



KB

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REPORT OF THE BOARD OF DIRECTORS ON THE BANK'S AND GROUP'S BUSINESS ACTIVITIES AND STATE OF THEIR ASSETS

Vision and Mission

Long-term Mutually Beneficial Relationships with Clients

Komerční banka is a universal bank based on a multi-channel model. KB offers its clients a comprehensive range of financial products and services. Through constant innovations, the Bank endeavours to meet its customers' evolving needs and to tailor its offer to suit specific clients.

To Create Value for Clients, Shareholders and Employees

KB focuses on continuously developing its business activities. Co-operation with other members of the KB Group, with companies from the SG Group, and with other, independent partners allows the Bank to provide highly sophisticated products and gives it a flexibility that is indispensable in a constantly changing environment. The excellent know-how and experience of the Group's employees ensure that the products portfolio is fully competitive. At the same time, Komerční banka is aware of the responsibilities stemming from its position as a leading Czech financial institution.

Strategy

Komerční banka's strategy is founded on an assumption of long-term convergence of the main trends in the Czech Republic's society, economy and banking system towards levels similar to those of Western European countries. In the long term, this convergence will be manifested in relatively faster growth in economic output accompanied by gradual change and development in business and consumer attitudes and requirements. In the financial services area, the Bank expects a growing importance of financial intermediation driven by a rise in consumer wealth and sophistication with respect to requirements for financial services. It is expected that banking clientele from both the corporate and retail segments will become more demanding, and it will thus be necessary to offer to various client segments more differentiated services corresponding to their distinct requirements.

KB expects only moderate growth of the Czech economy in 2011 and a still relatively cautious attitude toward borrowing among clients both in retail and corporate segments. Over the medium-term horizon, however, KB remains convinced there is significant growth potential for retail market products, including mortgage and consumer lending and alternative investment products. In the corporate market, the currently low credit product penetration suggests a potential for further lending, especially in the small and medium-size business sector, while the rising sophistication of clients should support demand for such products as hedging and trade finance instruments. Some revenue sources, on the other hand, are expected to be substantially limited in future, such as, for example, income from foreign currency conversions upon introduction of the euro.

KB is developing a universal banking model wherein its investment banking activities are primarily focused on servicing clients; trading on the Bank's own account is a complementary activity and is restricted by rather conservative limits. The Bank strives to build long-term, mutually beneficial relationships with its clients, allowing it to precisely identify dynamic changes in clients' needs and expectations and constantly adapt its services offering according to this knowledge. Superior client knowledge and level of services as well as operational efficiency and prudent risk management remain cornerstones of KB's strategy.

The Group's strategy in the retail segment focuses on taking advantage of the potential in lending, with the ambition to outperform market growth in the areas of consumer loans, mortgages, and loans to small business clients. KB aims to achieve profitable growth in the volume of assets under management, especially by developing a value-added advisory approach to clients that focuses on comprehensive solutions to their financial needs. In the corporate segment, KB aims to reinforce its position as the reference bank for businesses as well as its strategic partnerships with clients, along with increasing the Group's share in total financing drawn by the clients and in servicing their financial needs.

Clients will continue to have access to a full range of distribution channels, although the branch network, where a dedicated relationship manager is appointed to assist each client, will remain the main base for building mutual relationships. The service model assigned to each client will be adjusted according to proper client segmentation.

Effective risk management is a necessary condition for the Bank's long-term development. KB has decided to conservatively manage the interest-rate and liquidity risk of its Structural Book while excluding speculation on short-term fluctuations in market conditions. Credit risk procedures and limits are set prudently. Risks accepted into the Market Book are confined by strict trading limits that are regularly reviewed.

Ensuring the Bank's long-term stability of course remains one of the tasks of financial management. Komerční banka plans to maintain a solid capital position which will allow it to reinforce its standing in the lending market and potentially to take advantage of selected and attractive acquisition opportunities, should these present themselves in future.

Ambition 2015

During 2010, Komerční banka's management revised its business strategy in order to better adapt the Bank to the rapidly changing banking sector environment and to take advantage of the status KB has achieved for its successful development in the period after the economic recession. At the level of Société Générale Group, meanwhile, the Ambition SG 2015 transformation programme was launched. As an important foreign member of the Group, KB is naturally involved in that as well.

Komerční banka's primary aim is to become the reference bank on the Czech market and surpass the expected market growth by increasing the Bank's net profit and improving operational efficiency. Fulfilment of KB's newly formulated strategic ambition will be underpinned by targets set in four key areas:

- customer satisfaction,
- employee satisfaction,
- efficiency of group processes,
- efficiency of group synergies.

