities were expanded to the coordination of banking activities in all Central & Eastern European countries and Russia at the KBC Directorate for Central Europe.

He was a Chairman of the ČSOB's Audit Committee (until 30 June 2011).

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

Independent Member of the ČSOB's Audit Committee

Petr Šobotník

(Born on 16 May 1954)

Independent member
of the Audit Committee
(since 1 February 2011)

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.

Membership in bodies of other companies:
President of the Czech Chamber of Auditors since 2007 (re-elected in November 2010 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 Code of Corporate Governance based on the OECD Principles.

General Meeting

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

The members of the Board of Directors are **elected by the company's General Meeting** provided they comply with other requirements stipulated by the Banking Act. In compliance therewith, the ČSOB's Board of Directors has a full-scale executive composition. ČSOB's shareholders and clients receive regular reports 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.

There was no change to the composition of the ČSOB Board of Directors in 2011.

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

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

Board of Directors Committees in 2011

Risk and Capital Oversight Committee (RCOC)
The Committee aims to support ČSOB Board Directors in the field of risk and capital management of ČSOB Group.

Credit Sanctioning Committee (CSC)
The Committee decides approvals/non-approvals of credit exposure in cases within the ČSOB decision-making powers.

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 completion 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 ČSOB Group companies.

ČSOB Sustainability Committee (ČSOB SUC)

The Committee defines the strategy of long-term sustainability and addresses corporate topics and output escalated from the Expert Committee.

For more detailed information on Board of Directors Committees please refer in Note 37 to the Separate Financial Statement for the Year 2011 prepared in accordance with EU IFRS.

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

Pursuant to the Bank's Articles of Association, **the Supervisory Board** of Československá obchodní banka, a. s. has **nine members**. Six of them are elected by the General Meeting and three of them are elected by the employees of the Bank.

Dirk Mampaey stepped down from the position of a Member of the Supervisory Board on 30 June 2011. On 1 July 2011, the General Meeting elected Philip Marck a new Member of the Supervisory Board. On 15 June 2011, the General Meeting re-elected Patrick Roland Vanden Avenne a Member of the Supervisory Board.

In compliance with its plan of work, the Supervisory Board **held four meetings in 2011** 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 who 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 Remuneration and Nomination Committee is composed of **three members**; in 2011 the members were Marko Voljč (Chairman), Jan Švejnar and Guy Libot. The Compensation Committee meets as necessary but no less than once a year.

The Audit Committee

The Audit Committee is an official body of ČSOB. Its authority and responsibilities are determined by the ČSOB's Articles of Association and the Audit Committee's Rules of Procedure. In particular, the Audit Committee monitors 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.

In January 2011 Audit Committee had **three members who are also members of the Supervisory Board**, namely Dirk Mampaey (the Chairman of the Audit Committee), Jan Švejnar and Guy Libot. Petr Šobotník became **the fourth – independent member** of the Audit Committee on 1 February 2011. Dirk Mampaey was recalled from the ČSOB's Audit Committee with effect from 30 June 2011. Philip Marck was elected a member of the ČSOB's Supervisory Board and a member of the ČSOB's Audit Committee with effect from 1 July 2011. The Audit Committee has had the following composition since 1 July 2011: Guy Libot (Chairman of the Audit Committee), 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 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 2011** 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.

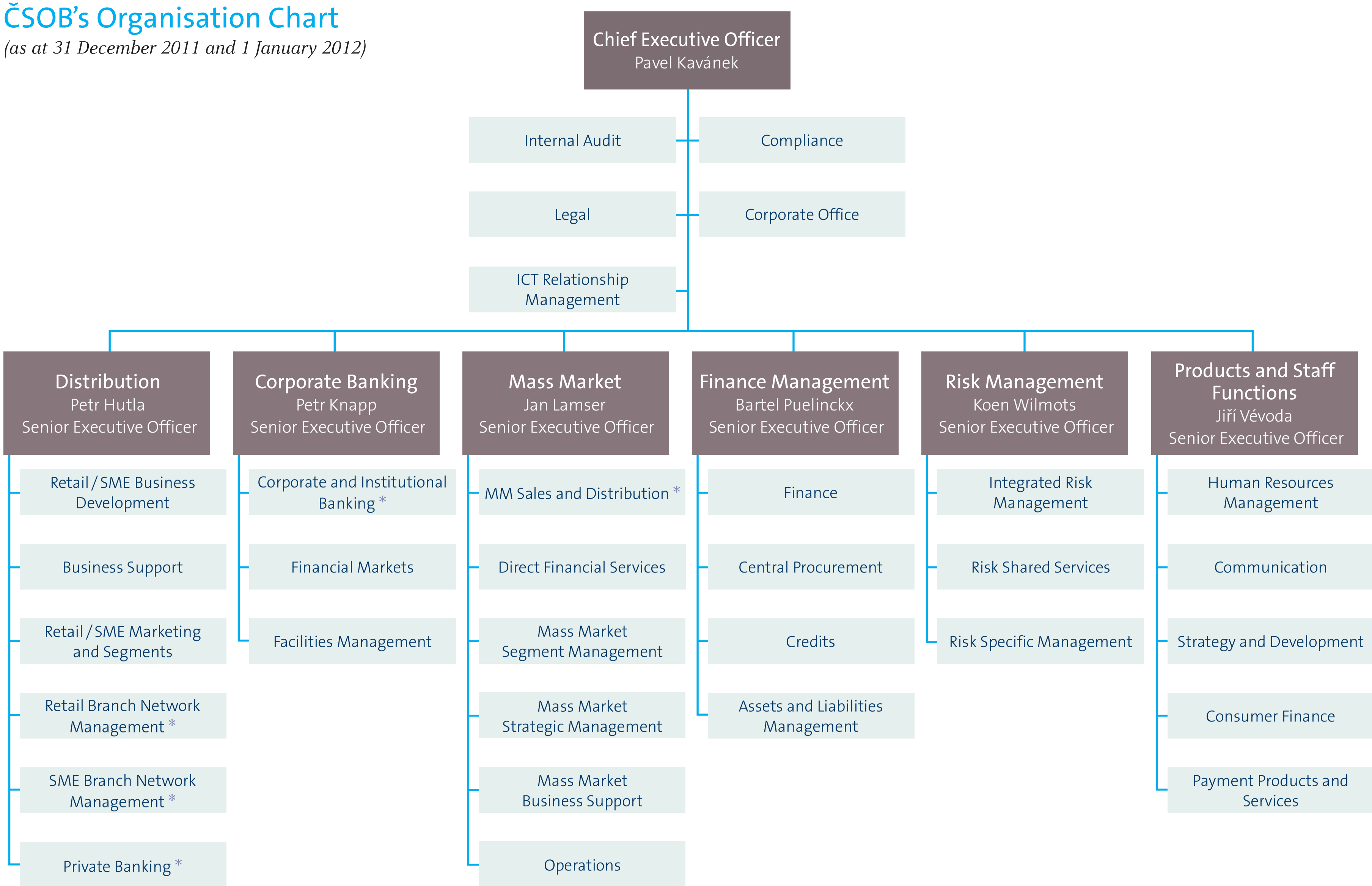
Accounting procedures and valuation rules for assets and liabilities including rules for provisions and allowances are defined within internal regulations prepared in accordance with the legal requirements and international financial reporting standards. Monitoring of compliance with the requirements 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 2011 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the Year 2011 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 2011 prepared in accordance with EU IFRS and to Note 39.5 to the Consolidated Financial Statement for the Year 2011 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 2011 and 1 January 2012)



** These units manage respective branch network.*

FINANCIAL PART

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Československá obchodní banka, a. s.:

We have audited the accompanying consolidated financial statements of Československá obchodní banka, a. s. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, 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.

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, 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

15 March 2012
Prague, Czech Republic

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

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

(CZKm)	Note	2011	Reclassified 2010
Interest income	5	33,318	33,384
Interest expense	6	(8,510)	(9,109)
Net interest income		**24,808**	**24,275**
Fee and commission income		9,040	8,872
Fee and commission expense		(3,672)	(3,432)
Net fee and commission income	7	**5,368**	**5,440**
Dividend income		41	45
Net gains from financial instruments at fair value through profit or loss and foreign exchange	8	1,460	1,823
Net realised gains on available-for-sale financial assets		642	86
Other net income	9	440	1,345
Operating income		**32,759**	**33,014**
Staff expenses	10	(6,779)	(6,414)
General administrative expenses	11	(7,182)	(7,053)
Depreciation and amortisation	22, 23	(911)	(1,049)
Operating expenses		**(14,872)**	**(14,516)**
Impairment losses	12	(5,062)	(3,386)
Share of profit of associates	19	145	226
Profit before tax		**12,970**	**15,338**
Income tax expense	13	(1,764)	(1,776)
Profit for the year		**11,206**	**13,562**
Attributable to:			
Owners of the parent		11,172	13,471
Non-controlling interests		34	91

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

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

(CZKm)	Note	2011	2010
Profit for the year		**11,206**	**13,562**
Exchange differences on translating foreign operation		1	(1)
Net gain on cash flow hedges		1,953	501
Net gain / (loss) on available-for-sale financial assets		326	(616)
Share of other comprehensive income of associates		16	80
Income tax (expense) / benefit relating to components of other comprehensive income		(528)	34
Other comprehensive income for the year, net of tax	31	**1,768**	**(2)**
Total comprehensive income for the year, net of tax		**12,974**	**13,560**
Attributable to:			
Owners of the parent		12,943	13,469
Non-controlling interests		31	91

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

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

(CZKm)	Note	2011	Reclassified 2010
ASSETS			
Cash and balances with central banks	15	46,691	21,164
Financial assets held for trading	16	176,703	173,810
Financial assets designated at fair value through profit or loss	16	11,021	11,132
Available-for-sale financial assets	17	87,404	102,521
Held-to-maturity investments	17	139,423	150,240
Loans and receivables	18	449,291	399,741
Fair value adjustments of the hedged items in portfolio hedge		77	-
Derivatives used for hedging	20	10,328	9,437
Current tax assets		70	39
Deferred tax assets	13	481	488
Investment in associate	19	1,150	1,163
Investment property	21	509	713
Property and equipment	22	8,114	8,057
Goodwill and other intangible assets	23	3,314	3,625
Non-current assets held-for-sale	24	98	140
Other assets	25	1,919	2,785
Total assets		**936,593**	**885,055**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	26	165,914	138,870
Financial liabilities at amortised cost	27	688,556	663,418
Fair value adjustments of the hedged items in portfolio hedge		103	-
Derivatives used for hedging	20	7,350	5,567
Current tax liabilities		532	1,203
Deferred tax liabilities	13	1,081	830
Other liabilities	28	10,816	8,676
Provisions	29	1,058	651
Total liabilities		**875,410**	**819,215**
Share capital	30	5,855	5,855
Share premium		7,509	7,509
Statutory reserve		18,687	18,687
Retained earnings		24,061	30,560
Available-for-sale reserve	30	2,612	2,422
Cash flow hedge reserve	30	1,578	(2)
Foreign currency translation reserve	30	1	-
Shareholders' equity		60,303	65,031
Non-controlling interests, presented within equity		880	809
Total equity		**61,183**	**65,840**
Total liabilities and equity		**936,593**	**885,055**

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

These consolidated financial statements were approved for issue by the Board of Directors on 15 March 2012 and signed on its behalf by:

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

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

(CZKm)	Attributable to equity holders of the parent: Share capital (Note: 30)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 30)	Non-controlling interest	Total Equity
At 1 January 2010	**5,855**	**7,509**	**18,687**	**34,478**	**2,422**	**900**	**69,851**
Total comprehensive income for the year	-	-	-	13,471	(2)	91	13,560
Capital decrease by non-controlling shareholders of subsidiaries	-	-	-	-	-	(176)	(176)
Dividends paid (Note: 14)	-	-	-	(17,389)	-	-	(17,389)
Dividends of subsidiaries	-	-	-	-	-	(6)	(6)
At 31 December 2010	**5,855**	**7,509**	**18,687**	**30,560**	**2,420**	**809**	**65,840**
At 1 January 2011	**5,855**	**7,509**	**18,687**	**30,560**	**2,420**	**809**	**65,840**
Total comprehensive income for the year	-	-	-	11,172	1,771	31	12,974
Results from the sale of a part of the ownership in a subsidiary	-	-	-	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**

[(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 2011

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

(CZKm)	Note	2011	2010
OPERATING ACTIVITIES			
Profit before tax		12,970	15,338
Adjustments for:			
Change in operating assets	33	(53,268)	(8,469)
Change in operating liabilities	33	54,380	36,812
Non-cash items included in profit before tax	33	6,081	7,118
Net gains from investing activities		(22)	(378)
Income tax paid		(2,532)	(1,405)
Net cash flows from operating activities		**17,609**	**49,016**
INVESTING ACTIVITIES			
Purchase of investment securities		(4,731)	(39,339)
Maturity / disposal of investment securities		15,674	11,042
Purchase of property, equipment and intangible assets		(1,606)	(1,394)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		614	932
Proceeds from disposal of ICT business	2.5	-	966
Dividends from associates		489	337
Disposal of subsidiary, associate and joint venture companies		189	-
Increase of capital in associated companies		(315)	-
Net cash flows from / (used in) investing activities		**10,314**	**(27,456)**
FINANCING ACTIVITIES			
Repayment of bonds		(1,507)	(7,792)
Issue of bonds		808	-
Increase / (decrease) in non-controlling interests		31	(91)
Dividends paid	14	(17,820)	(17,389)
Net cash flows used in financing activities		**(18,488)**	**(25,272)**
Net increase / (decrease) in cash and cash equivalents		**9,435**	**(3,712)**
Cash and cash equivalents at the beginning of the year	33	25,860	29,572
Net increase / (decrease) in cash and cash equivalents		9,435	(3,712)
Cash and cash equivalents at the end of the year	33	**35,295**	**25,860**
Additional information			
Interest paid		(9,059)	(10,397)
Interest received		33,993	33,909
Dividends received (other than from associates)		41	45

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011

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

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

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

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

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

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

Improvements to IFRSs, issued in May 2010 with a view to removing inconsistencies and clarifying 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.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments - Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around the collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. It also removes the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired and clarifies that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements is only applicable to assets held at the reporting date. The Group reflects the revised disclosure requirements in Note: 39.
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes

Effective after 1 January 2011

The following standards, amendments and interpretations have been issued and are effective after 1 January 2011. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments) is effective for the 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 the periods beginning on or after 1 July 2011. The standard should assist users in evaluating the risk exposures relating to the transfer of financial assets and the effect of those risks on an entity's financial position.

IFRS 9 Financial Instruments (the first phase) is effective for the periods beginning on or after 1 January 2015. The standard has not been endorsed by the European Union to date. The project to replace the current IAS 39 Financial Instruments: Recognition and Measurement has been divided into three phases. The first phase focuses on classification and measurement of financial instruments.

The new standard has reduced the number of asset measurement categories from four to two. 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 fulfills the above two conditions.

All equity instruments are measured at fair value either through Other comprehensive income (OCI) or Statement of income.

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's 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 later in 2012.

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments) is effective for the 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.

Improvements to IFRSs, issued in May 2011 with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

IASB published several other standards. They were, however, not endorsed by the European Union before 31 December 2011.

IFRS 10 Consolidated Financial Statements is effective for the periods beginning on or after 1 January 2013. The standard replaces the part relating to the consolidated portion of IAS 27 Consolidated and Separate Financial Statements. A new definition of control has been included and a single control model that applies to all entities has been introduced.

IFRS 11 Joint Arrangements is effective for the periods beginning on or after 1 January 2013. 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 the consolidated financial statements of the Group. The proportionate method of consolidation has been disallowed by the new standard.

IFRS 12 Disclosure of Interest in Other Entities is effective for the periods beginning on or after 1 January 2013. 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 13 Fair Value Measurement is effective for the 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.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 is effective for the annual periods beginning on or after 1 July 2012. The amendment changes the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to the statement of income at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

IAS 19 Employee Benefits (Revised) is effective for the periods beginning on or after 1 January 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include changes in the measurement of items and disclosures related to defined benefit plans, timing of initial measurement of termination benefits and classification of short-term and long-term benefits.

IAS 27 Separate Financial Statements is effective for the periods beginning on or after 1 January 2013. 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 is effective for the periods beginning on or after 1 January 2013. 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.

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. 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 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.

(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 2011 from the presentation applied in the financial statements at 31 December 2010 and 2009. 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 2010 is provided below:

	2010	Reclassifications			2010
(CZKm)	As reported	A	B	C	Reclassified
Statement of income					
Interest income	32,353	1,031			33,384
Interest expense	(7,595)	(1,514)			(9,109)
Net gains from financial instruments at fair value through profit or loss and foreign exchange	1,340	483			1,823
Other net income	1,380		(35)		1,345
Depreciation and amortisation	(1,084)		35		(1,049)
Statement of financial position					
Financial liabilities held for trading	21,096			117,774	138,870
Financial liabilities designated at fair value through profit or loss	117,774			(117,774)	-

A reconciliation of the selected items of the statement of financial position as at 31 December 2009 is provided below:

	2009	Reclassifications	2009
(CZKm)	As reported	C	Reclassified
Statement of financial position			
Financial liabilities held for trading	23,036	105,057	128,093
Financial liabilities designated at fair value through profit or loss	105,057	(105,057)	-

The explanation for the reclassifications is as follows:

A/ **Interest accrual on derivatives used as economic hedges**

Interest income and interest expense accrued on interest rate swaps, which did not meet the criteria for hedge accounting but are used for hedging from an economic point of view, previously presented within Net gains from financial instruments at fair value through profit or loss, have been reclassified into Net interest income (Note: 2.4.3(i));

B/ **Depreciation of investment property**

Depreciation of investment property, previously presented within Depreciation and amortisation, has been reclassified into Other net income, so that the amount of depreciation is matched directly with the rental income realised on the investment property.

C/ **Classification of financial liabilities**

The financial liabilities originally classified as designated at fair value through profit or loss have been moved to the financial liabilities held for trading. The held for trading category better reflects actual management of the financial liabilities, which are managed together with held for trading financial assets by the Dealing department with the aim of making profit in a short term period. The change in classification leads to more relevant information about the actual management of financial assets and liabilities.

Outsourcing of ICT services

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

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

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

In 2010, the Group was proceeding in its effort to centralise the purchase of ICT services. ICT services outsourcing has been implemented in ČSOB Leasing from 1 January 2010.

An asset purchase agreement was concluded between ČSOB and KBC GS and became effective in January 2010. The agreement transferred the ICT-related assets which were classified as Non-current assets held-for-sale in the Group's financial statements as at 31 December 2009 from the Group to KBC GS (Note: 24).

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

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

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

Name	Abbreviation	Country of incorporation	% 2011	% 2010
Subsidiaries				
Auxilium, a.s.	Auxilium	Czech Republic	100.00	100.00
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
Centrum Radlická a.s.	Centrum Radlická	Czech Republic	100.00	100.00
ČSOB Asset Management, a.s., a member of the ČSOB group	ČSOB AM	Czech Republic	-	20.59
ČSOB Asset Management, a.s., investiční společnost	ČSOB AM/IS	Czech Republic	44.29	-
ČSOB Factoring, a.s.	ČSOB Factoring	Czech Republic	100.00	100.00
ČSOB Investiční společnost, a.s., a member of the ČSOB group	ČSOB IS	Czech Republic	-	90.81
ČSOB Investment Banking Services, a.s., a member of the ČSOB group	ČSOB IBS	Czech Republic	100.00	100.00
ČSOB Leasing, a.s.	ČSOB Leasing	Czech Republic	100.00	100.00
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř	Czech Republic	100.00	100.00
ČSOB Penzijní fond Progres, a.s., a member of the ČSOB group	ČSOB PF Progres	Czech Republic	-	100.00
ČSOB Penzijní fond Stabilita, a.s., a member of the ČSOB group	ČSOB PF Stabilita	Czech Republic	100.00	100.00
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	Czech Republic	69.63	69.63
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100.00	100.00
Merrion Properties s.r.o.	Merrion properties	Czech Republic	69.63	69.63
Property LM, s.r.o.	Property LM	Slovak Republic	69.63	69.63
Property Skalica, s.r.o.	Property Skalica	Slovak Republic	69.63	69.63
Joint venture				
Českomoravská stavební spořitelna, a.s.	ČMSS	Czech Republic	55.00	55.00
Associate				
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	25.00	25.00

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

In 2010, the participation of the Group in ČSOB Property fund, Property LM, Property Skalica and Merrion Properties decreased as a result of the Bank’s decision to decrease the amount of the share capital of the entity and buyout of shares.

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

As at 31 December 2011 and before, based on the Agreement on the exercise of voting rights, the Group 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.

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

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 100% of the voting rights in ČSOB Property fund, Merrion Properties, Property LM and Property Skalica.

Based on the 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 IS and ČSOB AM. It was decided that ČSOB IS would become a successor company and would afterwards be renamed to ČSOB Asset Management, a.s., investiční společnost. 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 be accounted for using the equity method going forward. The advance payment received from the pre-merger sale in the amount of CZK 149m will be recognised in the Consolidated statement of income for the year ended 31 December 2012, when the control is 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.

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 will be 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 will be 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
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 of greater than CZK 300 m and non-banking financial institutions. This segment contains customers’ deposits, loans, overdrafts, credit cards facilities, funds transfer facilities and other transactions and balances with corporate customers. 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 2010, net gain on disposal of ICT business is included.

ALM was transferred from the Financial markets and the ALM segment to the Group Centre segment in 2011. Comparative figures as at 2010 have been reclassified.