Long-term relationships with clients are feasible when the customers are satisfied with their bank. KB works intensively to ensure that each customer's experiences in dealing with the Bank are always positive and that the customer perceives Komerční banka as a trustworthy advisor in the world of finance. Understanding the needs of customers will support an increased emphasis on improving the approach to advisory at the Bank's branches. KB will also work on the transparency of products and processes, on enhancing staff qualification and motivation, and, last but not least, on improving the quality of the environment in the branch network while also redesigning internet banking.

Good quality, loyal, committed and satisfied employees are able to effectively address customer needs and questions that arise as banking services develop. KB Group will invest significant efforts into proper education and professional growth of individual employees so that the Group's staff becomes a team of top specialists who outperform the competition. Prerequisites for developing the corporate culture at all levels of management include leading by example, open and fair dealing with employees, and honouring commitments.

Although Komerční banka has traditionally shown an excellent level of operational efficiency, as in every large organisation there is always room for improving the efficiency of processes. This includes creating the right structure of specialist employees while eliminating duplicate and unnecessary work by finding simpler means to achieve the desired ends. Every motivated employee who views the entire Group as his or her team can make a personal contribution to increasing overall effectiveness.

The KB Group provides its clients a wide range of services the likes of which very few competitors on the Czech market can boast. KB's ambition is to ensure that employees in any department – be it of the Bank or any subsidiary – offer customers the best solutions for their needs, regardless of which company is providing the product. The Group also promotes the notions of identifying processes in whichever group company has the most effective solution and of sharing best practices in meeting the needs of both clients and the group operations.

In financial terms, fulfilment of Ambition 2015 will result in accelerating KB Group's revenue growth while maintaining cost efficiency and keeping cost of risk at an optimal level. In meeting the objectives of Ambition 2015, KB's market positions will strengthen in lending to individual customers as well as to small and medium-sized enterprises, and in several aspects of long-term savings and investment products like mutual funds, direct investments in financial instruments, life insurance, and retirement savings.

Main Challenges and Risks for the Bank and Group in 2011 and Expected Developments in the Financial Situation

Despite KB's strong capital and liquidity position, the Bank's results in 2011 will be influenced by developments in the Czech and broader economic environment. KB has identified a number of risks to economic growth, including the government debt problems of some European countries, impacts of fiscal restriction in the Czech Republic and abroad, rising prices for commodities and food, and problems – such as inflation – resulting from the rapid growth of some Asian countries. Any worsening of the situation in some of these areas or a significant slowdown in the economy for other reasons could influence clients' demand for credit and other financial products, as well as negatively impact development in the cost of risk. Nevertheless, the Group's sound position will enable it to continue in supporting its clients and to expand its lending portfolio and product offer.

The Czech banking market is becoming ever more competitive, as some competitors have announced their intentions for 2011 to increase investments in client acquisition, distribution networks and product development. In order to further strengthen its position in selected segments and to maintain a leading role in others, KB will focus on improving client satisfaction, the quality and loyalty of its employees, operational excellence, and extracting synergies within the Group and with Société Générale.

KB expects consumers will remain cautious during 2011 in their appetite for new loans, as the unemployment rate is expected to remain at relatively high levels and disposable income will decrease for certain consumer groups while increasing only modestly for others. The rate of growth in deposits from individuals in the banking system will further decrease. The macroeconomic context suggests that corporate deposits will grow slightly faster than will those from individuals. Due to the still uncertain economic outlook, businesses will probably not fully replenish their investments into new production capacities. Volumes of outstanding loans to corporations are nevertheless expected moderately to increase.

The pace of growth of the Group's net interest income in 2011 will be determined by business volumes, but also by the development of market interest rates. KB's hedging policy mitigates to a significant extent the impact of interest rate fluctuations, but a prolonged period of low interest rates is still weighing on the Bank's net interest margin. Certain components of fee income will benefit from sales of investment and insurance products, loan syndications, and financial solutions in trade finance. Income from account maintenance fees and fees for simple transactions, however, will continue under pressure due to gradually declining prices. KB does not expect rapid growth in the remaining revenue areas.

KB's management intends to increase expenditures in 2011 to support commercial performance and gain a competitive edge in the post-recession environment. Areas obtaining greater investments will include training of the sales force, marketing, branch network refurbishment, development of direct channels including ATMs, and information technologies. Several long-term projects boosting the Group's efficiency will be launched or continued, including the project for centralising certain back office and support functions from various locations in Prague to a new building acquired in Prague and which will be completed in 2013.

Prudent risk management continues to be a priority component in the Bank's operations. The Group will continue to refine its procedures and limits in order to achieve an optimum balance between risks taken on and development of business activities. The actual cost of risk will depend to a large extent on the macroeconomy, with the main risks in the retail segment connected to real estate price developments and in the corporate segment to foreign demand for production of Czech businesses.