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	2,329	679	2,860	**24,808**
Net fee and commission income	4,047	1,006	133	182	**5,368**
Dividend income	36	-	-	5	**41**
Net gains / (losses) from financial instruments at fair value through profit or loss	925	753	(175)	(43)	**1,460**
Net realised gains on available-for-sale financial assets	463	-	-	179	**642**
Other net income	82	58	62	238	**440**
Operating income	**24,493**	**4,146**	**699**	**3,421**	**32,759**
of which:					
External operating income	*18,938*	*4,091*	*699*	*9,031*	***32,759***
Internal operating income	*5,555*	*55*	*-*	*(5,610)*	***-***
Depreciation and amortisation	(280)	(6)	(1)	(624)	**(911)**
Other operating expenses	(11,848)	(1,355)	(286)	(472)	**(13,961)**
Operating expenses	**(12,128)**	**(1,361)**	**(287)**	**(1,096)**	**(14,872)**
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	**10,791**	**2,301**	**407**	**(529)**	**12,970**
Income tax benefit / (expense)	(2,068)	(464)	(77)	845	**(1,764)**
Segment profit	**8,723**	**1,837**	**330**	**316**	**11,206**
Attributable to:					
Equity holders of the Bank	8,723	1,837	330	282	**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**

Segment reporting information by customer segments for 2010

(CZKm)	Retail / SME	Corporate	Financial markets	Group Centre	**Total**
Statement of income					
Net interest income	17,819	2,208	1,089	3,159	**24,275**
Net fee and commission income	4,185	1,025	111	119	**5,440**
Dividend income	45	-	-	-	**45**
Net gains / (losses) from financial instruments at fair value through profit or loss	1,182	730	159	(248)	**1,823**
Net realised gains / (losses) on available-for-sale financial assets	170	-	-	(84)	**86**
Other net income	305	65	105	870	**1,345**
Operating income	**23,706**	**4,028**	**1,464**	**3,816**	**33,014**
of which:					
External operating income	*18,999*	*3,779*	*1,464*	*8,772*	***33,014***
Internal operating income	*4,707*	*249*	*-*	*(4,956)*	***-***
Depreciation and amortisation	(357)	(6)	(1)	(685)	**(1,049)**
Other operating expenses	(11,171)	(1,320)	(324)	(652)	**(13,467)**
Operating expenses	**(11,528)**	**(1,326)**	**(325)**	**(1,337)**	**(14,516)**
Impairment losses - additions	(4,257)	(1,365)	-	349	**(5,273)**
Impairment losses - reversals	1,319	499	-	69	**1,887**
Impairment losses	**(2,938)**	**(866)**	**-**	**418**	**(3,386)**
Share of profit of associates	-	-	-	226	**226**
Profit before tax	**9,240**	**1,836**	**1,139**	**3,123**	**15,338**
Income tax benefit / (expense)	(1,740)	(389)	(216)	569	**(1,776)**
Segment profit	**7,500**	**1,447**	**923**	**3,692**	**13,562**
Attributable to:					
Equity holders of the Bank	7,500	1,447	923	3,601	**13,471**
Non-controlling interest	-	-	-	91	**91**
Assets and liabilities					
Segment assets	358,483	81,472	177,766	266,171	**883,892**
Investment in associates	-	-	-	1,163	**1,163**
Total assets	**358,483**	**81,472**	**177,766**	**267,334**	**885,055**
Total liabilities	**543,390**	**90,810**	**142,652**	**42,363**	**819,215**
Capital expenditure	**745**	**3**	**1**	**250**	**999**

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)	2011	2010
Cash balances with central banks	245	190
Loans and receivables		
Credit institutions	404	127
Other than credit institutions	20,533	19,955
Available-for-sale financial assets	3,165	3,604
Held-to-maturity investments	6,286	6,356
Financial assets held for trading	1,500	1,513
Financial assets designated at fair value through profit or loss	336	528
Derivatives used as economic hedges	480	1,031
Derivatives used for hedging	369	80
	33,318	**33,384**

6. INTEREST EXPENSE

(CZKm)	2011	2010
Financial liabilities at amortised cost		
Credit institutions	304	248
Other than credit institutions	5,346	5,379
Debt instruments in issue	476	594
Subordinated liabilities	193	212
Discount amortisation on other provisions (Note: 29)	4	4
Financial liabilities held for trading	790	552
Derivatives used as economic hedges	876	1,514
Derivatives used for hedging	521	606
	8,510	**9,109**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2011	2010
Fee and commission income		
Payment services	5,058	4,927
Administration of credits	1,970	1,922
Collective investments	610	661
Asset management	232	285
Custody	164	148
Securities	65	27
Other	941	902
	9,040	**8,872**
Fee and commission expense		
Retail service fees	906	928
Payment services	947	881
Contribution to Deposit Insurance Fund	811	634
Commissions to agents	590	479
Other	418	510
	3,672	**3,432**
Net fee and commission income	**5,368**	**5,440**

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)	2011	2010
Net gains from financial instruments at fair value through profit or loss and foreign exchange- as reported	**1,460**	**1,823**
Net interest income (Notes: 5, 6)	650	1,006
	2,110	**2,829**
Financial instruments held for trading		
Interest rate contracts	(202)	596
Foreign exchange	(1,238)	4,526
Equity contracts	(18)	7
Commodity contracts	9	10
	(1,449)	5,139
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	532	774
	532	774
Foreign exchange differences	3,027	(3,084)
Financial instruments at fair value through profit or loss and foreign exchange	**2,110**	**2,829**

9. OTHER NET INCOME

(CZKm)	2011	2010
Net operating leasing and rental income	372	290
Services provided to the parent and to entities under common control	266	356
Other services provided by ČSOB Leasing	78	68
Net gain on disposal of property and equipment	28	34
Net gain on disposal of ICT business (Note: 2.5)	-	344
Net loss on disposal of Held-to-maturity investments	(6)	-
Net (increase) / decrease in provisions for legal issues	(204)	152
Contributions to pension fund clients	(483)	(305)
Other	389	406
	440	**1,345**

10. STAFF EXPENSES

(CZKm)	2011	2010
Wages and salaries	4,838	4,544
Salaries and other short-term benefits of senior management	71	73
Social security charges	1,547	1,466
Pension and similar expense	144	133
Other	179	198
	6,779	**6,414**

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.

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 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 2011 and 2010, no such compensation was paid out.

11. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2011	2010
Information technology	2,806	2,784
Marketing	928	855
Rental expenses - minimum lease payments	629	590
Professional fees	467	343
Other building expenses	466	478
Communication	446	403
Administration	202	218
Retail service fees	159	137
Training	128	114
Travel and transportation	127	123
Payment cards and electronic banking	114	173
Car expenses	38	38
Insurance	33	33
Other	639	764
	7,182	**7,053**

12. IMPAIRMENT LOSSES

(CZKm)	2011	2010
Impairment of loans and receivables (Notes: 18, 33)	(1,822)	(3,429)
Provisions for loan commitments and guarantees (Notes: 29, 33)	43	(60)
Impairment of available for sale assets (Notes: 17, 33)	(3,062)	(5)
Impairment of held-to-maturity investments (Notes: 17, 33)	(5)	(8)
Impairment of property, plant and equipment (Notes: 22, 33)	3	(25)
Impairment of investment property (Notes: 21, 33)	(174)	(35)
Impairment of goodwill (Notes: 23, 33)	(151)	-
Impairment of other assets (Notes: 33)	106	176
	(5,062)	**(3,386)**

13. TAXATION

The components of income tax expense for the years ended 31 December 2011 and 2010 are as follows:

(CZKm)	2011	2010
Current tax expense	1,947	1,910
Net provisions for tax disputes	199	-
Previous year (over) / under accrual	(117)	(197)
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	(265)	63
	1,764	**1,776**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2011 and 2010 is as follows:

(CZKm)	2011	2010
Profit before taxation	12,970	15,338
Applicable tax rates	19%	19%
Taxation at applicable tax rates	2,464	2,914
Net provisions for tax disputes	199	-
Previous year under / (over) accrual	(117)	(197)
Tax effect of non-taxable income	(1,173)	(1,337)
Tax effect of non-deductible expenses	399	394
Other	(8)	2
	1,764	**1,776**

The applicable tax rate for 2011 was 19% (2010: 19%).

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

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

(CZKm)	2011	2010
At 1 January	**(342)**	**(332)**
Statement of income	265	(63)
Available-for-sale securities (Note: 31)		
Fair value remeasurement	396	159
Transfer to net profit	(548)	(15)
Cash-flow hedges (Note: 31)		
Fair value remeasurement	(408)	(38)
Transfer to net profit	32	(72)
Exchange differences	5	19
At 31 December	**(600)**	**(342)**

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

(CZKm)	2011	2010
Deferred tax asset		
Impairment losses on financial investments	664	39
Accelerated tax depreciation	260	151
Employee benefits	247	241
Legal claims	134	135
Provisions	122	124
Allowances for credit losses	105	136
Revaluation of financial assets and liabilities at fair value through profit or loss	93	184
Initial fee income	88	(51)
Unused tax losses applicable in the next periods	4	13
Interest rate bonus	-	82
Amortisation of goodwill	(302)	(265)
Cash flow hedges	(365)	13
Available-for-sale securities	(581)	(416)
Other temporary differences	12	102
	481	**488**
Deferred tax liability		
Accelerated tax depreciation	1,037	1,062
Initial fee expense	320	127
Finance lease valuation	171	181
Available-for-sale securities	123	98
Cash-flow hedging derivatives	65	19
Revaluation of financial assets and liabilities at fair value through profit or loss	16	70
Employee benefits	-	(5)
Provisions	(15)	(1)
Interest rate bonus	(77)	-
Allowances for credit losses	(224)	(280)
Unused tax losses applicable in the next periods	(294)	(423)
Other temporary differences	(41)	(18)
	1,081	**830**

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

(CZKm)	2011	2010
Impairment losses on financial investments	625	-
Accelerated tax depreciation	134	113
Provisions	12	18
Finance lease valuation	10	74
Employee benefits	1	79
Legal claims	(1)	43
Interest rate bonus	(5)	(32)
Revaluation of financial assets and liabilities at fair value through profit or loss	(37)	(41)
Amortisation of goodwill	(37)	(55)
Initial fee income	(54)	(95)
Allowances for credit losses	(87)	18
Available-for-sale securities	(91)	(80)
Unused tax losses applicable in the next periods	(138)	(157)
Other temporary differences	(67)	52
	265	**(63)**

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 2011 has not been taken before the date of issue of the financial statements.

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.

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

In March 2010, the 1:50 split of the Bank shares came into force (Note: 30).

15. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2011	2010
Cash (Note: 33)	8,196	7,774
Mandatory minimum reserves (Note: 39.2)	11,641	9,603
Reverse repo transactions (Notes: 33, 39.2)	25,300	-
Other balances with central banks (Notes: 33, 39.2)	1,552	3,787
	46,689	**21,164**
Accrued interest income (Note: 39.2)	2	-
	46,691	**21,164**

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)	2011	2010
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 36)	119,026	107,777
Money market placements	7,349	13,802
Debt instruments		
Central government	25,506	31,142
Non credit institutions	21	102
Credit institutions	5,253	6,214
Corporate	1,254	373
Derivative contracts (Note: 20)		
Trading derivatives	15,497	12,282
Derivatives used as economic hedges	2,426	1,811
	176,332	**173,503**
Accrued interest income	371	307
	176,703	**173,810**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Central government	4,704	4,630
Non credit institutions	399	381
Credit institutions	5,741	5,944
	10,844	**10,955**
Accrued interest income	177	177
	11,021	**11,132**
Financial assets at fair value through profit or loss	**187,724**	**184,942**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 4,001 m (2010: CZK 953 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)	2011	2010
Available-for-sale financial assets		
Debt securities		
Central government	56,986	69,473
Non credit institutions	-	556
Credit institutions	27,082	28,259
Corporate	1,296	1,471
Equity securities		
Credit institutions	48	434
Corporate	535	457
	85,947	**100,650**
Accrued interest income	1,457	1,871
	87,404	**102,521**
Held-to-maturity investments		
Debt securities		
Central government	132,732	141,796
Non credit institutions	515	871
Credit institutions	2,601	3,138
Corporate	99	814
Accrued interest income	3,476	3,621
	139,423	**150,240**
Financial investments	**226,827**	**252,761**

Included within Financial investments are debt securities of CZK 17,044 m (2010: CZK 12,692 m) pledged as collateral in repo transactions.

Due to significant deterioration in the issuer's creditworthiness, the Group decided in 2010 to gradually sell its entire remaining portfolio of bonds issued by the Greek government, which were originally classified as Held-to-maturity investments. Following the decision, the bonds in the carrying amount of CZK 8,217 m were reclassified to Available-for-sale financial assets in 2010 with the intention to sell based on the market conditions. By 31 December 2010, bonds in the amount of CZK 3,928 m were sold.

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 was CZK 1,554 m as at 31 December 2011 (2010: CZK 3,768 m).

The following table sets out carrying amount of the Greek government bonds owned by the Group divided by contractual remaining maturity as at 31 December 2011 and 2010:

(CZKm)	2011	2010
Less than 1 year	819	147
1 year to 5 years	568	3,160
More than 5 years	167	461
	1,554	**3,768**

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.

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2010 and 2011:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2010	**136**	**617**	**-**	**753**
Increase (Note: 12)	-	5	8	13
Utilisation	-	(152)	(8)	(160)
Foreign currency translation	-	-	-	-
At 31 December 2010	**136**	**470**	**-**	**606**
Increase (Note: 12)	3,077	14	5	3,096
Utilisation	-	(34)	(5)	(39)
Decrease	(29)	-	-	(29)
Foreign currency translation	133	-	-	133
At 31 December 2011	**3,317**	**450**	**-**	**3,767**

18. LOANS AND RECEIVABLES

(CZKm)	2011	2010
Analysed by category of borrower		
Central government	252	161
Non credit institutions	6,573	5,554
Credit institutions	23,659	14,137
Other legal entities	153,711	140,789
Private individuals	276,871	250,941
Gross loans	461,066	411,582
Allowance for impairment losses	(12,565)	(12,466)
	448,501	**399,116**
Accrued interest income	790	625
	449,291	**399,741**

Of which finance lease receivables may be analysed as follows:

(CZKm)	2011	2010
Gross investment in finance leases, receivable	**12,067**	**13,719**
At not more than one year	4,853	5,563
At more than one but not more than five years	6,710	7,798
At more than five years	504	358
Unearned future finance income on finance leases	(912)	(1,213)
Net investment in finance leases	**11,155**	**12,506**
At not more than one year	4,486	5,071
At more than one but not more than five years	6,204	7,109
At more than five years	465	326
Accumulated allowance for uncollectible minimum lease payments receivable	760	1,103

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 2010 and 2011 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 2010	**216**	**2**	**7,420**	**3,082**	**10,720**
Net increase in allowances for credit losses (Note: 12)	2	11	1,368	2,048	3,429
Write-offs	(2)	-	(964)	(687)	(1,653)
Foreign currency translation	(2)	-	(28)	-	(30)
At 31 December 2010	**214**	**13**	**7,796**	**4,443**	**12,466**
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**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2010	**9,891**	**829**	**10,720**
Increase in allowances for credit losses (Note: 12)	4,742	522	5,264
Decrease in allowances for credit losses (Note: 12)	(1,517)	(318)	(1,835)
Write-offs	(1,653)	-	(1,653)
Transfers	3	(3)	-
Foreign currency translation	(28)	(2)	(30)
At 31 December 2010	**11,438**	**1,028**	**12,466**
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**

As at 31 December 2011, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 98 m (2010: CZK 140 m), which the Group is in the process of selling (Note: 24).

19. INVESTMENT IN ASSOCIATE AND JOINT VENTURE

The Group has a 25% ownership interest (2010: 25%) in ČSOB Pojišťovna (Note: 3). The following table illustrates the summarised financial information of the investment in this associate:

(CZKm)	2011	2010
The associate's assets and liabilities		
Assets	40,832	37,935
Liabilities	36,232	33,282
Net assets	**4,600**	**4,653**
Carrying amount of the investment	**1,150**	**1,163**
The associate's revenue and profit		
Revenue	13,037	11,153
Profit for the year	580	903
Profit for the year – share of the Group	145	226

The Group has a 55% ownership interest (2010: 55%) in ČMSS (Note: 3). For 2011 and 2010, the Group's interest in this joint venture is as follows:

(CZKm)	2011	2010
Condensed assets and liabilities		
Cash and balances with central banks	1,169	1,587
Available-for-sale financial assets	7,145	5,485
Loans and receivables	85,044	81,610
Held-to-maturity investments	-	3,517
Property and equipment	399	399
Goodwill and other intangible assets	119	108
Other assets	107	209
Total assets	**93,983**	**92,915**
Financial liabilities at amortised cost	87,617	86,709
Tax liabilities	187	115
Other liabilities	671	786
Provisions	2	7
Total liabilities	**88,477**	**87,617**
Condensed contingent liabilities		
Loan commitments	4,063	3,926
Condensed statement of income		
Net interest income	1,965	1,977
Net fee and commission income	299	342
Other operating income	11	7
Operating income	**2,275**	**2,326**
Operating expenses	(719)	(741)
Impairment losses	(155)	(216)
Profit before tax	**1,401**	**1,369**
Income tax expense	(261)	(252)
Profit for the year	**1,140**	**1,117**

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 2011 and 2010 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

	2011			2010		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	396,850	11,254	13,525	527,475	10,298	12,212
Forwards	39,500	6	10	36,426	3	2
Options	29,247	346	301	27,161	234	189
	465,597	**11,606**	**13,836**	**591,062**	**10,535**	**12,403**
Foreign exchange contracts						
Swaps/Forwards	145,205	2,802	1,268	143,253	688	1,238
Cross currency interest rate swaps	25,862	591	397	27,508	428	334
Options	16,924	362	361	28,242	408	407
	187,991	**3,755**	**2,026**	**199,003**	**1,524**	**1,979**
Equity contracts						
Forwards/Options	100	-	20	100	40	20
Commodity contracts						
Swaps/Options	4,425	136	131	3,787	183	169
Total trading derivatives (Notes: 16, 26)	**658,113**	**15,497**	**16,013**	**793,952**	**12,282**	**14,571**

Positions of ALM – economic hedges

	2011			2010		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	38,465	457	1,319	50,627	489	1,048
Foreign exchange contracts						
Swaps/Forwards	-	-	-	341	-	8
Cross currency interest rate swaps	15,824	1,969	61	9,680	1,322	12
Total derivatives used as economic hedges (Notes: 16, 26)	**54,289**	**2,426**	**1,380**	**60,648**	**1,811**	**1,068**

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).
- 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 2011 and 2010 are set out as follows:

	2011			2010		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	191,952	7,387	5,711	174,389	4,110	4,354
Cross currency interest rate swaps	26,299	2,808	352	38,171	5,093	344
Total hedging derivatives	**218,251**	**10,195**	**6,063**	**212,560**	**9,203**	**4,698**

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

(CZKm)	2011	2010
Interest income / (expense) (Note: 31)	61	(380)
Net gains from financial instruments at fair value through profit or loss (Note: 31)	108	-
Taxation	(32)	72
Net gains / (losses)	**137**	**(308)**

In 2011, a gain of CZK 24 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2010: loss of CZK 1 m).

In 2011, 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 gains of CZK 84 m from equity to the statement of income (2010: CZK Nil). The gains were included in Net gains and losses 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 2011 and 2010:

(CZKm)	2011	2010
Less than 3 months	5,067	7,577
More than 3 months but not more than 6 months	7,016	4,422
More than 6 months but not more than 1 year	19,734	7,096
More than 1 year but not more than 2 years	39,528	41,125
More than 2 years but not more than 5 years	78,960	91,400
More than 5 years	67,946	60,940
	218,251	**212,560**

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 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, new 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, new 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.

The contract or notional amounts and positive and negative fair values of the Group's outstanding fair value hedging derivatives as at 31 December 2011 and 2010 are set out as follows:

	2011			2010		
	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	9,300	-	1,201	10,700	-	869
Fair value portfolio hedges	26,540	116	72	-	-	-
Cross currency interest rate swaps						
Fair value micro hedges	5,012	17	14	5,012	234	-
Total hedging derivatives	**40,852**	**133**	**1,287**	**15,712**	**234**	**869**

In 2011, the net gains in the amount of CZK 629 m (2010: CZK 118 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 losses realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 579 m (2010: CZK 79 m).

21. INVESTMENT PROPERTY

(CZKm)	2011	2010
Cost at 1 January	1,019	1,027
Depreciation and impairment at 1 January	(306)	(236)
Net book value at 1 January	**713**	**791**
Depreciation	(34)	(35)
Impairment charge (Note: 12)	(174)	(35)
Foreign exchange adjustments	4	(8)
Net book value at 31 December	**509**	**713**
of which		
Cost	1,024	1,019
Depreciation and impairment	(515)	(306)
Fair value at 31 December	**523**	**720**
Other disclosures		
Rental income	74	74
Direct operating expenses from investments generating rental income	19	18
Direct operating expenses from investments not generating rental income	2	2

On 31 December 2011 and 2010, 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 2011 and 2010 were caused by decrease of expected future cash-flows and by increase in the discount factor used in the valuation model.