Management expects the Bank's operations will generate sufficient profit to cover the Group's capital needs ensuing from the growing loan portfolio and to pay dividends, even if the macroeconomic situation becomes worse than anticipated. As of the start of 2011, KB is well prepared to implement the newly approved and expected regulatory requirements in the area of capital management that are to be applied in the coming years. These requirements should not represent a substantial burden for the Group. It should be noted, however, that several aspects of the amended regulatory framework are not yet clear as of the time of preparing this Annual Report.

Comments on the IFRS Consolidated Financial Results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 13,330 million for 2010 under International Financial Reporting Standards (IFRS). This represents 21.1% growth in comparison with 2009. The increase was driven by a slight rise in revenues, further savings on operating expenditures, and a significant reduction in the cost of risk.

Profit and Loss Statement

Net interest income

In spite of the low interest rate environment and increased statutory contribution to the Deposit Insurance Fund, net interest income grew by a slight 0.9% to CZK 21,431 million. The gain was supported by growth in loans and non-term deposits, and in September market interest rates began rising again.

Standalone KB's share in the consolidated net interest income was 80%. Within KB Group, net interest income grew fastest at ESSOX (by 14.0%) and followed by Penzijní fond (+10.4%) and Modrá pyramida (+10.1%). Net interest income from loans increased by 6.1%, which was underpinned by increased lending volumes (as gross loans rose by 3.5% year on year) while lending spreads remained stable. Net interest income from deposits decreased by 3.2%. Increased statutory contribution to the Deposit Insurance Fund influenced this item negatively by CZK 120 million compared to 2009. On the other hand, this item was underpinned by increased volumes of current accounts with higher spreads. Net interest income from investment banking grew by 9.2%.

The average net interest margin for the whole of 2010 remained at 3.3%.

Net fees and commissions

Income from net fees and commissions was higher by 2.5% year on year, totalling CZK 8,038 million. Transaction fees decreased by 1.0% due to continuing pressure on pricing and despite solid growth of income from use of payment cards. Maintenance fees declined by 5.4% as a result of continuing price erosion and a slight decline in the number of accounts. Fees from cross-selling, on the other hand, rose by a dynamic 26.1%, due especially to Komerční pojišťovna's excellent sales performance. Loan fees increased by 10.9%, driven by large deals with corporations and by the contribution from ESSOX. Growth in other fees by 12.8% was driven by dynamic sales of added-value products and services in the corporate clients segment. These included, among others, trade finance products, loan syndications, custody services and credit line commitments.

Net profit from financial operations

Net profit from financial operations increased by 2.4% to CZK 3,098 million, which was a positive result given the high comparative base from the first half of 2009. Investment banking revenues were underpinned by clients' increased demand to hedge interest rate and foreign exchange risks, and the share of client business from investment banking in the overall income more or less returned to the level usual before the crisis.

Net profit from foreign exchange operations totalled CZK 2,317 million, which represents a decrease of 16.1%. From this, net fees and provisions for foreign currency payments and conversions declined by 6.0% to CZK 1,370 million.

Net profit from commodity derivative operations fell by 5.9% to CZK 16 million. Net profit from interest rate derivative operations reached a profit of CZK 350 million compared to the loss of CZK 193 million in 2009.

Other income

Other income grew by 5.6% to CZK 94.5 million. Property rental income accounted for much of this item.

Net banking income

Total net banking income for 2010 increased by 1.5% from 2009 to reach CZK 32,662 million. All the major components of income contributed to that growth.

Operating costs

Komerční banka's operating efficiency was boosted further by optimisation and rigorous control of operating costs. In addition, the Bank recorded for 2010 extraordinary savings in the area of personnel costs. This related to the release of reserves for social and health insurance and for restructuring in the total amount of CZK 164 million. The line "Depreciation, impairment and disposal of fixed assets" was influenced by a CZK 71 million positive result from sales of unused buildings, although that amount was less than the CZK 122 million in 2009. Total reported operating costs declined by 4.3% year on year to CZK 12,942 million. Personnel costs were reduced by 5.6% to CZK 6,076 million, while the average number of employees decreased by 2.2% to 8,619. General administrative expenses were cut by 6.7% to CZK 5,242 million. Depreciation and disposals of fixed assets increased by 10.6% to CZK 1,624 million, mainly as a result of implementing new software.

Gross operating income

Gross operating income rose in 2010 by 5.6% to CZK 19,720 million.

Cost of risk

A reduction in the cost of risk, by 39.0% to CZK 3,100 million, was enabled by continuously improving risk management standards as well as by gradual improvement in the Czech Republic's macroeconomic situation. The progress was less significant in retail segments, which were affected by a persisting high unemployment rate and subdued real estate market. The development in the corporate segment, on the other hand, confirmed that a solid performance by the export industries had contributed to stabilising and reviving activity in the broader economy. As a result of the aforementioned developments, the total cost of risk in terms relative to the average volume of loans and off balance sheet irrevocable commitments amounted to 55 basis points. That compares with 88 basis points in 2009. For standalone KB, the corresponding values stood at 46 basis points and 84 basis points. Nevertheless, KB is cognizant of a number of risks to future macroeconomic development.

Net creation of provisions for loan losses amounted to CZK 3,115 million, a figure 37.7% less than the CZK 5,004 million as of the end of 2009. Creation of provisions for impairment of securities grew from CZK 6 million in 2009 to CZK 8 million in 2010. Creation of provisions for other risks – mainly related to legal disputes and to selected operational risks – reached a positive value of CZK 7 million in 2010 compared to a negative value of CZK 85 million in 2009.

Share of profit of pension scheme beneficiaries

The share of profit of pension scheme beneficiaries increased significantly to CZK 621 million from a low level of CZK 65 million in 2009, which was primarily caused by the realised losses and impairment of securities discussed under the line "Net profit from financial operations". This line represents an amount for which participants in PF KB pension schemes are eligible under Czech regulations and is calculated as 85% of the pension fund's net profit. The fund's general meeting may decide to distribute among participants an even higher share.

Profit before taxes

Consolidated profit before income taxes grew by 18.6% year on year to CZK 16.075 million.

Income taxes

Income taxes rose by 8.6% to CZK 2,665 million.

Net profit

KB Group's net profit for 2010 reached CZK 13,410 million, which is 20.9% higher than in the previous year. From this amount, CZK 80 million was attributed to the minority interest holders and the profit attributable to the Bank's shareholders was CZK 13,330 million (up 21.1% year on year).

Other comprehensive income, net of tax

Other comprehensive income, which derives from hedging of cash flows, hedging of currency risk for foreign net investments, and profits and losses from financial assets available for sale, net of tax, reached CZK 320 million. That was down 78.7% in comparison with 2009.

Comprehensive income for the period

The Group's comprehensive income for 2010 amounted to CZK 13,730 million, higher by 8.9% year on year.

Balance Sheet

The volume of KB Group's total assets as of 31 December 2010 increased by 0.4% relative to the end of 2009 to CZK 698.0 billion.

ASSETS

Amounts due from banks

Amounts due from banks declined by 14.5% to CZK 112.2 billion. The largest component of this item is represented by loans provided to central banks as part of reverse repo operations, which diminished by 25.4% to CZK 71.0 billion.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss increased by 39.1% to CZK 34.0 billion. The portfolio comprises proprietary trading positions of the Group.

Loans and advances to customers

Total net loans and advances expanded by 3.3% to CZK 384.6 billion. The gross amount of client loans and advances grew by 3.5% to CZK 399.7 billion. Standalone KB had an 86% share in the loan portfolio. Modrá pyramida had a share of almost 12% in the consolidated portfolio.

Of the total amount of loans, credits to individual clients comprised 47%, increasing by 6.9% from the year earlier. Year-on-year growth in the volume of mortgages to individuals reached 9.0%, bringing the total to CZK 109.3 billion. New sales of mortgages in 2010 increased by 14.5% in comparison with the previous year. At building society Modrá pyramida, the loan portfolio expanded by the same 9.0% to reach CZK 49.7 billion. In 2010, Modrá pyramida became the second largest building society according to volume of loans. For the sixth time in a row, the quality of Modrá pyramida's products and services was recognised with the title "Building Society of the Year". Reflecting uncertainty about jobs and the economic outlook still affecting the attitudes of consumers, the volume of consumer loans provided by KB and by the consumer finance company ESSOX decreased by 3.4% to CZK 28.3 billion.

The Group's business loans reached CZK 211.0 billion, which represents an increase of 2.3%. Within this segment, lending to small businesses and entrepreneurs grew by 2.1% to CZK 25.6 billion. Loans to corporations (provided by KB and KB Bratislava) increased by 2.3% to CZK 183.5 billion. The volume of receivables financed through factoring increased by 6.3% to CZK 1.9 billion.

The loan portfolio's quality has improved compared to 2009. The share of standard loans within that total represented 90.3% (CZK 360.9 billion), while the proportion of watch loans was 3.3% (CZK 13.0 billion) and loans under special review (substandard, doubtful, loss) comprised 6.5% of the portfolio with a volume of CZK 25.8 billion. The volume of provisions created reached CZK 15.3 billion, which is 10.5% more than at the end of 2009.

Securities available for sale

The portfolio of securities available for sale expanded by 2.1% to CZK 116.4 billion. The major part of this portfolio consists of debt securities issued by state and financial institutions. The investment portfolio of Protos is included in this line, and securities available for sale include KB's shareholding in ČMZRB (the Czech–Moravian Guarantee and Development Bank). The book value of shares and participation securities in the portfolio totalled just CZK 0.7 billion.

Investments held to maturity

The volume of securities in the held to maturity portfolio decreased by 1.1% to CZK 6.7 billion. That entire portfolio consists of bonds.