22. PROPERTY AND EQUIPMENT

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

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2011	8,552	591	597	4,093	68	13,901
Depreciation and impairment at 1 January 2011	(2,583)	(528)	(408)	(2,325)	-	(5,844)
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	-	-	-	(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	8,713	565	607	4,346	47	14,277
Depreciation and impairment	(2,892)	(506)	(433)	(2,333)	-	(6,164)

ČSOB Leasing owns assets leased out under operating leases, which represents 67% (2010: 64%) 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 2010	3,636	4,098	806	91	8,631
Amortisation and impairment at 1 January 2010	(685)	(3,490)	(534)	-	(4,709)
Net book value at 1 January 2010	**2,951**	**608**	**272**	91	**3,922**
Transfers	-	146	58	(204)	-
Additions	-	-	-	162	162
Disposals	-	-	(19)	-	(19)
Amortisation	-	(354)	(86)	-	(440)
Net book value at 31 December 2010	**2,951**	**400**	**225**	**49**	**3,625**
of which					
Cost	3,636	4,269	826	49	8,780
Amortisation and impairment	(685)	(3,869)	(601)	-	(5,155)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2011	3,636	4,269	826	49	8,780
Amortisation and impairment at 1 January 2011	(685)	(3,869)	(601)	-	(5,155)
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	810	75	8,953
Amortisation and impairment	(836)	(4,139)	(664)	-	(5,639)

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)	2011	2010
Retail / SME – Bank	2,511	2,511
Retail / SME – subsidiaries		
ČSOB PF Stabilita	193	200
ČSOB PF Progres	-	144
Hypoteční banka	66	66
Other	30	30

Retail / SME - Bank

The recoverable amount for the Retail / SME - Bank segment was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years 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 8.0% of its risk weighted assets, and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 9.7% (2010: 8.95%) and no long term growth were used in 2011 (2010: 3.0%).

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 9.7% in 2011 (2010: 8.95%) 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. As a result of the merger of ČSOB PF Stabilita and ČSOB PF Progres, the recoverable amount of the ČSOB PF Stabilita includes also cash flows of former ČSOB PF Progres. That calculation uses cash-flow projections based on the financial budget approved by the management covering 2012. Cash flows beyond the year have been projected until 2026 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 ČSOB PF Stabilita Transformed fund, which will be 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 2011, the risk discount rate of 10.2% (2010: 8.95%) was used to reflect the uncertainty about the future profitability of the ČSOB PF Stabilita Transformed fund.

For goodwill allocated to ČSOB PF Stabilita to be fully impaired with all other assumptions held constant, the risk discount rate would need to increase by 300 basis points.

The recoverable amount of the unit was determined to be lower than its carrying amount and an impairment loss of CZK 151 m (2010: nil) was recognised in the 2011 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 2012 - 2014. 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 segment 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 9.7% in 2011 (2010: 8.95%) 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)	IT equipment	Software	Other (Note: 18)	Total
Net book value at 1 January 2010	**420**	**22**	**477**	**919**
Additions	-	-	395	395
Disposals	(420)	(22)	(732)	(1,174)
Net book value at 31 December 2010	**-**	**-**	**140**	**140**
of which				
Cost	-	-	140	140
Impairment	-	-	-	-

(CZKm)	IT equipment	Software	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	-	-	-	-

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

25. OTHER ASSETS

(CZKm)	2011	2010
Other debtors, net of provisions (Notes: 32, 34, 39.2)	798	1,206
Prepaid charges	532	738
Accrued income (Notes: 32, 34, 39.2)	477	640
Other receivables from clients (Notes: 32, 34, 39.2)	39	36
VAT and other tax receivables	19	121
Receivables from securities clearing (Notes: 32, 34, 39.2)	13	32
Other	41	12
	1,919	**2,785**

26. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2011	2010
Short positions	4,735	5,457
Derivative contracts (Note: 20)		
Trading derivatives	16,013	14,571
Derivatives used as economic hedges	1,380	1,068
Term deposits	54,707	35,667
Repo transactions	83,271	81,553
Promissory notes	-	7
Bonds issued	5,744	469
	165,850	**138,792**
Accrued interest expense	64	78
Financial liabilities held for trading	**165,914**	**138,870**

27. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2011	2010
Deposits received from credit institutions		
Current accounts	10,748	8,410
Term deposits	13,248	9,366
Repo transactions	17,069	12,665
	41,065	**30,441**
Deposits received from other than credit institutions		
Current accounts	264,162	258,926
Term deposits	28,246	37,550
Savings deposits	197,761	180,549
Building savings deposits	85,978	86,139
Pension funds clients deposits	28,703	27,172
Other deposits	6,719	5,743
	611,569	**596,079**
Debt securities in issue		
Bonds issued	10,913	11,612
Promissory notes	12,300	12,490
Certificates of deposit	-	3
	23,213	**24,105**
Subordinated liabilities		
Subordinated debt	**11,978**	**11,974**
Accrued interest expense	731	819
Financial liabilities at amortised cost	**688,556**	**663,418**

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 are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

28. OTHER LIABILITIES

(CZKm)	2011	2010
Other clearing accounts (Notes: 32, 34, 39.3)	4,436	2,209
Payables to employees including social security charges (Notes: 32, 34, 39.3)	1,955	1,892
Accrued charges (Notes: 32, 34, 39.3)	1,463	1,933
Other creditors (Notes: 32, 34, 39.3)	997	987
Other debts to clients (Notes: 32, 34, 39.3)	733	559
VAT and other tax payables	394	194
Income received in advance	324	266
Payables to securities clearing entities (Notes: 32, 34, 39.3)	82	406
Other (Notes: 32, 34, 39.3)	432	230
	10,816	**8,676**

29. PROVISIONS

(CZKm)	Pending legal issues and other losses	Contractual engagements	Loans commitments and Guarantees (Note: 35)	Total
At 1 January 2011	**129**	**92**	**430**	**651**
Additions	488	-	132	620
Amounts utilised	(10)	(15)	-	(25)
Unused amounts reversed	(21)	-	(175)	(196)
Discount amortisation (Note: 6)	-	4	-	4
Foreign currency translation	2	-	2	4
At 31 December 2011	**588**	**81**	**389**	**1,058**

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 2011, the Group had a provision in the total amount of CZK 588 m. It is expected that the majority of the costs will be probably incurred in the next 4 years.

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

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

Contractual engagements

The Bank assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) for which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise. It is expected that the costs will be incurred over the next 12 years.

30. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2011, the total authorised share capital was CZK 5,855 m (31 December 2010: CZK 5,855 m) and comprised of 292,750,000 ordinary shares with a nominal value of CZK 20 each (31 December 2010: 292,750,000 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

In adopting the resolution of the sole shareholder dated 24 February 2010, KBC Bank amended the ČSOB's Articles of Association. The amendment consisted in the 1:50 split of shares and conversion of registered shares into bearer shares. The share capital of ČSOB now consists of 292,750,000 dematerialized ordinary shares with a nominal value of CZK 20 per share and the aforesaid change was evidenced by an entry in the Register of Companies dated 2 March 2010 when the said amendment came into force.

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

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 2011 and 2010.

On 31 December 2011, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2010: 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 2011 and 2010 are as follows:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2010	**2,814**	**(393)**	**1**	**2,422**
Other comprehensive income (Note: 31)	(392)	391	(1)	(2)
At 31 December 2010	**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**

Unrealised gains and losses from Available-for-sale financial assets held by pension funds recognised in equity in the amount of CZK 1 m as at 31 December 2011 (31 December 2010: CZK 443 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)	2011	2010
Exchange differences on translating foreign operation	1	(1)
Cash flow hedges		
Net unrealised gains on cash flow hedges	2,125	121
Net (gains) / losses on cash flow hedges reclassified to the statement of income (Note: 20)	(169)	380
Tax effect relating to cash flow hedges (Note: 13)	(376)	(110)
	1,580	391
Available-for-sale financial assets		
Net unrealised losses on available-for-sale financial investments	(2,483)	(585)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	(253)	(36)
Realised losses on available-for-sale financial investments reclassified to the statement of income on impairment	3,062	5
Tax effect relating to available-for-sale financial investments (Note: 13)	(152)	144
	174	(472)
Share of other comprehensive income of associates	16	80
Other comprehensive income for the year, net of tax attributable to owners of the parent	**1,771**	**(2)**
Non-controlling interests	(3)	-
Other comprehensive income for the year, net of tax	**1,768**	**(2)**

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.

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 2011:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	126,375	-	126,375
Debt instruments	22,635	9,399	-	32,034
Derivative contracts	-	17,923	-	17,923
Accrued interest income	333	38	-	371
Financial assets designated at fair value through profit or loss				
Debt instruments	10,308	537	-	10,844
Accrued interest income	173	4	-	177
Available-for-sale financial assets				
Debt securities	67,104	18,260	-	85,364
Equity securities	433	5	145	583
Accrued interest income	1,183	274	-	1,457
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	-	54,707	-	54,707
Repo transactions	-	83,271	-	83,271
Bonds issued	-	5,744	-	5,744
Accrued interest expense	-	64	-	64
Derivatives used for hedging	-	7,350	-	7,350

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2010:

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

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

The pricing of mortgage bonds is based on CZK 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 quoted on Reuters till December 2010, since December 2010 the yield curves provided by KBC Bank have been used, based on respective IRS quotes. Yield curves for discounting the estimated future cash flows are based on the yield curve derived from CZK government bonds. As there is no active market for mortgage bonds in the Czech Republic, estimation of any additional credit spread is subject to management judgement. The increase/(decrease) of such a credit spread by 10 basis points would (decrease) / increase the fair value of the mortgage bonds by CZK 111 m (2010: CZK 129 m).

Movements in Level 3 financial instruments measured at fair value

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

(CZKm)	Debt securities	Equity securities	Total
At 31 December 2009	**1,185**	**139**	**1,324**
Interest income	34	-	34
Revaluation losses recorded in Net gains from financial instruments at fair value through profit or loss	(23)	-	(23)
Revaluation losses recorded in Net gains on available-for-sale securities in Other comprehensive income	-	(3)	(3)
Sales	(1,196)	-	(1,196)
At 31 December 2010	**-**	**136**	**136**
Revaluation gains recorded in Net gains on available-for-sale securities in Other comprehensive income	-	97	97
Realised gains recorded in Net realised gains on available-for-sale financial assets	-	21	21
Sales	-	(109)	(109)
At 31 December 2011	**-**	**145**	**145**

In June 2010, the Bank sold all the collateralised debt obligations (CDOs) to KBC Credit Investments NV for CZK 1,196 m.

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

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)	2011	2010	2011	2010
Financial assets				
Financial assets held for trading				
Debt instruments	-	-	259	450
Financial assets designated at fair value through profit or loss				
Debt instruments	-	297	-	2,904
Available-for-sale financial assets				
Debt securities	3,158	7	748	9,838

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.

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

Financial assets and liabilities not carried at fair value

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

	2011		2010	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	46,691	46,691	21,164	21,164
Loans and receivables	449,291	476,536	399,741	415,613
Held-to-maturity investments	139,423	147,285	150,240	155,918
Other assets (Note: 25)	1,327	1,327	1,914	1,914
Financial liabilities				
Financial liabilities at amortised cost	688,556	690,849	663,418	665,379
Other liabilities (Note: 28)	10,098	10,098	8,215	8,215

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

Held-to-maturity investments

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

Loans and receivables to credit institutions and balances with central banks

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

Loans and receivables to other than credit institutions

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

Deposits received from credit institutions and subordinated liabilities

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

Deposits received from other than credit institutions

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

Debt securities in issue

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

Other assets and other liabilities

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

33. ADDITIONAL CASH FLOW INFORMATION

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

(CZKm)	2011	2010
Cash and balances with central banks (Note: 15)	35,050	11,561
Loans and advances to credit institutions	12,399	24,032
Financial liabilities at amortised cost to credit institutions	(12,154)	(9,733)
Cash and cash equivalents	**35,295**	**25,860**

Change in operating assets

(CZKm)	2011	2010
Net change in cash and balances with central banks (mandatory minimum reserves)	(2,038)	405
Net change in financial assets held for trading	(15,171)	(13,931)
Net change in financial assets designated at fair value through profit or loss	111	5,855
Net change in available-for-sale financial assets	12,377	6,624
Net change in loans and receivables	(50,727)	(8,758)
Net change in derivatives used for hedging	1,065	(896)
Net change in other assets	1,115	2,232
	(53,268)	**(8,469)**

Change in operating liabilities

(CZKm)	2011	2010
Net change in financial liabilities held for trading	27,044	10,777
Net change in financial liabilities at amortised cost	23,413	25,594
Net change in derivatives used for hedging	1,783	409
Net change in other liabilities	2,140	32
	54,380	**36,812**

Non-cash items included in profit before tax

(CZKm)	2011	2010
Impairment on financial investment (Note: 12)	3,067	13
Allowances and provisions for credit losses (Note: 12)	1,779	3,489
Depreciation and amortisation (including investment property)	945	1,084
Amortisation of discounts and premiums	564	1,326
Depreciation related to operating leases assets (Note: 22)	257	287
Provisions	243	(168)
Impairment on investment property (Note: 12)	174	35
Impairment on goodwill (Note: 12)	151	-
Impairment on property (Note: 12)	(3)	25
Impairment on other assets (Note: 12)	(106)	(176)
Share of profit of associate	(145)	(226)
Other	(845)	1,429
	6,081	**7,118**

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 2011:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Financial assets held for trading					
Financial derivatives	9,123	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	**288,620**	**231,155**	**355,216**	**583**	**875,574**
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**

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2010:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without Maturity	**Total**
ASSETS					
Financial assets held for trading					
Financial derivatives	6,971	5,602	1,520	-	**14,093**
Other than financial derivatives	137,816	15,848	6,053	-	**159,717**
Financial assets designated at fair value through profit or loss	665	7,945	2,522	-	**11,132**
Available-for-sale financial assets	20,167	40,924	40,539	891	**102,521**
Loans and receivables	91,524	118,974	189,243	-	**399,741**
Held-to-maturity investments	17,728	29,221	103,291	-	**150,240**
Derivatives used for hedging	4,033	4,740	664	-	**9,437**
Other assets (Note: 25)	1,913	1	-	-	**1,914**
Total carrying value	**280,817**	**223,255**	**343,832**	**891**	**848,795**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,227	6,631	1,781	-	**15,639**
Other than financial derivatives	122,308	863	60	-	**123,231**
Financial liabilities at amortised cost	154,167	243,450	265,801	-	**663,418**
Derivatives used for hedging	2,084	2,530	953	-	**5,567**
Other liabilities (Note: 28)	7,993	-	222	-	**8,215**
Total carrying value	**293,779**	**253,474**	**268,817**	**-**	**816,070**

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 outcome of the appeal by the counterparty against the ruling, the Group will not recognise this amount in the statement of income until the final court ruling regarding the Group's claim is known. 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 715 m relating to partially impaired loan in 2010. Relevant carrying amount of the loan amounting to CZK 323 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 2011 and 2010 are as follows:

(CZKm)	2011	2010
Loan commitments – irrevocable (Note: 39.2)	80,004	75,184
Loan commitments – revocable	24,773	16,910
Financial guarantees (Note: 39.2)	27,314	23,186
Other commitments (Note: 39.2)	1,350	1,515
	133,441	**116,795**
Provisions for loan commitments and guarantees (Note: 29)	389	430

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 land and buildings are as follows:

(CZKm)	2011	2010
Not later than 1 year	539	597
Later than 1 year and not later than 5 years	1,448	1,504
Later than 5 years	299	434
	2,286	**2,535**

Future minimum sublease payments amounted to CZK 41 m as at 31 December 2011 (31 December 2010: CZK 61 m).

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

Operating lease receivables (Group is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings and movables are as follows:

(CZKm)	2011	2010
Not later than 1 year	570	608
Later than 1 year and not later than 5 years	989	820
Later than 5 years	161	163
	1,720	**1,591**

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

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)	2011	2010
Financial assets		
Cash and balances with central banks	25,302	-
Financial assets held for trading	119,050	107,797
Loans and receivables	2,638	2,464
	146,990	**110,261**

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 2011 was CZK 151,393 m, of which CZK 85,291 m has been either sold or repledged (31 December 2010: CZK 121,859 m and CZK 86,178 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)	2011	2010
Financial liabilities		
Financial liabilities held for trading	83,301	81,602
Financial liabilities at amortised cost	17,094	12,686
	100,395	**94,288**

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 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	200	-	-	-	-	-
Other	126	-	-	1	-	-
Associates	5	-	43	-	53	28
Joint ventures	-	-	-	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 personnel	-	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 GS NV	-	192	-	22
Patria Direct	-	2,962	-	-
Patria Finance	-	45	-	-
Other	61	212	-	24
Associates	24	2,595	-	18
Joint ventures	1,170	10,102	-	1

The outstanding balances of assets from related party transactions as at 31 December 2010 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
Directors / Senior management	-	-	-	-	-	-
KBC Bank	16,205	-	-	7,497	5,269	-
Entities under common control						
ČSOB SK	16	-	789	1,011	-	9
KBC Asset Management NV	-	-	-	-	-	19
KBC Asset Management SA	-	-	-	-	-	7
KBC Global Services NV	-	-	-	-	-	89
KBC Internationale Financieringsmij NV	355	892	139	-	-	-
Novaservis	-	-	-	166	-	-
Patria Finance	238	-	-	-	-	-
Other	13	-	-	9	-	2
Associates	3	-	1	-	-	16
Joint ventures	-	-	-	-	-	134

The outstanding balances of liabilities from related party transactions as at 31 December 2010 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management personnel	-	363	-	25
KBC Bank	19,054	13,162	2,486	1
Entities under common control				
ČSOB SK	809	16	-	-
KBL European Private Bankers SA	230	23	-	-
KBC Asset Management SA	-	-	-	7
KBC GS NV	-	621	-	-
Patria Direct	959	2,418	-	-
Patria Finance	47	90	-	-
Other	13	102	-	21
Associates	517	2,263	-	16
Joint ventures	315	8,780	-	6

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

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

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

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

(CZKm)	2011 Interest income	2011 Interest expense	2010 Interest income	2010 Interest expense
Directors / Senior management	-	3	-	1
KBC Bank	590	1,091	608	1,195
Entities under common control				
Baker Street Finance Limited	-	-	21	-
Clifton Finance Street Limited	-	-	16	-
ČSOB SK	9	2	23	1
Dorset Street Finance Ltd	-	-	22	-
Fulham Road Finance Limited	-	-	29	-
Kredyt Bank SA	18	-	-	-
Oxford Street Finance Limited	2	-	14	-
Patria Direct	2	-	1	19
Patria Finance	3	1	2	1
Pembridge Square Limited	2	-	5	-
Regent Street Limited	2	-	9	-
Sydney Street Finance Limited	-	-	15	-
Other	1	3	12	3
Associates	-	48	-	75
Joint ventures	5	163	-	151

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

(CZKm)	2011 Fee and commission income	2011 Fee and commission expense	2010 Fee and commission income	2010 Fee and commission expense
Entities under common control				
KBC Asset Management NV	76	-	69	-
KBC Asset Management SA	483	30	525	28
Patria Finance	15	-	-	-
Other	15	1	12	-
Associates	287	73	226	62
Joint ventures	1	81	-	77

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

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

Effective from 1 July 2009, the Group concluded office space rental agreement and a service level agreement on a provision of administration services, such as human resources and accounting services, with KBC GS CZ. In 2011, the Group received income of CZK 68 m (2010: CZK 68 m) from rental payments and related services, received CZK 50 m (2010: CZK 49 m) from the provision of administration services and paid expense of CZK 2,651 m (2010: CZK 2,478 m) for IT services.

In 2011, the Group received income of CZK 129 m (2010: CZK 185 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.

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

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

	2011		2010	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank	5	203	39	47
Entities under common control				
ČSOB SK	-	23	-	23
Patria Finance	-	20	-	20
Associates	-	-	-	2

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

Based on the new legislation issued on 28 December 2011, a revision of the pension system will be processed in the Czech Republic in the following years. In accordance with the requirements of the pension reform, assets of the ČSOB PF Stabilita will be moved to the group of assets of pension fund shareholders and to the group of assets of pension scheme participants. The assets of pension scheme participants will be allocated to a newly created transformed fund, which will be closed for new participants. As a result, the Group will need to derecognise those assets and related liabilities from its balances sheet as it will lose control over them. New participants will be offered the chance of participating in a supplementary pension scheme (so called Pillar III) with the possibility to choose one of the investment strategies. As a result of the revision of the current pension system in the Czech Republic, a new product will be introduced, a contract on pension savings (so called Pillar II). The newly created pension company will become the provider of a supplementary pension scheme and contract on pension savings after obtaining permission from the CNB. The management has incorporated the expected impact of the revision of the pension system on significant judgements and estimates made in the consolidated financial statements (Note: 23).

Greek sovereign bonds

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 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.

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

In August 2010, the KBC Group, including the ČSOB group, implemented changes to the risk and capital management governance structure aimed at consolidating and streamlining the risk and capital management processes and enhancing the responsiveness of the KBC Group, including the ČSOB group, to possible future financial and economic challenges. The introduction of the new risk and capital management governance structure at the ČSOB group level involved, among others, the following changes:

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

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,

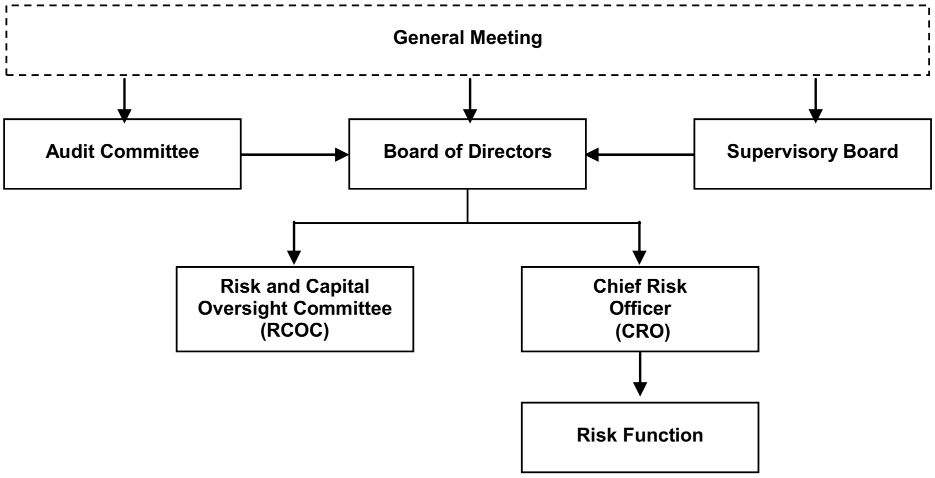
(ii) the RCOC is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

(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.