Tangible and intangible fixed assets

The net book value of tangible fixed assets diminished by 8.5% to CZK 7.1 billion, and intangible fixed assets grew by a slight 0.9% to CZK 3.8 billion.

Goodwill

Goodwill, which primarily derives from the acquisition of Modrá Pyramida, remained at the same level of CZK 3.6 billion.

LIABILITIES AND SHAREHOLDERS' EQUITY

Total liabilities declined by 0.7% to CZK 621.9 billion.

Amounts due to banks

In 2010, amounts due to banks increased by 55.1% to CZK 29.1 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amounts due to customers

The consolidated volume of deposits totalled CZK 538.1 billion, which is 2.5% lower compared to the end of 2009. The decline was driven mainly by the decrease in deposits from business clients, where signs of improvement were recorded only in the second part of the year. Penzijní fond KB recorded solid growth of 5.6% in the volume of clients' assets to CZK 28.8 billion. Deposits at the building society Modrá pyramida grew at a steady 2.9% pace to CZK 69.0 billion. In contrast, deposits from individuals at the Bank were stable at CZK 153.7 billion. Deposits of business clients at KB and KB Bratislava declined by 4.8% to CZK 281.1 billion.

Volumes on current accounts rose by 1.3% to CZK 300.5 billion. On the other hand, term and saving deposits decreased by 2.8% to CZK 186.5 billion.

Securities issued

The volume of debt securities issued decreased by 4.1% to CZK 17.4 billion. The majority of this item is comprised of mortgage bonds issued during 2005–2007.

Provisions

Provisions declined by 47.1% to CZK 1.1 billion. This line item does not include provisions for loan losses, which are reflected at the item "Loans and advances to customers". It includes provisions for contractual commitments and provisions for other credit commitments, comprising provisions for off-balance sheet commitments and provisions for undrawn loan facilities.

Shareholders' equity

KB Group's shareholders' equity rose by 10.6% to CZK 76.1 billion. The growth was driven primarily by retained earnings from 2009, higher generation of net profit in 2010, and a positive change in fair value of hedging derivatives by CZK 1.5 billion. On the other hand, revaluation of the portfolio of securities available for sale had a negative value of CZK 1.2 billion. KB also paid out the dividend of CZK 6.5 billion in the second quarter of 2010. KB's share capital remained stable at CZK 19.0 billion.

The hedging revaluation reserve, which reflects the change in the fair value of hedging derivatives, increased by 64.1% from CZK 2.4 billion at the end of 2009 to CZK 3.9 billion at the close of 2010. In contrast, revaluation of securities available for sale period decreased by 35.3% in the same period from CZK 3.4 billion to CZK 2.2 billion.

Revaluation of hedging derivatives and the portfolio of securities available for sale provides only a limited picture for determining the balance sheet value, as, in accordance with accounting standards, assets and liabilities hedged by derivatives are valued on an accrual basis. Therefore, the book value of the hedging reserve and the value of the hedged assets and liabilities are generated on the basis of different accounting regulations. Similarly, the portfolio of securities available for sale is managed to correspond with the development of liabilities having stable interest yields. These, however, are not revalued on a mark-to-market basis.

For the purposes of capital adequacy under Basel II standards, revaluation of the hedging reserve is not included in calculating the regulatory capital. The regulatory capital of the consolidated Group according to the CNB methodology (Basel II) reached CZK 52.4 billion. The Group's capital adequacy ratio reached 15.3% as of the end of 2010, while its Tier 1 ratio climbed to 14.0%.

Acquisition of Treasury Shares in 2010

Komerční banka held 54,000 of its own shares as of 31 December 2010. These shares were purchased during 2006 in accordance with decisions made by the Bank's general meetings of 28 April 2005 and 26 April 2006 allowing KB to purchase its own shares into treasury. In addition, Komerční banka intermediated transactions in KB shares for clients. In this case, it acted at the client's request and immediately sold on to the client the shares that had been purchased.

Based on the consent of the General Meeting held on 29 April 2010, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions:

- The maximum amount of shares that can be held by the Bank at any specific moment shall be 3,800,985 pieces of ordinary shares representing the total nominal value of CZK 1,900,492,500.
- The share purchase value must be at least CZK 500 a piece and at most CZK 5,000 a piece.
- This resolution shall be valid for the term of 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in S. 161a (1) (b), (c) and (d) of the Commercial Code.
- For the term of validity thereof the Bank can buy and sell shares repeatedly without any further restrictions.

Komerční banka shares in treasury	Number/nominal value as at 1 January 2010	Proportion of share capital as at 1 January 2010	Number/nominal value as at 31 December 2010	Proportion of share capital as at 31 December 2010
	(pcs/CZK thousand)	(%)	(pcs/CZK thousand)	(%)
Trading portfolio	0	0	0	0
(Trading book)	0		0	
Portfolio available for sale	54,000	0.142	54,000	0.142
(Banking book)	27,000		27,000	

Komerční banka's intermediation for clients in its own shares during 2009	Number/nominal value of acquired shares	Number/ nominal value of sold shares	Sum of purchase prices of acquired shares	Min. and max. acquisition price	Sum of selling prices of sold shares	Min. and max. selling price
	(pcs/CZK thousand)	(pcs/CZK thousand)	(CZK thousand)	(CZK)	(CZK thousand)	(CZK)
Trading portfolio	16,428	16,428	62,031	3,355	62,108	3,355
(Trading book)	8,214	8,214		4,340		4,340
Portfolio available for sale	0	0	0	0	0	0
(Banking book)	0	0		0		0

Komerční banka is acutely aware of the responsibilities that ensue from the Group's substantial market position and its desire to build long-term relationships with its clients and stakeholders. Corporate social responsibility is therefore an inseparable part of KB's strategy. At Komerční banka, that responsibility does not end with sponsoring, charity and volunteer activities. Rather, its integral parts include also rigorous internal control, prudent risk management, and adherence to all regulatory requirements established for KB Group companies by the Czech National Bank, laws of the Czech Republic, and rules of the European Union.

Corporate Social Responsibility

The principles of corporate social responsibility also overlap into other areas, such as rules on corporate governance, risk management, and human resources management. The following paragraphs are therefore devoted to describing activities primarily directed to carrying out KB's corporate social responsibility. Other processes for which corporate social responsibility is also an important aspect are described in their respective chapters of the annual report.

Corporate Governance and Organisation, Internal Control

KB Group operates in markets and regions in which a number of risks are present. Stringent control over risk parameters, development of in-depth risk management expertise, and implementation of highly effective risk management structures are therefore key for the Group. Besides the Board of Directors, the Audit Committee is specifically responsible for examining the consistency of the Group's internal risk management framework and compliance with applicable law and regulations.

Rigorous internal control encompasses all processes and resources that enable the Group's management to ascertain whether the transactions carried out and the organisation and procedures within KB Group are compliant with the valid legal and regulatory measures, professional and ethical practices, and internal regulations and policies defined by the Bank's executive bodies.

First-level controls have been set up across the entire Bank and are monitored on a regular basis by Internal Audit and the Audit Committee. Komerční banka has established compliance standards and rules of ethical conduct corresponding to the financial sector's most demanding standards. Professional and banking secrecy are not only a legal obligation, but also key aspects of KB's operations.

Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism

Komerční banka has long followed and applied modern rules and practices that are clearly in accordance with the regulatory and recommended measures of state and international institutions and with the standards of Société Générale Group and upon the basis of which KB can effectively curb its being misused for legitimising the proceeds of crime and financing terrorism.

This system of rules and procedures aims not only to detect cases related to possible legitimisation of proceeds of crime and financing of terrorism, it essentially limits potentially risky persons' access to Komerční banka's products and services. The Bank continually updates its rules and procedures for establishing business relationships with clients and continuously verifies and monitors the Bank's existing clients.

Komerční banka does not collaborate with clients and counterparties not providing proper co operation in verifying identification or in conducting in-depth control. At the same time, KB also does not co-operate with untrustworthy persons or persons whose transactions do not meet standards of transparency or carry high reputation risk. KB applies a prudent approach also to business partners or other business activities of the Bank that are not directly related to the provision of banking services and products. In 2010, KB's system of rules and procedures directed against the legitimisation of proceeds from crime and financing of terrorism was updated in the context of newly confirmed risks specific to this area.

Corporate Responsibility in Human Resources Management

Among the priorities in human resources management is to utilise the potential of individual employees in such way as to cultivate personal development, professional opportunities, and improvement in professional qualifications while maintaining a balance between professional and private life.

KB respects the diversity of its employees. Variety of personalities, backgrounds, attitudes and opinions among employees creates an environment that advances both individual workers and the results of entire teams and of the Bank.

In the human resources field, Komerční banka also includes among its priorities the creation of a favourable environment for the population of employees whose possibilities are limited in some way. The Bank thus creates measures to support and employ people with disabilities, as well as parents on maternity or parental leave and with children, among others.

Ethical Requirements for KB Group Employees

Employees and representatives of KB Group must adhere to strict principles, both in terms of professional conduct and risk prevention. Professional demeanour and employees' contribution to preventing dishonest business practices are key assets of the Group.

The Ethical Code defines general rules of behaviour and conduct for all of the Bank's employees. The KB Ethical Code follows the Ethical code of SG group. KB expects every employee to know and adhere to these established rules. By signing the Ethical Code, employees confirm their personal commitment to respect it.