ICAAP Process

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

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

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

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

Risk measurement and reporting systems

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

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

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the 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 regular collateral revisions.

The Group uses the IRB Foundation approach for the capital calculations of its non-retail exposure and IRB Advance approach for its retail exposures. As a result, credit risk is measured, monitored and managed based on principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) are based on regulatory values for capital calculation purposes and on expert estimates combined with historical data for credit decision purposes.

For the retail exposure, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so called pools).

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the Group seeking to collect its outstanding receivable through credit protection,

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the Group is more than 90 days past the due date.

Non-retail exposure

Rating system: PD (Probability of Default)

The Group manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Foundation compliant statistical rating models that take into account financial or non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

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

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

PD 1 to PD 9 represent the remaining exposures.

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

The following table sets forth a breakdown of the Group's risk categories, including 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. Credit exposures with a rating between PD 9 – 12 (PD 8 – 12 for SMEs) are reviewed by the Bad Debt Department, which is a sub-department of the Credit Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority within the Group for review at least once a year in accordance with the same application process as for new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer's financial situation. For higher risk cases, the CSC and its sub-committees are allowed to set review dates substantially shorter than one year. Generally, reviews take place more frequently for customers with higher PD ratings than for customers with lower PD ratings.

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

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

Collective Monitoring Process

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

Bad Debts Treatment

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

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

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

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

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

Application Process

The application process in retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are in vast majority fully automated based on scorecards. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive as well as negative information.

Monitoring Process

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

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

Collection Process

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

Derivative financial instruments

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

Credit-related commitments risk

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

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

(i) *Undrawn but Committed Exposure*. This exposure arises when the Group has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. In many cases, the commitment is conditional upon the fulfilment of so-called drawing conditions. This type of exposure comprises to a large extent of short-term exposure (consisting predominantly of working capital facilities), where the 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 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	-	2,983	449,292
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	4,310	914,070
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**	**4,310**	**1,022,349**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2010. The maximum exposure is shown 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)	-	13,390	-	-	13,390
Financial assets held for trading	-	1,887	171,923	-	173,810
Financial assets designated at fair value through profit or loss	175	10,957	-	-	11,132
Available-for-sale financial assets	10	102,511	-	-	102,521
Loans and receivables	388,508	9,135	-	2,098	399,741
Held-to-maturity investments	1,346	148,894	-	-	150,240
Derivatives used for hedging	-	9,437	-	-	9,437
Other assets (Note: 25)	-	-	-	1,914	1,914
Total	390,039	296,211	171,923	4,012	862,185
Contingent liabilities (Note: 35)	24,701	-	-	-	24,701
Commitments – irrevocable (Note: 35)	74,754	-	-	-	74,754
Total	99,455	-	-	-	99,455
Total credit risk exposure	**489,494**	**296,211**	**171,923**	**4,012**	**961,640**

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:

	2011			2010		
(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)	38,495	25,302	13,193	13,390	-	13,390
Financial assets held for trading	176,703	119,050	57,653	173,810	107,797	66,013
Financial assets designated at fair value through profit or loss	11,021	-	11,021	11,132	-	11,132
Available-for-sale financial assets	87,404	-	87,404	102,521	-	102,521
Loans and receivables	449,292	297,314	151,978	399,741	266,870	132,871
Held-to-maturity investments	139,423	-	139,423	150,240	-	150,240
Fair value adjustments of the hedged items in portfolio hedge	77	-	77	-	-	-
Derivatives used for hedging	10,328	-	10,328	9,437	-	9,437
Other assets (Note: 25)	1,327	-	1,327	1,914	-	1,914
Total	914,070	441,666	472,404	862,185	374,667	487,518
Contingent liabilities and Commitments – irrevocable (Note: 35)	108,279	33,457	74,822	99,455	37,252	62,203
Total credit risk exposure	**1,022,349**	**475,123**	**547,226**	**961,640**	**411,919**	**549,721**

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

2011 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	**Granted exposure**	Accrued interest income	Allowances	Provisions	**Net exposure**
Mortgage loans	163,070	-	7,692	**170,762**	258	(2,342)	-	**168,678**
Building savings loans	71,656	-	4,063	**75,719**	9	(747)	-	**74,981**
Consumer loans	17,521	19	8,580	**26,120**	62	(1,086)	(4)	**25,092**
SME	66,039	1,684	21,241	**88,964**	112	(3,599)	(59)	**85,418**
Leasing	22,843	-	1,043	**23,886**	-	(952)	-	**22,934**
Corporate	95,224	25,725	37,020	**157,969**	236	(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	**441,069**	**28,664**	**80,004**	**549,737**	**677**	**(12,565)**	**(389)**	**537,460**

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

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

	2011		2010	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	270,187	49.1	252,058	50.1
Services	67,781	12.3	60,929	12.1
Distribution	32,773	6.0	30,389	6.1
Building and Construction	25,325	4.6	26,566	5.3
Commercial Real Estate	23,221	4.2	18,141	3.6
Automotive	17,071	3.1	11,575	2.3
Electricity	15,127	2.7	10,331	2.1
Machinery and Heavy Equipment	11,309	2.1	9,320	1.9
Finance and Insurance	10,621	1.9	6,672	1.3
Authorities	10,553	1.9	9,940	2.0
Metals	8,899	1.6	6,947	1.4
Oil, Gas and other Fuels	8,223	1.5	7,286	1.5
Other sectors	48,647	9.0	51,631	10.3
Total	**549,737**	**100.0**	**501,785**	**100.0**

Investment portfolio is structured according to type of the instrument.

2011 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	Cumulative impairment loss	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	234,663	-	-	(3,317)	**231,346**	5,112	**236,458**
Equity securities	1,033	-	-	(450)	**583**	-	**583**
Loans and receivables within investment portfolio	17,901	-	-	-	**17,901**	114	**18,015**
Derivatives used for hedging	8,991	-	-	-	**8,991**	1,337	**10,328**
Derivatives held for trading	2,426	-	-	-	**2,426**	-	**2,426**
Cash and balances with central banks	38,492	-	-	-	**38,492**	1	**38,493**
Total investment	**303,506**	**-**	**-**	**(3,767)**	**299,739**	**6,564**	**306,303**

2010 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	Cumulative impairment loss	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	255,984	-	-	(136)	**255,848**	5,623	**261,471**
Equity securities	1,361	-	-	(470)	**891**	-	**891**
Loans and receivables within investment portfolio	9,069	-	-	-	**9,069**	66	**9,135**
Derivatives used for hedging	8,205	-	-	-	**8,205**	1,232	**9,437**
Derivatives held for trading	1,887	-	-	-	**1,887**	-	**1,887**
Cash and balances with central banks	13,390	-	-	-	**13,390**	-	**13,390**
Total investment	**289,896**	**-**	**-**	**(606)**	**289,290**	**6,921**	**296,211**

Investment portfolio is monitored from counterparty sector point of view:

	2011		2010	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central government	232,927	77.7	229,726	79.4
Credit institutions	65,579	21.9	56,328	19.5
Corporate	1,020	0.3	2,205	0.7
Non-credit institutions	213	0.1	1,031	0.4
Total investment	**299,739**	**100.0**	**289,290**	**100.0**

Trading portfolio is structured according to type of the instrument.

2011 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	32,034	-	-	**32,034**	353	**32,387**
Loans and advances	126,375	-	-	**126,375**	18	**126,393**
Derivatives held for trading	15,496	-	-	**15,496**	-	**15,496**
Total trading portfolio	**173,905**	**-**	**-**	**173,905**	**371**	**174,276**

2010 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	37,831	-	-	**37,831**	287	**38,118**
Loans and advances	121,579	-	-	**121,579**	20	**121,599**
Derivatives held for trading	12,206	-	-	**12,206**	-	**12,206**
Total trading portfolio	**171,616**	**-**	**-**	**171,616**	**307**	**171,923**

Trading portfolio is monitored from counterparty sector point of view:

	2011		2010	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central government	142,657	82.1	132,051	76.9
Credit institutions	24,746	14.2	37,745	22.0
Corporate	5,981	3.4	1,718	1.0
Non-credit institutions	521	0.3	102	0.1
Total trading portfolio	**173,905**	**100.0**	**171,616**	**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:

	2011		2010	
(CZKm)	Total risk	of which Central government	Total risk	of which Central government
Czech Republic	929,818	365,285	872,645	345,070
Slovak Republic	4,531	926	5,479	1,269
Greece	1,555	1,554	3,768	3,768
Italy	5,912	957	5,606	2,153
Spain	868	617	836	601
Belgium	22,970	2,545	30,600	2,473
Hungary	54	-	1,043	1,039
Other Europe	52,087	8,842	37,304	11,122
Other	4,554	-	4,359	-
Total	**1,022,349**	**380,726**	**961,640**	**367,495**

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

	2011		2010	
Client	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
1 largest client	4,731	0.9	3,422	0.7
10 largest clients	25,196	4.6	19,437	3.9
25 largest clients	46,349	8.4	38,853	7.7

Largest exposure to a single client as at 31 December 2011 was CZK 223,638 m in investment portfolio (31 December 2010: CZK 214,841 m) to the Czech Government and CZK 141,647 m (31 December 2010: CZK 130,229 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 2011 and 2010, 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 2011 and 2010 per individual portfolios:

Credit portfolio

	2011					
	Unimpaired	Impaired assets				Total
	assets	Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-Performing)	Irrecoverable	
Mortgage loans	152,924	3,427	609	2,252	3,858	163,070
Building savings loans	68,468	1,485	-	1,028	675	71,656
Consumer loans	15,960	253	153	276	879	17,521
SME	58,984	1,408	1,620	687	3,340	66,039
Leasing	21,265	614	-	216	748	22,843
Corporate	86,126	3,575	3,057	523	1,943	95,224
Factoring	3,014	648	368	-	112	4,142
Other	-	9	1	1	563	574
Accrued interest income	651	26	-	-	-	677
Total	**407,392**	**11,445**	**5,808**	**4,983**	**12,118**	**441,746**

	2010					
	Unimpaired	Impaired assets				Total
	assets	Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-Performing)	Irrecoverable	
Mortgage loans	135,973	3,330	537	2,480	2,560	144,880
Building savings loans	69,205	1,132	-	1,032	577	71,946
Consumer loans	16,984	142	14	329	736	18,205
SME	55,223	1,533	1,994	635	3,551	62,936
Leasing	20,701	1,069	-	362	1,193	23,325
Corporate	66,410	3,749	4,221	179	1,942	76,501
Factoring	2,849	173	403	-	135	3,560
Other	-	1	-	-	546	547
Accrued interest income	580	25	-	-	-	605
Total	**367,925**	**11,154**	**7,169**	**5,017**	**11,240**	**402,505**

Investment portfolio

	2011		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	229,908	1,438	231,346
Equity securities	228	355	583
Loans and receivables within investment portfolio	17,901	-	17,901
Derivatives used for hedging	8,991	-	8,991
Derivative contracts held for trading	2,426	-	2,426
Cash and balances with central banks	38,492	-	38,492
Accrued interest income	6,564	-	6,564
Total	**304,510**	**1,793**	**306,303**

	2010		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	255,841	7	255,848
Equity securities	423	468	891
Loans and receivables within investment portfolio	9,069	-	9,069
Derivatives used for hedging	8,205	-	8,205
Derivative contracts held for trading	1,887	-	1,887
Cash and balances with central banks	13,390	-	13,390
Accrued interest income	6,921	-	6,921
Total	**295,736**	**475**	**296,211**

Trading portfolio

	2011		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	32,034	-	32,034
Loans and advances	126,375	-	126,375
Derivative contracts held for trading	15,496	-	15,496
Accrued interest income	371	-	371
Total	**174,276**	**-**	**174,276**

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

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

	2011	2010
(CZKm)	Less than 30 days	Less than 30 days
Mortgage loans	7,953	7,956
Building savings loans	714	602
Consumer loans	404	886
SME	542	1,127
Leasing	188	208
Corporate	-	-
Factoring	-	-
Other	-	-
Total	**9,801**	**10,779**

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:

	2011		2010	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Mortgage loans	6,719	(2,113)	5,577	(1,571)
Building savings loans	1,703	(600)	1,609	(528)
Consumer loans	1,308	(998)	1,079	(888)
SME	5,647	(3,438)	6,180	(3,661)
Leasing	964	(806)	1,555	(1,223)
Corporate	5,523	(3,213)	6,342	(3,066)
Factoring	480	(274)	538	(263)
Other	565	(233)	546	(236)
Total	**22,909**	**(11,675)**	**23,426**	**(11,437)**

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

(CZKm)	2011	2010
Debt securities	1,438	7
Equity securities	355	468
Total	**1,793**	**475**

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 uses the loan-to-deposit ratio (LTD), which is defined as a ratio of gross loans and advances given to clients other than banks (numerator) to deposits received excluding repo transactions with credit institutions and pension funds clients deposits (denominator). The strategy of the Group is to maintain the value of LTD well below one. The Group also aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The LTD is monitored on monthly basis and it is regularly reported to the senior management of the Group.

The LTD during the year was as follows:

(%)	2011	2010
31 March	69.8	70.4
30 June	71.0	69.0
30 September	72.1	70.0
31 December	72.7	68.5

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 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 following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2010:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	7,227	7,064	2,224	**16,515**
Other than financial derivatives	-	122,309	932	69	**123,310**
Financial liabilities at amortised cost	430,288	157,168	45,188	54,402	**687,046**
Derivatives used for hedging	-	2,083	2,679	1,257	**6,019**
Other liabilities (Note: 28)	-	7,993	-	259	**8,252**
Total carrying value	**430,288**	**296,780**	**55,863**	**58,211**	**841,142**

The maturity of contingent liabilities and commitments of CZK 135,239 m (2010: CZK 116,796 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 2011 and 2010:

(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

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

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 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

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2010:

		Sensitivity of equity				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(13.5)	(1.8)	7.5	(413.7)	(421.5)
EUR	+ 10	0.7	(1.4)	20.2	58.6	78.1
USD	+ 10	0.0	0.0	(3.3)	(11.6)	(14.9)
CZK	- 10	13.5	1.8	(7.5)	413.7	421.5
EUR	- 10	(0.7)	1.4	(20.2)	(58.6)	(78.1)
USD	- 10	0.0	0.0	3.3	11.6	14.9

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(5.2)	3.8	4.2	(21.9)	(19.1)
EUR	+ 10	(0.2)	0.7	(2.4)	0.0	(1.9)
USD	+ 10	0.0	0.0	(2.6)	(0.3)	(2.9)
CZK	- 10	5.2	(3.8)	(4.2)	21.9	19.1
EUR	- 10	0.2	(0.7)	2.4	0.0	1.9
USD	- 10	0.0	0.0	2.6	0.3	2.9

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 2011 and 2010:

	2011			2010		
(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	70	3	(3)	(78)	(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 2011) 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	(35)
	+ 10	35
Dow-Jones / Nasdaq	- 10	(8)
	+ 10	8

The effect on equity (as a result of a change in the fair value of equity instruments included in Available-for-sale financial assets at 31 December 2010) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, was as follows:

(CZKm)	Change in equity price (%)	Effect on equity
PX index	- 10	(61)
	+ 10	61

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. Minutes of these meetings are provided to the CRO.

Risk Specific Management Department (RSMD)

The RSMD is responsible for internal and external reporting, as well as for coordination, the implementation of methodology, the provision of independent control, and active assistance to the business (including training, methodological help, consultancy and planning) in the area of operational risk 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 permanent 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 and reported to the CRO.

Global Risk Scan

The Global Risk Scan is a structured risk self assessment organised as an interview based on uniform questionnaires. The goal of the exercise is to identify the key risks that are relevant for the senior management. Such risks are likely to differ from the risks identified during the detailed risk scan involving business experts closer to the working floor.

Within the ICAAP process, the RSMD regularly organises a top-down operational and business risk scan involving the top management in the selection of the scenarios, the quantification of these scenarios and the drawing up of remedial actions. In 2011, 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 from 2011 into regular management of the risk and capital positions.

Capital management

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

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)	2011	2010
Tier 1 capital	41,264	45,583
Tier 2 capital	14,080	12,564
Deductible items of Tier 1 and Tier 2	(940)	(625)
Total capital	**54,404**	**57,522**
Capital requirements	28,008	25,530
Risk weighted assets	**350,101**	**319,124**
Capital adequacy ratio	15.54%	18.03%

INDEPENDENT AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Československá obchodní banka, a. s.:

We have audited the accompanying financial statements of Československá obchodní banka, a. s., which comprise the statement of financial position as at 31 December 2011, 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.

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 2011, 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

15 March 2012
Prague, Czech Republic

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

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

(CZKm)	Note	2011	Reclassified 2010
Interest income	4	23,373	24,080
Interest expense	5	(7,162)	(7,734)
Net interest income		**16,211**	**16,346**
Fee and commission income	6	7,291	7,164
Fee and commission expense	6	(3,027)	(2,826)
Net fee and commission income		**4,264**	**4,338**
Dividend income		4,845	3,451
Net gains from financial instruments at fair value through profit or loss and foreign exchange	7	1,186	1,808
Net realised gains / (losses) on available-for-sale financial assets		162	(85)
Other net income	8	527	865
Operating income		**27,195**	**26,723**
Staff expenses	9	(5,396)	(5,075)
General administrative expenses	10	(6,436)	(6,322)
Depreciation and amortisation	20, 21	(574)	(693)
Operating expenses		**(12,406)**	**(12,090)**
Impairment losses	11	(3,641)	(1,061)
Profit before tax		**11,148**	**13,572**
Income tax expense	12	(509)	(775)
Profit for the year		**10,639**	**12,797**

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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

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

(CZKm)	Note	2011	2010
Profit for the year		**10,639**	**12,797**
Net gain on cash flow hedges	29	1,998	429
Net (loss) / gain on available-for-sale financial assets	29	(8,180)	1,901
Income tax benefit / (expense) relating to components of other comprehensive income	29	1,170	(439)
Other comprehensive income for the year, net of tax		**(5,012)**	**1,891**
Total comprehensive income for the year, net of tax		**5,627**	**14,688**

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

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

(CZKm)	Note	2011	Reclassified 2010
ASSETS			
Cash and balances with central banks	14	45,501	19,552
Financial assets held for trading	15	178,252	179,639
Financial assets designated at fair value through profit or loss	15	9,008	10,164
Available-for-sale financial assets	16	140,952	167,695
Held-to-maturity investments	16	133,659	140,571
Loans and receivables	17	261,046	209,172
Fair value adjustments of the hedged items in portfolio hedge		77	-
Investments in subsidiaries, associates and joint ventures	18	37,747	35,029
Derivatives used for hedging	19	10,328	9,438
Deferred tax assets	12	1,415	-
Property and equipment	20	3,557	3,635
Goodwill and other intangible assets	21	2,867	3,057
Other assets	23	1,088	1,709
Total assets		**825,497**	**779,661**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	167,592	139,545
Financial liabilities at amortised cost	25	595,092	568,199
Fair value adjustments of the hedged items in portfolio hedge		103	-
Derivatives used for hedging	19	7,339	5,567
Current tax liabilities		224	1,068
Deferred tax liabilities	12	-	321
Other liabilities	26	8,004	6,034
Provisions	27	1,045	636
Total liabilities		**779,399**	**721,370**
Share capital	28	5,855	5,855
Share premium		6,673	6,673
Statutory reserve		18,687	18,687
Retained earnings		15,975	23,156
Available-for-sale reserve	28	(2,649)	3,981
Cash flow hedge reserve	28	1,557	(61)
Total equity		**46,098**	**58,291**
Total liabilities and equity		**825,497**	**779,661**

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

These separate financial statements were approved for issue by the Board of Directors on 15 March 2012 and signed on its behalf by:

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

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

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

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 2010	**5,855**	**6,673**	**18,687**	**27,748**	**2,029**	**60,992**
Total comprehensive income for the year	-	-	-	12,797	1,891	14,688
Dividends paid (Note: 13)	-	-	-	(17,389)	-	(17,389)
At 31 December 2010	**5,855**	**6,673**	**18,687**	**23,156**	**3,920**	**58,291**
At 1 January 2011	**5,855**	**6,673**	**18,687**	**23,156**	**3,920**	**58,291**
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**

(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 2011

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

(CZKm)	Note	2011	2010
OPERATING ACTIVITIES			
Profit before tax		11,148	13,572
Adjustments for:			
Change in operating assets	31	(45,710)	(1,438)
Change in operating liabilities	31	56,288	28,333
Non-cash items included in profit before tax	31	4,059	4,399
Net gains from investing activities		(3)	(329)
Income tax paid		(1,719)	(575)
Net cash flows from operating activities		**24,063**	**43,962**
INVESTING ACTIVITIES			
Purchase of investment securities		(4,731)	(39,839)
Acquisition of subsidiary, associate and joint venture companies		(2,718)	434
Maturity / disposal of investment securities		11,888	7,612
Purchase of property, equipment and intangible assets		(312)	(258)
Proceeds from disposal of ICT business	2.5	-	951
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		16	21
Net cash flows from / (used) in investing activities		**4,143**	**(31,079)**
FINANCING ACTIVITIES			
Dividends paid		(17,820)	(17,389)
Net cash flows used in financing activities		**(17,820)**	**(17,389)**
Net increase / (decrease) in cash and cash equivalents		**10,386**	**(4,506)**
Cash and cash equivalents at the beginning of the year	31	24,360	28,866
Net increase / (decrease) in cash and cash equivalents		10,386	(4,506)
Cash and cash equivalents at the end of the year	31	**34,746**	**24,360**
Additional information			
Interest paid		(7,648)	(8,218)
Interest received		23,991	24,913
Dividends received		4,845	3,451

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011

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

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

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

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

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

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

Improvements to IFRSs, issued in May 2010 with a view to removing inconsistencies and clarifying 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.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around the collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. It also removes the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired and clarifies that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements is only applicable to assets held at the reporting date. The Bank reflects the revised disclosure requirements in Note: 37.2.
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes

Effective after 1 January 2011

The following standards, amendments and interpretations have been issued and are effective after 1 January 2011. The Bank has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Bank financial statements.

IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments) is effective for the 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 the periods beginning on or after 1 July 2011. The standard should assist users in evaluating the risk exposures relating to the transfer of financial assets and the effect of those risks on an entity's financial position.

IFRS 9 Financial Instruments (the first phase) is effective for the periods beginning on or after 1 January 2015. The standard has not been endorsed by the European Union to date. The project to replace the current IAS 39 Financial Instruments: Recognition and Measurement has been divided into three phases. The first phase focuses on classification and measurement of financial instruments.

The new standard has reduced the number of asset measurement categories from four to two. 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 fulfills the above two conditions.

All equity instruments are measured at fair value either through Other comprehensive income (OCI) or Statement of income.

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 later in 2012.

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments) is effective for the 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.

Improvements to IFRSs, issued in May 2011 with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

IASB published several other standards. They were, however, not endorsed by the European Union before 31 December 2011.

IFRS 10 Consolidated Financial Statements is effective for the periods beginning on or after 1 January 2013. The standard replaces the part relating to the consolidated portion of IAS 27 Consolidated and Separate Financial Statements. A new definition of control has been included and a single control model that applies to all entities has been introduced.

IFRS 11 Joint Arrangements is effective for the periods beginning on or after 1 January 2013. 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 the consolidated financial statements of the Group. The proportionate method of consolidation has been disallowed by the new standard.

IFRS 12 Disclosure of Interest in Other Entities is effective for the periods beginning on or after 1 January 2013. 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 13 Fair Value Measurement is effective for the 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.

IAS 1 Presentation of Items of Other Comprehensive Income — Amendments to IAS 1 is effective for the annual periods beginning on or after 1 July 2012. The amendment changes the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to the statement of income at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

IAS 19 Employee Benefits (Revised) is effective for the periods beginning on or after 1 January 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include changes in the measurement of items and disclosures related to defined benefit plans, timing of initial measurement of termination benefits and classification of short-term and long-term benefits.

IAS 27 Separate Financial Statements is effective for the periods beginning on or after 1 January 2013. 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 is effective for the periods beginning on or after 1 January 2013. 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.

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. 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

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.

(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 2011 from the presentation applied in the financial statements at 31 December 2010 and 2009. 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 2010 is provided below:

(CZKm)	2010 As reported	Reclassifications A	Reclassifications B	2010 Reclassified
Statement of income				
Interest income	22,700	1,380		24,080
Interest expense	(6,220)	(1,514)		(7,734)
Net gains from financial instruments at fair value through profit or loss and foreign exchange	1,674	134		1,808
Statement of financial position				
Financial liabilities held for trading	21,386		118,159	139,545
Financial liabilities designated at fair value through profit or loss	118,159		(118,159)	-

A reconciliation of the selected items of the statement financial position as at 31 December 2009 is provided below:

(CZKm)	2009 As reported	Reclassifications B	2009 Reclassified
Statement of financial position			
Financial liabilities held for trading	23,202	106,032	129,234
Financial liabilities designated at fair value through profit or loss	106,032	(106,032)	-

The explanation for the reclassifications is as follows:

A/ **Interest accrual on derivatives used as economic hedges**

Interest income and interest expense accrued on interest rate swaps, which did not meet the criteria for hedge accounting but are used for hedging from an economic point of view, previously presented within Net gains from financial instruments at fair value through profit or loss, have been reclassified into Net interest income (Note: 2.4.4.i);

B/ **Classification of financial liabilities**

The financial liabilities originally classified as designated at fair value through profit or loss have been moved to the financial liabilities held for trading. The held for trading category better reflects actual management of the financial liabilities, which are managed together with held for trading financial assets by the Dealing department with the aim of making profit in a short term period. The change in classification leads to more relevant information about the actual management of financial assets and liabilities.

Outsourcing of ICT services

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

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

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

An asset purchase agreement was concluded between ČSOB and KBC GS NV and became effective in January 2010. The agreement transferred the ICT-related assets which were classified as Non-current assets held-for-sale in the Bank's financial statements as at 31 December 2009 from the Bank to KBC GS NV (Note: 22).

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

3. SEGMENT INFORMATION

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

The Bank has four reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting (controlling) structure. For each of the 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 of greater than CZK 300 m and non-banking financial institutions. This segment contains customers' deposits, loans, overdrafts, credit card facilities, funds transfer facilities and other transactions and balances with corporate customers. 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 2010, net gain on disposal of ICT business is included.

ALM was transferred from Financial markets and the ALM segment to the Group Centre segment in 2011. Comparative figures as at 2010 have been reclassified.

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	2,280	679	1,564	16,211
Net fee and commission income	3,203	893	133	35	4,264
Dividend income	-	-	-	4,845	4,845
Net gains / (losses) from financial instruments at fair value through profit or loss	1,124	747	(175)	(510)	1,186
Net realised gains on available-for-sale financial assets	-	-	-	162	162
Other net income	152	1	62	312	527
Operating income	**16,167**	**3,921**	**699**	**6,408**	**27,195**
of which:					
External operating income	*6,315*	*3,782*	*699*	*16,399*	*27,195*
Internal operating income	*9,852*	*139*	*-*	*(9,991)*	*-*
Depreciation and amortisation	(95)	(3)	(1)	(475)	(574)
Other operating expenses	(9,571)	(1,257)	(286)	(718)	(11,832)
Operating expenses	**(9,666)**	**(1,260)**	**(287)**	**(1,193)**	**(12,406)**
Impairment losses - additions	(1,435)	(1,252)	(5)	(3,201)	(5,893)
Impairment losses - reversals	1,010	999	-	243	2,252
Profit before tax	**6,076**	**2,408**	**407**	**2,257**	**11,148**
Income tax (expense) / benefit	(1,154)	(458)	(77)	1,180	(509)
Segment profit	**4,922**	**1,950**	**330**	**3,437**	**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**

Segment reporting information by customer segments for 2010

(CZKm)	Retail / SME	Corporate	Financial markets	Group Centre	Total
Statement of income					
Net interest income	11,300	2,168	1,089	1,789	16,346
Net fee and commission income	3,281	922	111	24	4,338
Dividend income	-	-	-	3,451	3,451
Net gains / (losses) from financial instruments at fair value through profit or loss	1,003	729	159	(83)	1,808
Net realised losses on available-for-sale financial assets	-	-	-	(85)	(85)
Other net income	164	10	105	586	865
Operating income	**15,748**	**3,829**	**1,464**	**5,682**	**26,723**
of which:					
External operating income	*6,454*	*3,499*	*1,464*	*15,307*	*26,723*
Internal operating income	*9,294*	*330*	*-*	*(9,624)*	*-*
Depreciation and amortisation	(159)	(3)	(1)	(530)	(693)
Other operating expenses	(8,984)	(1,217)	(324)	(872)	(11,397)
Operating expenses	**(9,143)**	**(1,220)**	**(325)**	**(1,402)**	**(12,090)**
Impairment losses - additions	(1,972)	(1,077)	-	314	(2,734)
Impairment losses - reversals	999	498	-	176	1,673
Profit before tax	**5,632**	**2,031**	**1,139**	**4,770**	**13,572**
Income tax (expense) / benefit	(1,070)	(386)	(216)	897	(775)
Segment profit	**4,562**	**1,645**	**923**	**5,667**	**12,797**
Assets and liabilities					
Total assets	**80,756**	**77,384**	**177,766**	**443,755**	**779,661**
Total liabilities	**414,108**	**90,578**	**142,652**	**74,032**	**721,370**
Capital expenditures	**62**	**-**	**-**	**196**	**258**

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)	2011	2010
Cash balances with central banks	236	180
Loans and receivables		
Credit institutions	1,824	1,240
Other than credit institutions	7,561	7,335
Available-for-sale financial assets	4,911	5,709
Held-to-maturity investments	5,912	5,841
Financial assets held for trading	1,534	1,749
Financial assets designated at fair value through profit or loss	288	563
Derivatives used as economic hedges	738	1,380
Derivatives used for hedging	369	83
	23,373	**24,080**

5. INTEREST EXPENSE

(CZKm)	2011	2010
Financial liabilities at amortised cost		
Credit institutions	1,042	1,130
Other than credit institutions	3,550	3,533
Debt instruments in issue	162	176
Subordinated liabilities	193	212
Discount amortisation on other provisions (Note: 27)	4	4
Financial liabilities held for trading	797	559
Derivatives used as economic hedges	893	1,514
Derivatives used for hedging	521	606
	7,162	**7,734**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2011	2010
Fee and commission income		
Payment services	5,060	4,927
Administration of credits	1,161	1,152
Collective investments	434	484
Custody	165	148
Securities	69	48
Asset management	3	6
Other	399	399
	7,291	**7,164**
Fee and commission expense		
Payment services	947	889
Retail service fees	906	928
Contribution to Deposit Insurance Fund	750	585
Commissions to agents	48	49
Other	376	375
	3,027	**2,826**
Net fee and commission income	**4,264**	**4,338**

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)	2011	2010
Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported	**1,186**	**1,808**
Net interest income (Notes: 4, 5)	870	1,619
	2,056	**3,427**
Financial instruments held for trading		
Interest rate contracts	121	1,134
Foreign exchange	(1,170)	4,347
Commodity contracts	9	10
	(1,040)	5,491
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	62	1,012
	62	1,012
Foreign exchange differences	3,034	(3,076)
Financial instruments at fair value through profit or loss and foreign exchange	**2,056**	**3,427**

8. OTHER NET INCOME

(CZKm)	2011	2010
Operating leasing and rental income	149	149
Services provided to Československá obchodná banka, a.s (ČSOB SK)	129	185
Net gain on disposal of loans and receivables	56	165
Net gain on disposal of ICT business (Note: 2.5)	-	329
Net loss on disposal of financial liabilities at amortised cost	-	(151)
Net loss on disposal of Held-to-maturity investments	(6)	-
Net (increase) / decrease in provisions for legal issues	(201)	115
Other	400	73
	527	**865**

9. STAFF EXPENSES

(CZKm)	2011	2010
Wages and salaries	3,839	3,582
Salaries and other short-term benefits of senior management	71	73
Social security charges	1,227	1,152
Pension and similar expense	126	117
Other	133	151
	5,396	**5,075**

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.

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 2011 and 2010, no such compensation was paid out.

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2011	2010
Information technology	2,583	2,562
Rental expenses – minimum lease payments	767	730
Marketing	702	640
Other building expenses	439	450
Communication	418	387
Professional fees	408	303
Retail service fees	159	137
Travel and transportation	121	116
Administration	119	122
Payment cards and electronic banking	114	173
Training	105	92
Car expenses	58	52
Insurance	33	33
Other	410	525
	6,436	**6,322**

11. IMPAIRMENT LOSSES

(CZKm)	2011	2010
Impairment of loans and receivables (Notes: 17, 31)	(640)	(1,427)
Provisions for loan commitments and guarantees (Notes: 27, 31)	43	(60)
Impairment of available-for-sale financial assets (Notes: 16, 31)	(3,048)	-
Impairment of held-to-maturity investments (Notes: 16, 31)	(5)	(8)
Impairment of investments in subsidiaries, associates and joint ventures (Notes: 18, 31)	(97)	258
Impairment of other assets (Note: 31)	106	176
	(3,641)	**(1,061)**

12. TAXATION

The components of income tax expense for the years ended 31 December 2011 and 2010 are as follows:

(CZKm)	2011	2010
Current tax expense	992	1,182
Net provisions for tax disputes	199	-
Previous year over accrual	(116)	(190)
Deferred tax benefit relating to the origination and reversal of temporary differences	(566)	(217)
	509	**775**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2011 and 2010 is as follows:

(CZKm)	2011	2010
Profit before taxation	11,148	13,572
Applicable tax rates	19%	19%
Taxation at applicable tax rates	2,118	2,579
Net provisions for tax disputes	199	-
Previous year over accrual	(116)	(190)
Tax effect of non-taxable income	(1,812)	(1,781)
Tax effect of non-deductible expenses	120	167
	509	**775**

The applicable tax rate for 2011 was 19% (2010: 19%).

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

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

(CZKm)	2011	2010
At 1 January	**(321)**	**(99)**
Statement of income	566	217
Available-for-sale securities (Note: 29)		
Fair value remeasurement	2,099	(341)
Transfer to net profit	(549)	(16)
Cash-flow hedges (Note: 29)		
Fair value remeasurement	(412)	(10)
Transfer to net profit	32	(72)
At 31 December	**1,415**	**(321)**

Deferred tax assets / (liability) is attributable to the following items:

(CZKm)	2011	2010
Deferred tax assets / (liability)		
Impairment losses on financial investments	664	39
Available-for-sale securities	621	(908)
Employee benefits	247	241
Accelerated tax depreciation	222	147
Legal claim	134	135
Provisions	119	120
Allowances for credit losses	67	86
Amortisation of goodwill	(302)	(265)
Cash-flow hedges	(365)	14
Other temporary differences	8	70
	1,415	**(321)**

The deferred tax benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2011	2010
Impairment losses on financial investments	625	-
Accelerated tax depreciation	75	120
Employee benefits	6	74
Legal claim	(1)	43
Provisions	(1)	17
Allowances for credit losses	(19)	16
Available-for-sale securities	(20)	(14)
Amortisation of goodwill	(37)	(56)
Other temporary differences	(62)	17
	566	**217**

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 2011 has not been taken before the date of issue of the financial statements.

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.

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

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

14. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2011	2010
Cash (Note: 31)	8,192	7,762
Mandatory minimum reserves (Note: 37.2)	10,520	8,435
Reverse repo transactions (Notes: 31, 37.2)	25,300	-
Other balances with central banks (Notes: 31, 37.2)	1,487	3,355
	45,499	**19,552**
Accrued interest income (Note: 37.2)	2	-
	45,501	**19,552**

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)	2011	2010
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 34)	119,026	107,777
Money market placements	7,469	16,988
Debt instruments		
Central government	25,506	31,142
Non credit institutions	21	102
Credit institutions	5,281	7,702
Corporate	1,649	589
Derivative contracts (Note: 19)		
Trading derivatives	16,154	12,647
Derivatives used as economic hedges	2,774	2,263
	177,880	**179,210**
Accrued interest income	372	429
	178,252	**179,639**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Central government	816	826
Non credit institutions	399	381
Credit institutions	7,660	8,809
	8,875	**10,016**
Accrued interest income	133	148
	9,008	**10,164**
Financial assets at fair value through profit or loss	**187,260**	**189,803**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 4,007 m (2010: CZK 953 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 on them from a different bases.

16. FINANCIAL INVESTMENTS

(CZKm)	2011	2010
Available-for-sale financial assets		
Debt securities		
Central government	40,028	53,539
Non credit institutions	-	541
Credit institutions	97,723	109,895
Corporate	698	872
Equity securities		
Credit institutions	8	8
Corporate	223	39
	138,680	**164,894**
Accrued interest income	2,272	2,801
	140,952	**167,695**
Held-to-maturity investments		
Debt securities		
Central government	126,546	131,876
Non credit institutions	515	871
Credit institutions	3,101	3,528
Corporate	99	814
	130,261	**137,089**
Accrued interest income	3,398	3,482
	133,659	**140,571**
Financial investments	**274,611**	**308,266**

Included within Financial investments are debt securities of CZK 20,620 m (2010: CZK 18,697 m) pledged as collateral in repo transactions.

Due to significant deterioration in the issuer's creditworthiness, the Bank decided in 2010 to gradually sell its entire remaining portfolio of bonds issued by the Greek government, which were originally classified as Held-to-maturity investments. Following the decision, the bonds in the carrying amount of CZK 8,217 m were reclassified to Available-for-sale financial assets in 2010 with the intention to sell based on the market conditions. By 31 December 2010, bonds in the amount of CZK 3,928 m were sold.

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 was CZK 1,554 m as at 31 December 2011 (2010: CZK 3,768 m).

The following table sets out carrying amount of the Greek government bonds owned the Bank by contractual remaining maturity as at 31 December 2011 and 2010:

(CZKm)	2011	2010
Less than 1 year	819	147
1 year to 5 years	568	3,160
More than 5 years	167	461
	1,554	**3,768**

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.

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2010 and 2011:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2010	**136**	**92**	**-**	**228**
Increase (Note: 11)	-	-	8	8
Utilisation	-	-	(8)	(8)
At 31 December 2010	**136**	**92**	**-**	**228**
Increase (Note: 11)	3,077	-	5	3,082
Utilisation	-	-	(5)	(5)
Decrease	(29)	-	-	(29)
Foreign exchange differences	133	-	-	133
At 31 December 2011	**3,317**	**92**	**-**	**3,409**

17. LOANS AND RECEIVABLES

(CZKm)	2011	2010
Analysed by category of borrower		
Central government	252	161
Non credit institutions	5,391	4,333
Credit institutions	76,309	48,458
Other legal entities	151,530	131,366
Private individuals	34,355	32,128
Gross loans	267,837	216,446
Allowance for impairment losses	(8,233)	(8,304)
	259,604	**208,142**
Accrued interest income	1,442	1,030
	261,046	**209,172**

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2010 and 2011 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 2010	**-**	**216**	**5,805**	**1,314**	**7,335**
Net increase in allowances for credit losses (Note: 11)	10	1	806	611	1,427
Write-offs	-	(2)	(20)	(407)	(429)
Foreign currency translation	-	(2)	(28)	1	(29)
At 31 December 2010	**10**	**213**	**6,563**	**1,518**	**8,304**
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**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2010	**6,968**	**367**	**7,335**
Increase in allowances for credit losses (Note: 11)	2,651	291	2,942
Decrease in allowances for credit losses (Note: 11)	(1,310)	(205)	(1,515)
Write-offs	(429)	-	(429)
Foreign currency translation	(29)	-	(29)
At 31 December 2010	**7,851**	**453**	**8,304**
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**

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

		2011		2010	
Name	Abbreviation	(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
Auxilium, a. s.	Auxilium	100.00	1,195	100.00	1,195
Bankovní informační technologie, s.r.o.	BANIT	100.00	30	100.00	30
Centrum Radlická a.s.	Centrum Radlická	100.00	969	100.00	969
ČSOB Asset Management, a.s., a member of the ČSOB group	ČSOB AM	-	-	20.59	85
ČSOB Asset Management, a.s., investiční společnost	ČSOB AM/IS	44.29	145	-	-
ČSOB Factoring, a.s.	ČSOB Factoring	100.00	1,175	100.00	1,175
ČSOB Investiční společnost, a.s., a member of the ČSOB group	ČSOB IS	-	-	73.15	60
ČSOB Investment Banking Services, a.s., a member of the ČSOB group	ČSOB IBS	100.00	2,263	100.00	2,263
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	5,600	100.00	5,600
ČSOB Penzijní fond Progres, a.s., a member of the ČSOB group	ČSOB PF Progres	-	-	100.00	718
ČSOB Penzijní fond Stabilita, a.s., a member of the ČSOB Group	ČSOB PF Stabilita	100.00	1,547	100.00	829
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	59.76	337	59.76	434
Hypoteční banka, a.s.	Hypoteční banka	100.00	22,030	100.00	19,530
Joint venture					
Českomoravská stavební spořitelna, a.s.	ČMSS	55.00	1,540	55.00	1,540
Associate					
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	25.00	916	25.00	601
			37,747		**35,029**

All companies are incorporated in the Czech Republic.

In April 2011, based on the Sole shareholder decision, the Bank increased the share premium of Hypoteční banka by CZK 2,500 m.

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

On 27 April 2011, the Bank approved a merger of ČSOB IS and ČSOB AM. It was decided that ČSOB IS would become a successor company and would afterwards be renamed to ČSOB Asset Management, a.s., investiční společnost. 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. The Bank is entitled to a total of 44.29% of the voting rights in ČSOB AM/IS after the merger.

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.

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

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

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 96.49% of the voting rights in ČSOB Property fund. In 2010, the participation of the Bank in ČSOB Property fund decreased as a result of the Bank's decision to decrease the amount of the share capital of the entity and buyout of shares.

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

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

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

At 31 December 2010 and 2011, the Bank considered the value of interests in certain subsidiaries to be impaired.

In December 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 97 m respectively, has been recognised.