The management of the Bank decided last year to inform the public about these policies through the KB website. The public version of the KB Ethical Code was developed in pursuit of strengthening Komerční banka's social responsibility. Visitors to the website can judge for themselves whether the Bank and its employees actually act in accordance with that to which they have committed.

KB's subsidiary and associated companies in the Czech Republic have been inspired by KB's Ethical Code and have created their own rules that are adapted to their particular conditions.

Sustainable Development

An integral part of KB's corporate responsibility strategy is a responsible approach to the environment. In the context of sustainable development, the Bank monitors a number of environmental indicators and emphasises reducing CO2 emissions. As the provision of banking services is traditionally associated especially with generating large quantities of paper documents, paper consumption has joined energy consumption as a main area upon which Komerční banka has been focused since 2007.

Thanks to printing on both sides and employees' responsible behaviour, the Bank managed to reduce annual paper consumption per employee in 2010 compared to 2007 from 67 to 49 kilograms. Based on the amount of paper consumed by Komerční banka, its paper supplier planted almost 14,000 trees for the last 4 years in the Bank's name under the "Trees for Life" programme. In order to reduce paper consumption, in 2010 customer statements began to be printed on both sides.

In buying Green Energy, KB has contributed for several years to research and development of renewable energy sources. Based on the findings of a buildings energy audit, KB introduced in 2010 a number of measures that effectively reduce total energy consumption. Appliances and equipment are used that have low energy demand.

Responsible behaviour is expected from all KB employees and managers. They are kept informed on measures being taken and emphasis is given to their personal involvement.

Sponsoring

Komerční banka takes a long-term perspective in developing relationships with its clients and employees. The same principle applies to its sponsorship policy. Like the parent company, Société Générale, KB focuses on three main areas: culture, amateur sports, and education. Because KB operates primarily on the Czech market, its sponsorship activities are directed to local institutions and projects implemented in the Czech Republic.

In 2010, Komerční banka and the National Theatre entered into their ninth year of co-operation. Continuing in 2010 was the project of hosting first stagings in the regions, which the National Theatre had implemented as a direct result of its collaboration with KB.

Komerční banka was for the fifth time the main partner of Smetana's Creative Litomyšl, a series of art exhibitions accompanying the traditional music festival Smetana's Litomyšl. The past year brought a unique selection of paintings and drawings of Theodor Pištěk, who in the minds of the Czech public is regarded primarily as an exceptionally successful costume designer.

It was Komerční banka's sixth year to be the Prague Zoo's main partner. KB also continued in its partnership with the regional zoos in Ostrava and Jihlava.

Through the project "Sport without Prejudice", KB has long supported children's sport. This gives children possibilities to get acquainted with both popular and less traditional sports and actively to try them out. Also in 2010, Komerční banka was a partner to athletes with disabilities, including wheelchair-bound athletes and rugby players with disabilities.

KB continued to develop its traditional partnership with universities. In supporting university education of new professionals, the Bank also sees the promise of developing the future quality of the Czech banking system. In 2010, Komerční banka was a partner to the University of Economics, Prague, to Masaryk University in Brno, and to the Czech Technical University.

KB – Jistota Foundation

During the 15 years of its activities, the KB – Jistota Foundation has supported several hundred projects. Last year alone, the KB – Jistota Foundation's projects helping people in need distributed more than CZK 5 million.

The Foundation focuses on the areas of social services, support for medical institutions, aid to children in social institutions, and disaster relief. An obvious part is also help to individuals living in poverty. The Foundation's main mission is not just to make financial contributions but to endeavour especially to help those who have found themselves in difficult life situations to return to normal life. Both Komerční banka itself as well as its employees and clients contribute to the KB – Jistota Foundation.

Also in 2010, KB – Jistota Foundation supported the building of an additional two Baby Boxes. Secure boxes in Jablonec nad Nisou and Karviná increase the chances of saving the lives of children whose mothers are unwilling or unable to care for them.

The Foundation's gift of CZK 900,000 helped professionals from the Medical Faculty of Masaryk University in Brno in mesenchymal stem cell research. Among other achievements, results of the expert team's work introduced at the beginning of 2010 include a new method for treating burns, chronic wounds, and poorly healing wounds. The Foundation contributed more than CZK 660,000 to Prague's University Hospital Motol for the purchase of special equipment and accessories, as well as CZK 150,000 to the Merciful Brothers' Hospital in Letovice for the purchase of mattresses to prevent bedsores and therapeutic aids.

Money from the Foundation also went to help children. SOS Children's Villages received a donation for the reconstruction and development of villages in Haiti and to equip SOS Villages in the Czech Republic. The Daneta kindergarten, primary and practical school received a gift to purchase equipment and operate its facilities for disabled students.

A contribution from KB – Jistota Foundation was directed to repair of flood damage in the north of Bohemia. The Foundation contributed to clearing acute damage after the August floods in the villages Raspenava and Bílý Kostel nad Nisou.