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

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

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 2010 and 2011:

(CZKm)	ČSOB PF Progres	ČSOB PF Stabilita	ČSOB Property fund	Total
At 1 January 2010	**148**	**503**	**119**	**770**
Increase (Note: 11)	-	-	14	14
Decrease (Note: 11)	(148)	(124)	-	(272)
Utilisation	-	-	(25)	(25)
At 31 December 2010	**-**	**379**	**108**	**487**
Increase (Note: 11)	-	-	97	97
At 31 December 2011	**-**	**379**	**205**	**584**

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 2011 and 2010 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

	2011			2010		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	399,160	11,814	13,632	529,724	10,639	12,223
Forwards	39,500	6	10	36,426	3	2
Options	29,247	346	301	27,161	234	189
	467,907	**12,166**	**13,943**	**593,311**	**10,876**	**12,414**
Foreign exchange contracts						
Swaps/Forwards	145,208	2,802	1,268	143,253	688	1,238
Cross currency interest rate swaps	28,636	688	486	30,185	492	471
Options	16,924	362	361	28,242	408	407
	190,768	**3,852**	**2,115**	**201,680**	**1,588**	**2,116**
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps/Options	4,425	136	131	3,787	183	169
Total trading derivatives (Notes: 15, 24)	**663,200**	**16,154**	**16,209**	**798,878**	**12,647**	**14,719**

Positions of ALM – economic hedges

	2011			2010		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	49,054	777	1,360	65,892	928	1,197
Foreign exchange contracts						
Cross currency interest rate swaps	16,464	1,997	72	10,646	1,335	13
Total derivatives used as economic hedges (Notes: 15, 24)	**65,518**	**2,774**	**1,432**	**76,538**	**2,263**	**1,210**

Hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of the net interest margin. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Bank policies to achieve these strategies currently require the use of 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).
- 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 2011 and 2010 are set out as follows:

	2011			2010		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	191,952	7,386	5,700	174,573	4,111	4,354
Cross currency interest rate swaps	26,299	2,808	352	38,171	5,093	344
Total hedging derivatives	**218,251**	**10,194**	**6,052**	**212,744**	**9,204**	**4,698**

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

(CZKm)	2011	2010
Interest income / (expense) (Note: 29)	61	(380)
Net gains and losses from financial instruments at fair value through profit or loss (Note: 29)	108	-
Taxation	(32)	72
Net gains / (losses)	**137**	**(308)**

In 2011, a gain of CZK 24 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2010: loss of CZK 1 m)

In 2011, 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 gains of CZK 84 m from equity to the statement of income (2010: CZK Nil). The gains were included in Net gains and losses 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 2011 and 2010:

(CZKm)	2011	2010
Less than 3 months	5,067	7,761
More than 3 months but not more than 6 months	7,016	4,422
More than 6 months but not more than 1 year	19,734	7,096
More than 1 year but not more than 2 years	39,528	41,125
More than 2 years but not more than 5 years	78,960	91,400
More than 5 years	67,946	60,940
	218,251	**212,744**

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 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, new 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, new 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.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding fair value hedging derivatives as at 31 December 2011 and 2010 are set out as follows:

	2011			2010		
	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	9,300	-	1,201	10,700	-	869
Fair value portfolio hedges	26,540	117	72	-	-	-
Cross currency interest rate swaps						
Fair value micro hedges	5,012	17	14	5,012	234	-
Total hedging derivatives	**40,852**	**134**	**1,287**	**15,712**	**234**	**869**

In 2011, the net gains in the amount of CZK 629 m (2010: CZK 118 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 losses realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 579 m (2010: CZK 79 m).

20. PROPERTY AND EQUIPMENT

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

(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)

21. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(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)

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 8.0% of its risk weighted assets, and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 9.70% in 2011 (2010: 8.95%) and no long term growth were used in 2011 (2010: 3.0%).

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 9.70% in 2011 (2010: 8.95%) has been applied. This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average ‘beta’ factor for relative market risk, including the market risk premium.

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

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

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

22. NON-CURRENT ASSETS HELD-FOR-SALE

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

There were no movements of Non-current assets held-for-sale in 2011.

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

23. OTHER ASSETS

(CZKm)	2011	2010
Other debtors, net of provisions (Notes: 30, 32, 37.2)	524	949
Prepaid charges	277	340
Accrued income (Notes: 30, 32, 37.2)	260	317
Receivables from securities clearing entities (Notes: 30, 32, 37.2)	13	32
VAT and other tax receivables	11	62
Other	3	9
	1,088	**1,709**

24. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2011	2010
Short positions	4,735	5,457
Derivative contracts (Note: 19)		
Trading derivatives	16,209	14,719
Derivatives used as economic hedges	1,432	1,210
Term deposits	56,137	36,052
Repo transactions	83,271	81,553
Promissory notes	-	7
Bonds issued	5,744	469
	167,528	**139,467**
Accrued interest expense	64	78
Financial liabilities held for trading	**167,592**	**139,545**

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2011	2010
Deposits received from credit institutions		
Current accounts	10,833	8,525
Term deposits	38,709	29,901
Repo transactions	20,698	18,667
	70,240	**57,093**
Deposits received from other than credit institutions		
Current accounts	263,638	258,615
Term deposits	28,243	37,546
Savings deposits	197,760	180,549
Other deposits	6,280	5,391
	495,921	**482,101**
Debt securities in issue		
Bonds issued	1,352	1,362
Promissory notes	14,978	15,019
Certificates of deposit	-	3
	16,330	**16,384**
Subordinated liabilities		
Subordinated debt	**11,978**	**11,974**
Accrued interest expense	623	647
Financial liabilities at amortised cost	**595,092**	**568,199**

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 are repayable after ten years. Their coupon rate is PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank.

26. OTHER LIABILITIES

(CZKm)	2011	2010
Other clearing accounts (Notes: 30, 32, 37.3)	4,424	2,209
Payables to employees including social security charges (Notes: 30, 32, 37.3)	1,690	1,630
Accrued charges (Notes: 30, 32, 37.3)	1,015	1,107
Other creditors (Notes: 30, 32, 37.3)	448	360
Income received in advance	160	80
VAT and other tax payables	137	179
Payables to securities clearing entities (Notes: 30, 32, 37.3)	82	406
Other debts to clients (Notes: 30, 32, 37.3)	21	29
Other (Notes: 30, 32, 37.3)	27	34
	8,004	**6,034**

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Contractual engagements	Loan commitments and guarantees (Note: 33)	Total
At 1 January 2011	**115**	**92**	**429**	**636**
Additions	482	-	132	614
Amounts utilised	(2)	(15)	-	(17)
Unused amounts reversed	(21)	-	(175)	(196)
Discount amortisation (Note: 5)	-	4	-	4
Foreign currency translation	2	-	2	4
At 31 December 2011	**576**	**81**	**388**	**1,045**

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 2011, the Bank had a provision in the total amount of CZK 576 m. It is expected that the majority of the costs will be probably incurred in the next 4 years.

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

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

Contractual engagements

ČSOB assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) for which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise. It is expected that the costs will be incurred over the next 12 years.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2011, the total authorised share capital was CZK 5,855 m (31 December 2010: CZK 5,855 m) and comprised of 292,750,000 ordinary shares with a nominal value of CZK 20 each (31 December 2010: 292,750,000 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

In adopting the resolution of the sole shareholder dated 24 February 2010, KBC Bank NV amended the ČSOB's Articles of Association. The amendment consisted in the 1:50 split of shares and conversion of registered shares into bearer shares. The share capital of ČSOB now consists of 292,750,000 dematerialized ordinary shares with a nominal value of CZK 20 per share and the aforesaid change was evidenced by an entry in the Register of Companies dated 2 March 2010 when the said amendment came into force.

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

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 2011 and 2010.

On 31 December 2011, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2010: 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 2011 and 2010:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Total
At 1 January 2010	**2,437**	**(408)**	**2,029**
Other comprehensive income (Note: 29)	1,544	347	1,891
At 31 December 2010	**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)**

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2011	2010
Cash flow hedges		
Net unrealised gains on cash flow hedges	2,167	49
Net (gains) / losses on cash flow hedges reclassified to the statement of income (Note: 19)	(169)	380
Tax effect relating to cash flow hedges (Note: 12)	(380)	(82)
	1,618	347
Available-for-sale financial assets		
Net unrealised (losses) / gains on available-for-sale financial investments	(11,067)	1,816
Net realised (gains) / losses on available-for-sale financial investments reclassified to the statement of income on disposal	(161)	85
Net realised losses on available-for-sale financial investments reclassified to the statement of income on impairment	3,048	-
Tax effect relating to available-for-sale financial investments (Note: 12)	1,550	(357)
	(6,630)	1,544
Other comprehensive income for the year, net of tax	**(5,012)**	**1,891**

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.

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 2011:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	126,495	-	126,495
Debt instruments	22,636	9,821	-	32,457
Derivative contracts	-	18,928	-	18,928
Accrued interest income	333	39	-	372
Financial assets designated at fair value through profit or loss				
Debt instruments	4,916	3,959	-	8,875
Accrued interest income	79	54	-	133
Available-for-sale financial assets				
Debt securities	47,689	90,760	-	138,449
Equity securities	82	5	144	231
Accrued interest income	880	1,392	-	2,272
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	-	56,137	-	56,137
Repo transactions	-	83,271	-	83,271
Bonds issued	-	5,744	-	5,744
Accrued interest expense	-	64	-	64
Derivatives used for hedging	-	7,339	-	7,339

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2010:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Loans and advances	-	124,765	-	124,765
Debt instruments	15,681	23,855	-	39,536
Derivative contracts	-	14,910	-	14,910
Accrued interest income	274	155	-	429
Financial assets designated at fair value through profit or loss				
Debt instruments	4,900	5,116	-	10,016
Accrued interest income	78	70	-	148
Available-for-sale financial assets				
Debt securities	65,860	98,987	-	164,847
Equity securities	-	-	47	47
Accrued interest income	1,446	1,355	-	2,801
Derivatives used for hedging	-	9,438	-	9,438
Financial liabilities				
Financial liabilities held for trading				
Short positions	5,457	-	-	5,457
Derivative contracts	-	15,930	-	15,930
Term deposits	-	36,052	-	36,052
Repo transactions	-	81,553	-	81,553
Promissory notes	-	7	-	7
Bonds issued	-	469	-	469
Accrued interest expense	-	78	-	78
Derivatives used for hedging	-	5,567	-	5,567

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

The pricing of mortgage bonds is based on CZK 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 quoted on Reuters till December 2010, since December 2010 the yield curves provided by KBC Bank have been used, based on respective IRS quotes. Yield curves for discounting the estimated future cash flows are based on the yield curve derived from CZK government bonds. As there is no active market for mortgage bonds in the Czech Republic, estimation of any additional credit spread is subject to management judgement. The increase/(decrease) of such a credit spread by 10 basis points would (decrease) / increase the fair value of the mortgage bonds by CZK 366 m (2010: CZK 405 m).

Movements in Level 3 financial instruments measured at fair value

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

(CZKm)	Debt securities	Equity securities	Total
At 31 December 2009	**1,185**	**47**	**1,232**
Interest income	34	-	34
Revaluation losses recorded in Net gains from financial instruments at fair value through profit or loss	(23)	-	(23)
Sales	(1,196)	-	(1,196)
At 31 December 2010	**-**	**47**	**47**
Revaluation gains recorded in Net loss on available-for-sale securities in Other comprehensive income	-	97	97
At 31 December 2011	**-**	**144**	**144**

In June 2010, the Bank sold all the collateralised debt obligations (CDOs) to KBC Credit Investments NV for CZK 1,196 m.

The Bank has classified unlisted shares into the category of financial instruments which are recorded at fair value using valuation techniques based on non-market observable inputs.

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)	2011	2010	2011	2010
Financial assets				
Financial assets held for trading				
Debt instruments	-	-	259	450
Financial assets designated at fair value through profit or loss				
Debt instruments	-	297	-	2,904
Available-for-sale financial assets				
Debt securities	3,158	7	748	9,837

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.

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

Financial assets and liabilities not carried at fair value

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

	2011		2010	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	45,501	45,501	19,552	19,552
Loans and receivables	261,046	267,362	209,172	208,023
Held-to-maturity investments	133,659	141 125	140,571	146,098
Other assets (Note: 23)	797	797	1,298	1,298
Financial liabilities				
Financial liabilities at amortised cost	595,092	599,119	568,199	572,018
Other liabilities (Note: 26)	7,707	7,707	5,775	5,775

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

Held-to-maturity investments

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

Loans and receivables to credit institutions and balances with central banks

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

Loans and receivables to other than credit institutions

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

Deposits received from credit institutions and subordinated liabilities

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

Deposits received from other than credit institutions

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

Debt securities in issue

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

Other assets and other liabilities

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

31. ADDITIONAL CASH FLOW INFORMATION

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

(CZKm)	2011	2010
Cash and balances with central banks (Note: 14)	34,978	11,117
Loans and advances to credit institutions	12,007	23,091
Financial liabilities at amortised cost to credit institutions	(12,239)	(9,848)
Cash and cash equivalents	**34,746**	**24,360**

Change in operating assets

(CZKm)	2011	2010
Net change in cash and balances with central banks (mandatory minimum reserves)	(2,085)	124
Net change in financial assets held for trading	(11,096)	(12,576)
Net change in financial assets designated at fair value through profit or loss	1,156	9,485
Net change in available-for-sale financial assets	15,513	10,036
Net change in loans and receivables	(51,117)	(9,579)
Net change in derivatives used for hedging	1,108	(965)
Net change in other assets	811	2,037
	(45,710)	**(1,438)**

Change in operating liabilities

(CZKm)	2011	2010
Net change in financial liabilities held for trading	28,047	10,310
Net change in financial liabilities at amortised cost	24,499	17,969
Net change in derivatives used for hedging	1,773	409
Net change in other liabilities	1,969	(355)
	56,288	**28,333**

Non-cash items included in profit before tax

(CZKm)	2011	2010
Impairment on investment securities (Note: 11)	3,053	(250)
Allowances and provisions for credit losses (Note: 11)	597	1,487
Depreciation and amortisation	574	693
Amortisation of discounts and premiums	507	1,258
Provisions	245	(126)
Impairment on other assets (Note: 11)	(106)	(176)
Other	(811)	1,513
	4,059	**4,399**

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 2011:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading					
Financial derivatives	9,374	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	**267,940**	**222,092**	**243,856**	**231**	**734,119**
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**

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2010:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading					
Financial derivatives	7,164	6,023	1,723	-	14,910
Other than financial derivatives	140,376	16,934	7,419	-	164,729
Financial assets designated at fair value through profit or loss	1,055	5,313	3,796	-	10,164
Available-for-sale financial assets	20,153	28,232	119,263	47	167,695
Loans and receivables	91,650	84,661	32,861	-	209,172
Held-to-maturity investments	13,849	29,338	97,384	-	140,571
Derivatives used for hedging	4,033	4,740	665	-	9,438
Other assets (Note: 23)	1,298	-	-	-	1,298
Total carrying value	**279,578**	**175,241**	**263,111**	**47**	**717,977**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,385	6,745	1,799	-	15,929
Other than financial derivatives	122,694	863	59	-	123,616
Financial liabilities at amortised cost	139,815	196,576	231,808	-	568,199
Derivatives used for hedging	2,084	2,530	953	-	5,567
Other liabilities (Note: 26)	5,775	-	-	-	5,775
Total carrying value	**277,753**	**206,714**	**234,619**	**-**	**719,086**

33. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Bank recovered a written-off loan amounting to CZK 485 m in 2007. Due to uncertainty regarding the outcome of the appeal by the counterparty against the ruling, the Bank will not recognise this amount in the statement of income until the final court ruling regarding the Bank's claim is known. 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 715 m relating to partially impaired loan in 2010. Relevant carrying amount of the loan amounting to CZK 323 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 2011 and 2010 are as follows:

(CZKm)	2011	2010
Loan commitments - irrevocable (Note: 37.2)	69,520	67,174
Loan commitments - revocable	38,717	30,558
Financial guarantees (Note: 37.2)	27,313	23,598
Other commitments (Note: 37.2)	1,350	1,611
	136,900	**122,941**
Provisions for loan commitments and guarantees (Notes: 27, 37.2)	388	429

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 land and buildings are as follows:

(CZKm)	2011	2010
Not later than 1 year	721	807
Later than 1 year and not later than 5 years	2,177	1,504
Later than 5 years	299	435
	3,197	**2,746**

Future minimum sublease payments amounted to CZK 45 m as at 31 December 2011 (31 December 2010: CZK 139 m).

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

Operating lease receivables (Bank is the lessor)

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

(CZKm)	2011	2010
Not later than 1 year	27	96
Later than 1 year and not later than 5 years	29	43
	56	**139**

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

34. REPURCHASE AGREEMENTS AND COLLATERAL

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

(CZKm)	2011	2010
Financial assets		
Cash and balances with central banks	25,302	-
Financial assets held for trading	119,050	107,797
	144,352	**107,797**

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 2011 was CZK 147,730 m, of which CZK 85,291 m has been either sold or repledged (31 December 2010: CZK 118,573 m and CZK 86,362 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)	2011	2010
Financial liabilities		
Financial liabilities held for trading	83,301	81,602
Financial liabilities at amortised cost	20,723	18,688
	104,024	**100,290**

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 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	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 GS NV	-	192	-	8
Patria Direct	-	2,962	-	-
Patria Finance	-	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 from related party transactions as at 31 December 2010 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held- to-maturity investments	Derivatives used for hedging	Other assets
Directors / Senior management	-	-	-	-	-	-	-
KBC Bank NV	16,205	-	-	7,497	-	5,269	-
Entities under common control							
ČSOB SK	16	-	789	1,011	-	-	9
KBC GS NV	-	-	-	-	-	-	89
KBC Internationale Financieringsmij NV	314	-	-	-	-	-	-
Novaservis	-	-	-	166	-	-	-
Patria Finance	238	-	-	-	-	-	-
Other	13	-	-	9	-	-	2
Subsidiaries							
Centrum Radlická	-	-	-	117	-	-	-
ČSOB Factoring	-	-	-	2,244	-	-	-
ČSOB IS	-	-	-	-	-	-	78
ČSOB Leasing	593	-	-	11,708	-	1	-
ČSOB PF Progres	131	-	-	-	-	-	-
ČSOB PF Stabilita	274	-	-	-	-	-	-
ČSOB Property Fund	75	-	-	-	-	-	-
Hypoteční banka	4,796	4,472	85,818	36,473	502	-	-
Associates							
ČSOB Pojišťovna	3	-	1	-	-	-	12
Joint ventures							
ČMSS	-	-	-	-	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2010 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Senior management	-	363	-	25
KBC Bank NV	19,054	13,162	2,486	1
Entities under common control				
ČSOB SK	809	16	-	-
KBL European Private Bankers SA	230	23	-	-
KBC GS NV	-	621	-	-
Patria Direct	959	2,418	-	-
Patria Finance	47	90	-	-
Other	13	102	-	20
Subsidiaries				
Auxilium	-	1,219	-	-
BANIT	-	55	-	-
ČSOB AM	-	549	-	-
ČSOB IS	-	474	-	-
ČSOB IBS	-	2,395	-	-
ČSOB Leasing	4	62	-	-
ČSOB PF Progres	51	-	-	-
ČSOB PF Stabilita	86	-	-	-
ČSOB Property Fund	64	19	-	-
Hypoteční banka	-	17,906	-	-
Other	-	7	-	-
Associates				
ČSOB Pojišťovna	517	1,348	-	-
Joint ventures				
ČMSS	700	16,614	-	9

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:

	2011		2010	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Senior management	-	3	-	1
KBC Bank NV	509	1,091	608	1,195
Entities under common control				
Baker Street Finance Limited	-	-	21	-
Clifton Finance Street Limited (spv)	-	-	16	-
ČSOB SK	9	2	23	1
Dorset Street Finance Ltd	-	-	22	-
Fulham Road Finance Limited (spv)	-	-	29	-
Kredyt Bank SA	18	-	-	-
Novaservis	-	-	6	-
Oxford Street Finance Limited (spv)	-	-	12	-
Patria Direct	2	12	1	19
Patria Finance	3	1	2	1
Pembridge Square Limited	-	-	5	-
Regent Street Limited	-	-	8	-
Sydney Street Finance Limited	-	-	15	-
Other	1	3	4	2
Subsidiaries				
Auxilium	-	11	-	10
Centrum Radlická	1	-	3	-
ČSOB AM	-	4	-	4
ČSOB Factoring	38	-	29	-
ČSOB IS	-	3	-	4
ČSOB IBS	-	22	-	18
ČSOB Leasing	461	-	576	-
ČSOB PF Stabilita	-	-	-	2
ČSOB Property fund	17	17	-	-
Hypoteční banka	3,945	761	4,288	891
Other	-	-	-	1
Associates				
ČSOB Pojišťovna	-	25	-	48
Joint ventures				
ČMSS	12	253	-	217

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

	2011		2010	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
Entities under common control				
KBC Securities NV	13	-	9	-
Patria Direct	2	-	3	-
Patria Finance	15	-	-	-
Subsidiaries				
BANIT	-	91	-	80
ČSOB AM	3	-	6	-
ČSOB Factoring	2	-	-	-
ČSOB IS	294	-	318	-
ČSOB Leasing	-	-	21	-
ČSOB PF Progres	-	-	1	-
ČSOB PF Stabilita	-	-	1	-
Hypoteční banka	53	-	37	-
Associates				
ČSOB Pojišťovna	111	-	110	-
Joint ventures				
ČMSS	-	15	-	17

Dividend income received from subsidiaries, associates and joint ventures in 2011 amounted to CZK 4,829 m (2010: CZK 3,436 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2011 amounted to CZK 182 m (2010: CZK 179 m).

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

In 2009 and 2010 the Bank transferred a number of employees and ICT-related assets to KBC GS CZ. The sales price which represents net cash inflow to the Bank in 2010 was determined on the basis of an expert opinion prepared by an expert appointed by the Municipal Court in Prague and amounted to CZK 951 m. The net profit of the sale of the enterprise reached the amount of CZK 329 m and has been recognised in Other net income in 2010.

Effective from 1 July 2009, the Bank concluded office space rental agreement and a service level agreement on a provision of administration services, such as human resources and accounting services, with KBC GS CZ. In 2011, the Bank received income of CZK 68 m (2010: CZK 68 m) from the rental payments and related services, received CZK 50 m (2010: CZK 49 m) from the provision of administration services and paid expense of CZK 2,555 m (2010: CZK 2,417 m) for IT services.

In 2011, the Bank received income of CZK 129 m (2010: CZK 185 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.

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

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

	2011		2010	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	5	203	39	47
Entities under common control				
ČSOB SK	-	23	-	23
Patria Finance	-	20	-	20
Subsidiaries				
ČSOB Leasing	-	-	-	501
Associates				
ČSOB Pojišťovna	-	-	-	2

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

The nature of guarantees, the Bank provides to its subsidiaries, is a participation on credit risk.

36. EVENTS AFTER THE END OF THE REPORTING PERIOD

Greek sovereign bonds

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 to the agreement, the Bank derecognised the entire amount of old Greek bonds and realised the loss 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.

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

In August 2010, the KBC Group, including the ČSOB, implemented changes to the risk and capital management governance structure aimed at consolidating and streamlining the risk and capital management processes and enhancing the responsiveness of the KBC Group, including the ČSOB, to possible future financial and economic challenges. The introduction of the new risk and capital management governance structure at the ČSOB level involved, among others, the following changes:

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

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,

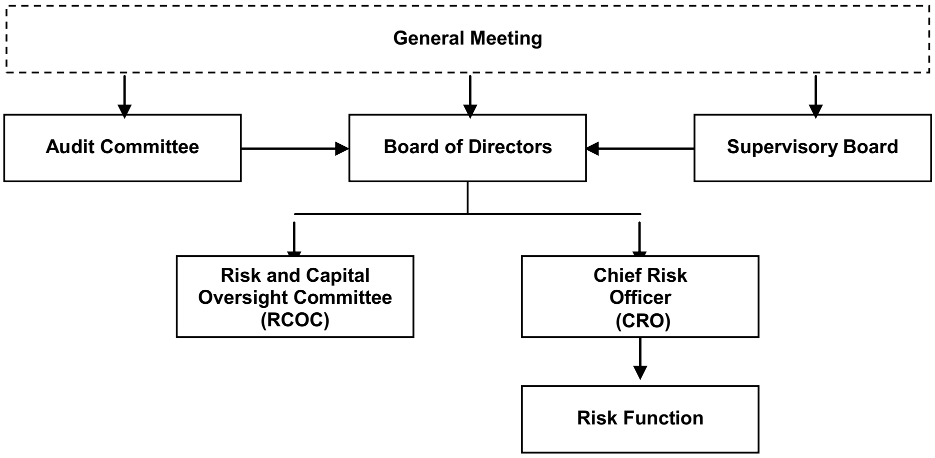
(ii) the RCOC is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

(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.

ICAAP Process

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

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

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

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

Risk measurement and reporting systems

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

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

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

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

Risk mitigation

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

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office. The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. 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 regular collateral revisions.

The Bank uses the IRB Foundation approach for the capital calculations of its non-retail exposure and IRB Advance approach for its retail exposures. As a result, credit risk is measured, monitored and managed based on principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) are based on regulatory values for capital calculation purposes and on expert estimates combined with historical data for credit decision purposes.

For the retail exposure, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so called pools).

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the ČSOB seeking to collect its outstanding receivable through credit protection,

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the ČSOB is more than 90 days past the due date.

Non-retail exposure

Rating system: PD (Probability of Default)

The Bank manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Foundation compliant statistical rating models that take into account financial or non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

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

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

PD 1 to PD 9 represent the remaining exposures.

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

The following table sets forth a breakdown of the Bank's risk categories, including the 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. 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 (E-Toll).

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 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**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2010. The maximum exposure is shown 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)	-	11,790	-	-	11,790
Financial assets held for trading	-	2,263	177,376	-	179,639
Financial assets designated at fair value through profit or loss	175	9,989	-	-	10,164
Available-for-sale financial assets	10	167,685	-	-	167,695
Loans and receivables	149,061	57,808	-	2,303	209,172
Held-to-maturity investments	1,346	139,225	-	-	140,571
Derivatives used for hedging	-	9,438	-	-	9,438
Other assets (Note: 23)	-	-	-	1,298	1,298
Total	150,592	398,198	177,376	3,601	729,767
Contingent liabilities (Note: 33)	24,708	501	-	-	25,209
Commitments – irrevocable (Note: 33)	63,779	2,966	-	-	66,745
Total	88,487	3,467	-	-	91,954
Total credit risk exposure	**239,079**	**401,665**	**177,376**	**3,601**	**821,721**

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:

	2011			2010		
(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: 14)	37,309	25,302	12,007	11,790	-	11,790
Financial assets held for trading	178,252	119,050	59,202	179,639	107,797	71,842
Financial assets designated at fair value through profit or loss	9,008	-	9,008	10,164	-	10,164
Available-for-sale financial assets	140,952	-	140,952	167,695	-	167,695
Loans and receivables	261,046	74,914	186,132	209,172	59,124	150,048
Fair value adjustments of the hedged items in portfolio hedge	77	-	77	-	-	-
Held-to-maturity investments	133,659	-	133,659	140,571	-	140,571
Derivatives used for hedging	10,328	-	10,328	9,438	-	9,438
Other assets (Note: 23)	797	-	797	1,298	-	1,298
Total	771,428	219,266	552,162	729,767	166,921	562,846
Contingent liabilities and commitments – irrevocable (Note: 33)	97,795	27,697	70,098	91,954	33,213	58,741
Total credit risk exposure	**869,223**	**246,963**	**622,260**	**821,721**	**200,134**	**621,587**

The portfolios are further structured as follows:

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

2011 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	**Granted exposure**	Accrued interest income	Allowances	Provisions	**Net exposure**
Corporate	95,269	25,725	37,033	**158,027**	236	(3,306)	(100)	**154,857**
SME	66,039	1,683	21,241	**88,963**	112	(3,598)	(59)	**85,418**
Retail	17,521	19	8,580	**26,120**	62	(1,086)	(4)	**25,092**
Other	574	1,236	365	**2,175**	-	(243)	(225)	**1,707**
	179,403	**28,663**	**67,219**	**275,285**	**410**	**(8,233)**	**(388)**	**267,074**

2010 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	**Granted exposure**	Accrued interest income	Allowances	Provisions	**Net exposure**
Corporate	76,861	22,073	35,149	**134,083**	179	(3,143)	(160)	**130,959**
SME	62,936	1,317	18,567	**82,820**	106	(3,912)	(76)	**78,938**
Retail	18,205	4	9,870	**28,079**	61	(1,002)	(5)	**27,133**
Other	548	1,313	623	**2,484**	-	(247)	(188)	**2,049**
Total credits	**158,550**	**24,707**	**64,209**	**247,466**	**346**	**(8,304)**	**(429)**	**239,079**

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	2011 Granted exposure (CZKm)	2011 Percentage of total exposure	2010 Granted exposure (CZKm)	2010 Percentage of total exposure
Services	46,462	17	40,000	16
Distribution	32,731	12	30,337	12
Private persons	25,032	9	24,722	10
Building and Construction	24,862	9	26,138	11
Commercial Real Estate	23,241	9	18,141	7
Automotive	16,663	6	11,261	5
Electricity	15,127	5	10,331	4
Machinery and Heavy Equipment	11,026	4	9,320	4
Finance and Insurance	10,622	4	6,661	3
Authorities	9,687	4	8,938	4
Oil, Gas and other Fuels	8,223	3	7,286	3
Metals	8,221	3	6,360	2
Electrotechnics	5,182	2	5,481	2
Chemicals	4,045	1	4,208	2
Food producers	3,442	1	4,058	1
Other sectors	30,719	11	34,225	14
Total	**275,285**	**100**	**247,466**	**100**

Investment portfolio is structured according to type of the instrument:

2011 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	Cumulative impairment loss	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	280,091	-	-	(3,317)	**276,774**	5,782	**282,556**
Equity securities	324	-	-	(92)	**231**	-	**231**
Loans and receivables within investment portfolio	86,041	-	2,301	-	**88,343**	1,053	**89,396**
Derivatives used for hedging	8,991	-	-	-	**8,991**	1,337	**10,328**
Derivatives held for trading	2,774	-	-	-	**2,774**	-	**2,774**
Cash and balances with central banks	37,306	-	-	-	**37,306**	1	**37,307**
Total investment	**415,527**	**-**	**2,301**	**(3,409)**	**414,419**	**8,173**	**422,592**

2010 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	Cumulative impairment loss	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	310,604	-	-	(136)	**310,468**	6,384	**316,852**
Equity securities	140	-	-	(93)	**47**	-	**47**
Loans and receivables within investment portfolio	57,077	501	2,966	-	**60,544**	731	**61,275**
Derivatives used for hedging	8,205	-	-	-	**8,205**	1,233	**9,438**
Derivatives held for trading	2,263	-	-	-	**2,263**	-	**2,263**
Cash and balances with central banks	11,790	-	-	-	**11,790**	-	**11,790**
Total investment	**390,079**	**501**	**2,966**	**(229)**	**393,317**	**8,348**	**401,665**

Investment portfolio is monitored from counterparty sector point of view:

Sector	2011 Granted exposure (CZKm)	2011 Percentage of total exposure	2010 Granted exposure (CZKm)	2010 Percentage of total exposure
Central government	204,697	49	198,022	50
Credit institutions	191,048	46	179,160	46
Corporate	18,461	5	15,129	4
Non-credit institutions	213	-	1,006	-
Total investment	**414,419**	**100**	**393,317**	**100**

Trading portfolio is structured according to type of the instrument:

2011 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	32,457	-	-	**32,457**	353	**32,810**
Loans and advances	126,495	-	-	**126,495**	19	**126,514**
Derivative s held for trading	16,154	-	-	**16,154**	-	**16,154**
Total trading portfolio	**175,106**	**-**	**-**	**175,106**	**372**	**175,478**

2010 (CZKm)	Outstanding gross amount	Contingent liabilities Gross	Credit commitments Gross	**Granted exposure**	Accrued interest income	**Net exposure**
Debt securities	39,535	-	-	**39,535**	305	**39,840**
Loans and advances	124,765	-	-	**124,765**	124	**124,889**
Derivatives held for trading	12,647	-	-	**12,647**	-	**12,647**
Total trading portfolio	**176,947**	**-**	**-**	**176,947**	**429**	**177,376**

Trading portfolio is monitored from counterparty sector point of view:

Sector	2011 Granted exposure (CZKm)	2011 Percentage of total exposure	2010 Granted exposure (CZKm)	2010 Percentage of total exposure
Central government	142,656	81	131,975	75
Credit institutions	25,484	15	42,805	24
Corporates	6,945	4	2,065	1
Non-credit institutions	21	-	102	-
Total trading portfolio	**175,106**	**100**	**176,947**	**100**

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by geographical region and by client/counterparty. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2011		2010	
(CZKm)	Total risk	of which Central government	Total risk	of which Central government
Czech Republic	784,195	336,625	739,260	312,564
Slovak Republic	4,248	926	5,219	1,269
Greece	1,555	1,554	3,768	3,768
Italy	5,912	957	5,606	2,153
Spain	868	617	836	601
Belgium	22,970	2,545	30,600	2,473
Hungary	54	-	1,043	1,039
Other Europe	45,173	8,842	31,323	11,122
Other	4,248	-	4,066	-
Total	**869,223**	**352,066**	**821,721**	**334,989**

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

	2011		2010	
Client	Granted exposure (CZK m)	% of total credit portfolio	Granted exposure (CZK m)	% of total credit portfolio
1 largest client	4,731	1.7	3,344	1.4
10 largest clients	24,698	9.0	19,115	7.7
25 largest clients	45,397	16.4	38,204	15.4

Largest exposure to a single client as at 31 December.2011 was CZK 194,978 m in investment portfolio (31 December 2010: CZK 182,335 m) to Czech Government and CZK 141,647 m (31 December 2010: CZK 130,229 m) to 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 2011 and 2010, 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 2011 and 2010 per individual portfolios:

Credit portfolio	2011					
	Unimpaired assets	Impaired assets				Total
		Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-performing)	Irrecoverable	
Corporate	86,171	3,575	3,057	523	1,943	95,269
SME	58,983	1,408	1,620	687	3,340	66,038
Retail	15,960	253	153	276	879	17,521
Other	-	9	1	1	563	574
Accrued interest income	390	20	-	-	-	410
Total	**161,504**	**5,265**	**4,831**	**1,487**	**6,725**	**179,812**

Credit portfolio	2010					
	Unimpaired assets	Impaired assets				Total
		Collectively	Individually			
(CZKm)	Normal	AQR	Uncertain (Performing)	Uncertain (Non-performing)	Irrecoverable	
Corporate	66,770	3,749	4,221	179	1,943	76,861
SME	55,222	1,533	1,994	635	3,551	62,936
Retail	16,984	142	14	329	736	18,205
Other	-	1	-	-	546	548
Accrued interest income	327	19	-	-	-	346
Total	**139,304**	**5,444**	**6,230**	**1,143**	**6,775**	**158,896**

Investment portfolio

(CZKm)	2011 Unimpaired assets Normal	2011 Individually impaired assets Irrecoverable	2011 Total
Debt securities	275,336	1,438	276,774
Equity securities	228	5	233
Loans and receivables within investment portfolio	86,040	-	86,040
Derivatives used for hedging	8,991	-	8,991
Derivative contracts held for trading	2,774	-	2,774
Cash and balances with central banks	37,306	-	37,306
Accrued interest income	8,174	-	8,174
Total	**418,849**	**1,443**	**420,292**

Investment portfolio

(CZKm)	2010 Unimpaired assets Normal	2010 Individually impaired assets Irrecoverable	2010 Total
Debt securities	310,461	7	310,468
Equity securities	43	5	48
Loans and receivables within investment portfolio	57,077	-	57,077
Derivatives used for hedging	8,205	-	8,205
Derivative contracts held for trading	2,263	-	2,263
Cash and balances with central banks	11,790	-	11,790
Accrued interest income	8,348	-	8,348
Total	**398,187**	**12**	**398,199**

Trading portfolio

(CZKm)	2011 Unimpaired assets Normal	2011 Individually impaired assets Irrecoverable	2011 Total
Debt securities	32,457	-	32,457
Loans and advances	126,495	-	126,495
Derivative contracts held for trading	16,154	-	16,154
Accrued interest income	372	-	372
Total	**175,478**	**-**	**175,478**

Trading portfolio	2010		
	Unimpaired assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	39,535	-	39,535
Loans and advances	124,765	-	124,765
Derivative contracts held for trading	12,647	-	12,647
Accrued interest income	429	-	429
Total	**177,376**	**-**	**177,376**

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

	2011	2010
(CZKm)	Less than 30 days	Less than 30 days
SME	542	1,127
Retail	404	886
Total	**946**	**2,013**

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:

	2011		2010	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Credit portfolio				
Corporate	5,523	(3,213)	6,343	(3,066)
SME	5,647	(3,438)	6,180	(3,661)
Retail	1,308	(998)	1,079	(888)
Other	565	(233)	546	(236)
	13,043	**(7,882)**	**14,148**	**(7,851)**

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

(CZKm)	2011	2010
Debt securities	1,438	7
Equity securities	5	5
Total	**1,443**	**12**

37.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Bank pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Bank's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding management

The actual development of liquidity might vary from ALM liquidity prediction. The Bank can address an adverse liquidity development in several ways. Most typically, the Bank would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in a cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Bank can borrow via repo operations on the market or use regulatory repo facilities (in CNB or ECB).

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Bank's business activities in the medium- and long-term horizon. For the strategic liquidity management, the Bank uses the loan-to-deposit ratio (LTD), which is defined as a ratio of gross loans and advances given to clients other than banks (numerator) to deposits received excluding repo transactions with credit institutions (denominator). The strategy of the Bank is to maintain the value of LTD well below one. The Bank also aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The LTD is monitored on monthly basis and it is regularly reported to the senior management of ČSOB.

The LTD during the year 2011 and 2010 was as follows:

(%)	2011	2010
31 March	33.1	32.7
30 June	33.6	32.6
30 September	34.6	33.1
31 December	34.8	32.2

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 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 following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2010:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	7,385	7,186	2,250	16,821
Other than financial derivatives	-	122,694	932	69	123,695
Financial liabilities at amortised cost	437,677	85,003	21,252	36,478	580,410
Derivatives used for hedging	-	2,084	2,679	1,266	6,029
Other liabilities (Note:26)	-	5,775	-	-	5,775
Total carrying value	**437,677**	**222,941**	**32,049**	**40,063**	**732,730**

The maturity of contingent liabilities and commitments of CZK 138,698 m (2010: CZK 122,941 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 2011 and 2010:

(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

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

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 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

The table below shows the sensitivity of the statement of income and equity (before tax) as at 31 December 2010:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(3.2)	1.7	(13.1)	(7.9)	(22.5)
EUR	+ 10	0.4	0.4	(3.1)	(5.6)	(7.9)
USD	+ 10	-	-	(0.4)	(0.3)	(0.7)
CZK	- 10	3.2	(1.7)	13.1	7.9	22.5
EUR	- 10	(0.4)	(0.4)	3.1	5.6	7.9
USD	- 10	-	-	0.4	0.3	0.7

		Sensitivity of equity				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(13.9)	(8.2)	(110.9)	(510.5)	(643.5)
EUR	+ 10	0.7	(1.4)	20.2	58.6	78.1
USD	+ 10	-	-	(3.3)	(11.6)	(14.9)
CZK	- 10	13.9	8.2	110.9	510.5	643.5
EUR	- 10	(0.7)	1.4	(20.2)	(58.6)	(78.1)
USD	- 10	-	-	3.3	11.6	14.9

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 2011 and 2010:

	2011			2010		
(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	2	-	-	(78)	(3)	3

Sensitivity of the statement of income on foreign currencies other than EUR is not significant.

Equity price risk

The Bank has no significant equity risk in investment portfolio.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Bank’s products is negligible, however, it is regularly monitored.

37.5 Operational risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. This definition is similar to the one contained in the Basel II Capital Accord and the Capital Requirements Directive. Operational risks include legal, compliance and tax risks. The impact of incidents on the Bank’s reputation is taken into consideration when assessing the Bank’s vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the ČSOB, as well as an assessment of the Bank’s vulnerability in respect of such risks. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses, both expected and unexpected. The assessment does not necessarily involve actually measuring the risks, but involves ranking the risks and risk events in terms of their severity, and taking into account their anticipated frequency and potential impact. The assessment is followed by steps aimed at preventing the key risks from materializing with the anticipated frequency and/or limiting the potential impact by introducing or fine-tuning appropriate control measures. Risk events that cannot be prevented are mitigated by business continuity arrangements and/or transfers of risk to third parties (e.g. by insurance) to the extent possible.

Operational Risk Management Governance

The risk management organisational infrastructure was established in 2004. Operational risk management governance is supported by the CRO and the Risk Function. Regular meetings focusing on operational risk management take place at ČSOB subsidiaries and at distribution entities and departments responsible for creating new products within the ČSOB Group. Minutes of these meetings are provided to the CRO.

Risk Specific Management Department (RSMD)

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 permanent 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 and reported to the CRO.

Global Risk Scan

The Global Risk Scan is a structured risk self assessment organised as an interview based on uniform questionnaires. The goal of the exercise is to identify the key risks that are relevant for the senior management. Such risks are likely to differ from the risks identified during the detailed risk scan involving business experts closer to the working floor.

Within the ICAAP process, the RSMD regularly organises a top-down operational and business risk scan involving the top management in the selection of the scenarios, the quantification of these scenarios and the drawing up of remedial actions. In 2011, 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 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 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 from 2011 into regular management of the risk and capital positions.

Capital management

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

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)	2011	2010
Tier 1 capital	33,683	38,516
Tier 2 capital	13,902	12,492
Deductible items of Tier 1 and Tier 2	(948)	(636)
Total capital	**46,637**	**50,372**
Capital requirements	27,421	24,410
Risk weighted assets	**342,767**	**305,122**
Capital adequacy ratio	13.61 %	16.51 %

NOTES

Report of the Board of Directors of Československá obchodní banka, a. s., on Relations between Related Parties

according to the provision of Section 66a, Paragraph 9 of Act No. 513/1991 Coll., the Commercial Code, as amended (hereinafter referred to as the "ComC").

1. Controlled Entity

Československá obchodní banka, a. s.

Praha 5, Radlická 333/150, Postcode 150 57
Company ID No.: 00001350
Incorporated in the Commercial Register, Section B XXXVI, File 46,
maintained at the Municipal Court in Prague
(hereinafter referred to as "ČSOB" or the "Bank")

2. Ultimate Controlling Entity

KBC Group NV

Belgium, 1080 Brussels, (Sint-Jans Molenbeek), Havenlaan 2

3. Accounting Period

This report describes relations between related parties in accordance with Section 66a, Paragraph 9 of the Commercial Code, for the accounting period from 1 January 2011 to 31 December 2011 (hereinafter referred to as the "accounting period").

4. Relations between Related Parties

In the accounting period, ČSOB maintained relations with related parties in the following areas:

4.1 Basic Banking Transactions

Note: The balances of these transactions are disclosed in the Separate Financial Statements for 2011 (Note: 35).

a. Accounts, Deposit Products, Cash Payments, Domestic and International Cash Management

In the accounting period, ČSOB concluded contracts with certain of the related entities for the provision of services relating to the maintenance of various types of accounts, current and term accounts, interbank deposits, accounts for payments of deposits intended to acquire or increase participation in a company, and for the provision of the following products: Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cashpooling, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services were based on a standard price list. 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 suretyship, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual fees, remuneration and interest for these services. 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.

4.2 Other Relations

Note: The balances of these transactions are disclosed in the Separate Financial Statements for 2011 (Note: 35).

4.2.1 Contracts

a. Leasing Contracts

In the accounting period, ČSOB concluded leasing contracts with certain of the related entities and, in some cases, the related entities provided services in the accounting period on the basis of leasing contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of financial leasing. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. Insurance Contracts

In the accounting period, ČSOB concluded insurance contracts with certain of the related entities and, in some cases, the related entities performed activities in the accounting period on the basis of insurance contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of insurance and insurance compensation. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. Lease and Rent Contracts

In the accounting period, ČSOB concluded contracts with certain of the related entities for the rent of non-residential areas, parking places and movable assets and, in some cases, the related entities performed activities in the accounting period on the basis of rent a contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the lease of certain items. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. Co-operation Agreements – Employee Benefits

In the accounting period, ČSOB concluded co-operation agreements - employee benefits with certain of the related entities and, in some cases, the related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of employee benefits. The agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these agreements.

e. Co-operation Agreements – Selling Products and Services

In the accounting period, ČSOB concluded cooperation agreements with certain of the related entities whose subject was, in particular, cooperation in the areas of product sales, products sales agency, sales support, consultancy, opportunity-seeking and, in some cases, the related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of co-operation, contractual commissions, contractual fees or selling products. 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 agreements on personal data processing, maintenance confidentiality agreements, agreements on the transmission of information, agreements on mutual rights and duties in connection with the co-operation agreements, and, in some cases, the related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of information and confidentiality. The contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. Co-operation Agreements – Observance of Tax Obligation (VAT Grouping)

In the accounting period, ČSOB concluded agreement with certain of the related entities (ČMSS, ČSOB AM, ČSOB IS, ČSOB PF Progres, 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.

g. Agreements on IT Services

In that accounting period, the Frame agreement on ICT services, executed by and between ČSOB and KBC GS CZ, became effective, and superseded agreement dated as at 1 June 2009. The agreement was concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of this contract.

h. 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.

i. 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, management consulting, central procurement, providing services in the area of accounting and taxes, 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.

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

Pension Funds Merger

As of the day of 30 November 2011, ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group, as a surviving company, merged with ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group, as a targeting company, and as a result of such merger, all the existing contractual relationships arising out of agreements executed by and between ČSOB PF Progres and third parties, have been ex lege trasferred to ČSOB PF Stabilita.

ČSOB IS and ČSOB AM Merger

As of the day of 31 December 2011, ČSOB Investiční společnost, a.s., a member of the ČSOB group, has merged with ČSOB Asset Management, a.s., a member of the ČSOB group and as a result of such merger, all the existing contractual relationships arising out of agreements executed by and between ČSOB AM and third parties, have been ex lege trasferred to ČSOB IS which was renamed to ČSOB Asset Management, a.s., investiční společnost. As a result of dissolution of ČSOB Asset Management (merger with ČSOB Investiční společnost) the Agreement on the Exercise of voting rights between ČSOB and KBC Participations Renta, has terminated.

4.2.2 Dividends

In the accounting period the following related entities paid dividends to ČSOB: Auxilium, BANIT, ČMSS, ČSOB Factoring, Hypoteční banka, ČSOB IBS, ČSOB IS, ČSOB PF Progres, ČSOB PF Stabilita and ČSOB Leasing.

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,
- Increase of the capital participation in ČSOB PF Stabilita as a result of increasing of the amount of the share capital of the entity from own sources,
- Approval merger pension funds, project merger, approval non-scheduled final accounts to 30 June 2011 and opening balance to 1 July 2011 – 26 October 2011.

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.

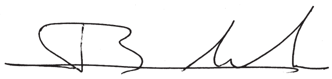
This Report was submitted to review of the Supervisory Board of ČSOB.

In Prague, 14 March 2012

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 2011
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 2011, 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.

ČSOB shares – change in type
In adopting the resolution of the sole shareholder dated **11 March 2011**, 292,750,000 ČSOB ordinary registered shares with a nominal value of CZK 20 per share were converted into bearer shares.

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 2011, 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 ZERO CZK XII/2012	CZ0003702029	9. 7. 2009	CZKm	1,000
Bond ČSOB Komodity I/2012 (Tranche no. 1)	CZ0003702060	24. 11. 2009	CZKm	130
Bond ČSOB ZERO EUR III/2012	CZ0003702235	26. 11. 2009	EURm	10
Bond ČSOB ZERO CZK XIII/2012	CZ0003702243	26. 11. 2009	CZKm	1,000
Bond ČSOB Inflace I/2015 (Tranche no. 1)	CZ0003702292	10. 3. 2010	CZKm	170
Bond ČSOB ZERO CZK XIV/2013	CZ0003702417	14. 7. 2010	CZKm	500
Bond ČSOB Komodity II/2013 (Tranche no. 1)	CZ0003702425	15. 9. 2010	CZKm	22.5
Bond ČSOB koš akcií/2015 (Tranche no. 1)	CZ0003702441	27. 10. 2010	CZKm	121.7
Bond ČSOB likvidní/2015 (3 Tranches) [1), 2)]	CZ0003702490	3. 12. 2010	CZKm	3,000
Bond ČSOB ZERO USD III/2014	CZ0003702524	13. 1. 2011	USDm	10
Bond ČSOB likvidní/2016 (5 Tranches) [3)]	CZ0003702532	2. 2. 2011	CZKm	5,000
Bond ČSOB 3M PRIBOR/2016 (Tranche no. 1)	CZ0003702540	2. 3. 2011	CZKm	149
Bond ČSOB Inflace II/2016 (2 Tranches)	CZ0003702789	17. 3. 2011	CZKm	630
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 III/2016 (2 Tranches)	CZ0003702912	15. 6. 2011	CZKm	2,000

1) Tranche no. 3 issued on 27 January 2011.
2) Issue CZ0003702490 was redeemed and called off by the Bank on 2 January 2012.
3) Issue CZ0003702532 was redeemed and called off by the Bank on 28 February 2012.

In the first three months 2012, ČSOB issued the following bond issues under the bond issuance program in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Bonds Issued (Nominal Value)	
Bond ČSOB likvidní III/2016 (Tranche no. 3) *	CZ0003702912	15. 6. 2011	CZKm	800
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

** Tranche no. 3 issued on 17 January 2012.*

The Bond ČSOB VAR/2018 bond is listed at the Free market of the Prague Stock Exchange (trading started on 22 December 2008). The remaining bonds and mortgage bonds are unlisted.

The purpose of the issuance of bonds by ČSOB is mainly to enlarge the offer of investment products for the Bank's clients.

The bond issuance program's prospectus, amendments thereto and pricing supplements as well as the prospectus of the Bond ČSOB VAR/2018 bond are available at ČSOB's website www.csob.cz.

Activity of ČSOB

ČSOB is active as a universal bank in the Czech Republic.

Legislation Governing ČSOB

As a legal entity subject to the Czech law, ČSOB **follows the applicable legislation in force in the territory of the Czech Republic**. Its activities are regulated primarily under the Banking Act, the Act on Business Activities on the Capital Market (also known as the Act on Undertakings on the Capital Market) and the Commercial Code.

A single banking licence granted to ČSOB in accordance with the Banking Act by the decision of the CNB of 28 July 2003, reference number 2003/3350/520, is of fundamental importance for ČSOB's business activities. In addition, ČSOB holds a certificate of registration in the register of insurance brokers and independent loss adjusters of insured accidents confirming that it was entered in the register as a tied **insurance broker** under number 038614VPZ on 20 March 2006.

Main Areas of Activities

ČSOB's scope of business is defined in the **ČSOB Articles of Association** (in the part "Corporate Activities and Organisation of the Company – III. Scope of Business").

On 3 June 2011, KBC Bank as ČSOB's sole shareholder approved **new ČSOB Articles of Association**.

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.*

Information on outsourcing of ICT services
- available in Note no. 2.5 of the Notes to the Separate Financial Statements for 2011 according to EU IFRS and in Note no. 2.5 of the Notes to the Consolidated Financial Statements for 2011 according to EU IFRS.

Significant Contracts

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

ČSOB is unaware of any agreements in which it is a contracting party and that come into effect, are amended, or the efficiency of which terminates in consequence of any changes in the control circumstances implied by an offer for takeover.

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 2011

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB group's financial position or profitability

Information on Court Disputes

– is available in Notes no. 27 and 33 of the Notes to the Separate Financial Statements for 2011 according to EU IFRS and in Notes no. 29 and 35 of the Notes to the Consolidated Financial Statements for 2011 according to EU IFRS.

The most significant ČSOB's court disputes as at 31 December 2011 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.	imAGe Alpha, a.s., Weinberger Holding Inc.	17,647
2.	ICEC-HOLDING, a.s.	11,893
3.	JUDr. Věslav Németh	1,682
4.	Bankruptcy Trustee of Chemapol Group, a.s.	1,450

Legal dispute indicated in list I represents no risk even in case of a potential defeat.

According to the Bank, legal disputes in list II do not constitute any risk, given their absolute unreasonableness. In addition, legal disputes with numbers 2 and 3 in list II have the risk of any potential defeat covered by the CNB's indemnity issued in connection with the sale of the IPB enterprise, according to the Bank.

ČSOB keeps a record of an action filed by company TF Recovery, s.r.o. in CZK 34,152 m as an assignee of company General Factoring, a.s., claim of which was fully dismissed in July 2010 by an arbitration award.

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 2011	Report of the Board of Directors Managing and Supervisory Bodies Corporate Governance Policy Note no. 3 [2]
New Products and Services Introduced in 2011	Report of the Board of Directors
Description of Markets where ČSOB Competes	Report of the Board of Directors Company Profile
Profit Distribution	Note no. 13
Activities Undertaken in the Area of Environmental Protection [3]	Corporate Social Responsibility
Information on Entities Included into the ČSOB Consolidated Financial Statements as at 31 December 2011	Companies of the ČSOB group Note no. 3 [2]
Expected Economic and Financial Situation of ČSOB in 2012	Report of the Board of Directors
Research and Development Costs – ČSOB neither Incurs nor Reports.	

1) The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for 2011 according to EU IFRS (unless stated otherwise).
2) The content refers to a note in Notes to the Consolidated Financial Statements for 2011 according to EU IFRS.
3) For more information please refer to the ČSOB Group 2011 Sustainable Development Report at www.csob.cz.

Remuneration Charged by Auditors for 2011

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

Services Provided (CZKths)	ČSOB	Consolidated ČSOB Unit
Auditor services	17,617	30,761
Advisory	4,877	4,877
Total	**22,494**	**35,638**

Information about the Contribution to the Securities Brokers Guarantee Fund

Information in accordance with the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market (also known as the Act on undertakings on the capital market), section 16, paragraph 1.

As a securities trader, ČSOB contributes to the Guarantee Fund, which ensures the guarantee system from which compensation is paid to the clients of a securities trader that is not able to fulfil its obligations to its clients.

Contribution to the Securities Brokers Guarantee Fund for 2011 (CZKths)	ČSOB	Consolidated ČSOB Unit
Basis for calculation of the contribution	606,707	848,341
The contribution	**12,134**	**16,967**

Events after the Reporting Period

Chapter	Part
Report of the Board of Directors	Credit Rating
Companies of the ČSOB Group	Companies of the ČSOB Group
Consolidated Financial Statements	Note no. 38
Separate Financial Statements	Note no. 36
Additional Information	Bonds

Information on the Publication of the ČSOB Annual Report

ČSOB will **publish** its Annual Report 2011 on its Internet website **at www.csob.cz.**

The **Czech National Bank** will add the ČSOB Annual Report 2011 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. and No. 89/2011 Coll.); the Regulation also contains rules for definition of the Regulated consolidated unit.

The total authorized share capital as at 31 December 2011 equals CZK 5,855 m and was composed of 292,750,000 ordinary shares with a nominal value of CZK 20 each. Share premium was CZK 7,509 m in aggregate.

To support the capital structure of its group, ČSOB received subordinated debt in nominal amount of CZK 12 bn in two tranches: CZK 5 bn in September 2006 with the maturity date falling on 29 September 2016 and CZK 7 bn in February 2007 with the maturity date falling on 28 March 2017.

During the year 2011 the decrease of the regulatory consolidated capital amounted to CZK 3,118 m. The significant reason was dividend payment in 2nd quarter of 2011. By the decision of the sole shareholder, KBC Bank, the dividend payment totalled CZK 17.8 bn, of which CZK 5 bn came from Retained profit from previous periods.

Increase in Surplus in coverage of expected credit losses in IRB (Internal Rating-based) approach raised the regulatory consolidated capital by CZK 1.5 bn.

The amount of the total regulatory capital was further influenced by capital investment into ČSOB Pojišťovna in value CZK 315 m. This investment is fully deductible from the capital.

Information on Capital of the Regulated Consolidated Unit

Information on Capital (CZKths)		31. 12. 2011	31. 12. 2010
1.	**Original capital** (Tier 1)	**41,264,011**	**45,583,002**
1.1	Common eqity Tier 1	41,264,011	45,583,002
	Paid-up basic capital registered in the Commercial Register	5,855,000	5,855,000
	Own shares	0	0
	Share premium	7,508,552	7,508,552
	Mandatory reserve funds	18,686,651	18,686,651
	Retained profit from previous periods	11,636,217	16,373,667
	Minority interests	891,866	853,933
	Goodwill from consolidation	(112,073)	(263,073)
	Resulting exch. rate differences from consolidation	0	0
	Goodwill other than from consolidation	(2,688,910)	(2,688,910)
	Intangible assets other than goodwill	(513,291)	(672,561)
	Negative valuation difference from real value changes in AFS shares	(1)	(70,258)
1.2	Additional capital Tier 1	0	0
	Hybrid instruments	0	0
2.	**Additional capital** (Tier 2)	**14,079,892**	**12,564,359**
2.1	Dominant Tier 2	2,100,604	589,359
	Excess in the coverage of expected credit losses in IRB (Internal Rating-based) approach	2,100,604	589,359
	Excess on the limits for hybrid instruments	0	0
2.2	Additional Tier 2	11,979,288	11,975,000
	Subordinated debt	11,979,288	11,975,000
3.	**Total capital to cover market risk** (Tier 3)	**0**	**0**
4.	**Items deductible from original and additional capital** (from Tier 1 + Tier 2)	**(940,118)**	**(625,156)**
	In which IRB Provision shortfall and IRB equity expected loss amount	0	0
Total regulatory capital		**54,403,785**	**57,522,205**

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. 2011	31. 12. 2010
1.	**Credit risk total**	**22,946,329**	**21, 543,689**
1.1	Total capital requirements for credit risks with standardized approach (STA)	2,358,336	2,506,954
	Exposures to central governments and central banks	0	0
	Exposures to institutions	116,193	91,233
	Exposures to enterprises	874,502	1,418,034
	Retail exposures	933,855	494,469
	Share exposures	29,848	72,429
	Other exposures	403,937	430,789
	Securitized exposures	0	0
1.2	Total capital requirement to credit risk subject to IRB approach	20,587,993	19,036,735
	Exposures to central governments and central banks	110,276	477,769
	Exposures to institutions	2,124,475	1,850,446
	Exposures to enterprises	11,160,737	9,892,993
	Retail exposures	5,829,691	5,840,210
	Share exposures	0	0
	Securitized exposures	0	0
	Other exposures	1,362,813	975,317
2.	Capital requirement **to settlement risk**	**20,000**	**20,000**
3.	Capital requirement **to position, currency and commodity risk**	**1,381,933**	**612,651**
4.	Capital requirement **to operational risk**	**3,659,789**	**3,353,555**
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		**28,008,051**	**25,529,895**

3. ČSOB's Ratios (Unconsolidated)

Ratio		31. 12. 2011	31. 12. 2010
Capital adequacy	%	13.61	16.51
Return on average assets (ROAA)	%	1.36	1.72
Return on average equity (ROAE)	%	29.94	34.84
Assets per employee	CZKths	125,070	121,161
Administrative expenses per employee *	CZKths	1,769	1,728
Profit after income tax per employee *	CZKths	1,604	1,978

** 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 2011, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The auditors have opined that the consolidated financial statements present fairly, in all material respects, the financial position of the ČSOB group as at 31 December 2011, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Supervisory Board has reviewed the 2011 separate annual financial statements and has accepted the results of the audit of the 2011 separate annual financial statements and has recommended to the General Meeting to approve them.

In Prague, 30 March 2012

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 za rok končící 31. prosincem 2011 a řádnou konsolidovanou účetní závěrku Společnosti za rok končící 31. prosincem 2011, sestavené podle Mezinárodních standardů účetního výkaznictví ve znění přijatém Evropskou unií; a

Jediný akcionář dále bere na vědomí:

(i) zprávu představenstva Společnosti o podnikatelské činnosti Společnosti a o stavu jejího majetku za rok 2011, a

(ii) zprávu o kontrolní činnosti dozorčí rady Společnosti v roce 2011 a o přezkoumání řádné účetní závěrky sestavené k 31. prosinci 2011.

V případě rozporu mezi oběma jazykovými verzemi je rozhodující verze česká.

V Bruselu dne 10/04/2012

KBC Bank NV

Danny De Raymaeker
Executive Director

Marko Voljč
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 31 December 2011 and annual consolidated financial statements of the Company for the year ended 31 December 2011, prepared in accordance with IFRS as adopted by the EU, and

The Sole shareholder further takes knowledge of:

(i) Company´s Board of Directors report on Company´s business activity and state of its assets for the year of 2011, and

(ii) Company´s Supervisory Board Report on its control activities during the year of 2011 and review of Company´s regular financial statements as of the day of 31 December 2011.

In case of any discrepancy between both language versions, the Czech one shall prevail.

In Brussels 10/04/2012

KBC Bank NV

Danny De Raymaeker
Executive Director

Marko Voljč
Executive Director

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2011

hereby declare that, to their best knowledge, the ČSOB Annual Report 2011 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 2012

Československá obchodní banka, a. s.

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

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

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT AND ON THE RELATED PARTIES REPORT

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Československá obchodní banka, a. s.:

I. We have audited the consolidated financial statements of Československá obchodní banka, a. s., and its subsidiaries (or "the Bank") as at 31 December 2011 presented in the annual report of the Bank on pages 56–149 and our audit report dated 15 March 2012 is presented in the annual report of the Bank on pages 54–55. We have also audited the separate financial statements of Československá obchodní banka, a. s. (or "the Bank") as at 31 December 2011 presented in the annual report of the Bank on pages 152–246 and our audit report dated 15 March 2012 is presented in the annual report of the Bank on pages 150–151 (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 1–52 and 248–268 is consistent with that contained in the audited financial statements as at 31 December 2011. 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 2011 presented in the annual report of the Bank on pages 248–252. 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 2011 is materially misstated.

Ernst & Young

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

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, License No. 2009

23 April 2012
Prague, Czech Republic

ABBREVIATIONS

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
PSB	Poštovní spořitelna (Postal Savings Bank; part of ČSOB)

Abbreviation	Business Company
Auxilium	Auxilium, a.s.
BANIT	Bankovní informační technologie, s.r.o.
Bausparkasse Schwäbisch Hall	Bausparkasse Schwäbisch Hall AG
CBCB	CBCB - Czech Banking Credit Bureau, a.s.
Centrum Radlická	Centrum Radlická a.s.
ČMSS	Českomoravská stavební spořitelna, a.s.
CNB	Czech National Bank
CZSO	Czech Statistical Office
ČSOB AM/ČSOB Asset Management	ČSOB Asset Management, a.s., a member of the ČSOB group
ČSOB AM/IS	ČSOB Asset Management, a.s., investiční společnost
ČSOB Factoring	ČSOB Factoring, a.s.
ČSOB IBS	ČSOB Investment Banking Services, a.s., a member of the ČSOB group
ČSOB IS / ČSOB Investiční společnost	ČSOB Investiční společnost, a.s., a member of the ČSOB group
ČSOB Leasing	ČSOB Leasing, a.s.
ČSOB Leasing pojišťovací makléř	ČSOB Leasing pojišťovací makléř, s.r.o.
ČSOB PF Progres	ČSOB Penzijní fond Progres, a. s., a member of the ČSOB group
ČSOB PF Stabilita	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group
ČSOB Pojišťovna	ČSOB Pojišťovna, a. s., a member of the ČSOB holding
ČSOB Pojišťovací servis	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding
ČSOB Property fund	ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group
ČSOB SK	Československá obchodná banka, a. s. (Slovak Republic)
Hypoteční banka	Hypoteční banka, a.s.
IPB	Investiční a Poštovní banka, a.s.
KBC Bank	KBC Bank NV
KBC Group	KBC Group NV (legal entity)
KBC group	group of companies of the KBC Group NV
KBC GS	KBC Global Services NV
KBC GS CZ	KBC Global Services Czech Branch, organizational unit
KBC Insurance	KBC Insurance NV (i.e. KBC Verzekeringen NV)
KBC Lease Holding	KBC Lease Holding NV
KBC Participations Renta	KBC Participations Renta SA
KBC Securities	KBC Securities NV
KBL EPB	KBL European Private Bankers SA
Merrion Properties	Merrion Properties s.r.o.
MF CZ	Ministry of Finance of the Czech Republic
Motokov	MOTOKOV a.s. in liquidation
Motokov International	MOTOKOV International a.s. in liquidation
Patria Direct	Patria Direct, a.s.
Patria Finance	Patria Finance, a.s.
Property LM	Property LM, s. r. o.
Property Skalica	Property Skalica, s.r.o.

ČSOB Group Unaudited Financial Results Releases

(EU IFRS, consolidated)

Financial Results		Date of Release
As at 31 December 2011	4Q / FY 2011	9 February 2012
As at 31 March 2012	1Q 2012	10 May 2012
As at 30 June 2012	2Q / 1H 2012	7 August 2012
As at 30 September 2012	3Q / 9M 2012	8 November 2012
As at 31 December 2012	4Q / FY 2012	14 February 2013

CONTACT DETAILS

Investor Relations

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Radlická 333/150
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Czech Republic

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E-mail: investor.relations@csob.cz

The 2011 ČSOB Annual Report was released in electronic version at www.csob.cz on 27 April 2012.