Debt Advisory Center – Counselling in Stringency

Komerční banka has been a partner of the Debt Advisory Center – Counselling in Stringency (hereinafter the “Advisory Center”) since 2008, when the Advisory Center was established. Komerční banka makes financial contributions to the Advisory Center each year, and 2010 was no exception. In 2010, Komerční banka donated CZK 1,174,292 to the Advisory Center. The donation is not designated for a specific purpose, i.e. the funds were used to finance generally beneficial services provided by the Advisory Center and to support its operations during 2010.

The Advisory Center is a public benefit organisation oriented to providing free independent credit consultancy for consumers. The main goal of the Advisory Center is to support consumers in their efforts in actively dealing with insolvency, to influence consumers to prevent their becoming insolvent, and, when needed, to mitigate its impacts.

The general goals of the Advisory Center are to contribute to increasing the financial literacy of the general public, to be a repository for in-depth legal knowledge, and to approach the issue of indebtedness more prudently. At the same time, creditor financial institutions are becoming more socially responsible in providing their financial products. All these factors together will lead to fulfilling the Advisory Center’s main goal: a more stable society and increased public well-being.

Volunteer activities

Voluntarily and above and beyond their work obligations, the employees themselves joined in on projects expressing social responsibility organised both by the Bank and by KB – Jistota Foundation.

The annual collection of food for the Czech Federation of Food Banks continues to develop dynamically. From 14 to 17 June 2010, the employees of KB and its subsidiaries and affiliates gathered 2,933.5 kilograms of food. The collection took place not only in Prague, but also across all the regional KB branches. The food collection was arranged as part of Social Responsibility Week that is organised worldwide by the Société Générale Group.

In 2010, Komerční banka also worked to increase young people’s awareness of financial products and the risks of overindebtedness. Early in the year, KB welcomed young people about to leave children’s homes to the Na Příkopě 33 branch in co-operation with the Letní dům civic association. Trainers acquainted the young people with banking products and their use in the household and showed them the operation of a bank branch. A similar programme was prepared by KB in March for students of the Jedlička Institute included in the Transition programme that prepares them for independent lives.

Volunteer assistance at KB also focuses on nature. In June, about 50 employees from KB Group joined forest maintenance efforts in the Jizera Mountains under the patronage of the Čmelák Friends of Nature Society. Only a few weeks later, employees of the Top Corporates Arm participated in a project of planting linden trees. The Bank has long participated in the CEZ Group’s Green Energy project, supporting, among other things, the research and utilisation of renewable energy sources.

A December exhibition and especially the ensuing intranet auction of photos from the employees’ summertime competition, The World in Green, greatly interested and was highly appreciated by the employees. All 24 photos exhibited and which were created by the Bank’s employees were sold. The proceeds from the auction in the amount of CZK 64,411 were donated by KB to the Department of Paediatric Haematology and Oncology at Prague’s University Hospital Motol.

As traditionally the case, the “KB Group donates blood” project was highly acclaimed. In 2010, KB employees again donated blood on two occasions, in spring and in autumn. Across the Czech Republic, 307 donors gave more than 138 litres of blood. Apart from acquiring much-needed blood, this initiative also has one substantial effect much appreciated by haematologists – as new donors enter their list, it helps to turn back the republic-wide trend of decreasing blood donor numbers.

Clients and Markets

The key values of Komerční banka and the Société Générale group – flexibility, innovation and team spirit – are also reflected in how long-term relationships are built with the KB Group's clients. In 2010, KB faced cautious signs of economic recovery. Building on its excellent reputation and strong position in the market, it offered clients further notable improvements in its products and services. The strategy for its approach to clients remained unchanged: in providing its services, the KB Group keeps the emphasis on the customers and their needs, on support to long-term relationships, on transparency, and on increasing efficiency.

The Bank implemented several important operational changes with the aim of increasing quality and efficiency of support services for internal and external clients across all client segments. In mid-2010, therefore, KB began via its new Product Administration Department to provide comprehensive services for its most substantial clients in the Czech Republic and Slovakia in the areas of credit services, documentation processing for all types of accounts, and cash pooling services. The new department also provides services to issuers in managing primary issues, dividend payments, as well as custody of securities and gold bars and it also processes in two liabilities product centres documentation relating to deposit products delivered from the branches. In 2010, approximately 3.4 million documents were processed in the centres.

The branch network remains the primary place for building client relationships, complemented by the ever-evolving modern forms of on-line bank account administration.

KB opened three new branches in 2010, one of which was a kiosk branch. As of the end of 2010, the total number of branches was thus 395. Within the KB Group, 20 business centres specialise in serving medium enterprises and municipalities while four divisions have been created for serving large corporations. Four branches were completely renovated in 2010, while another four were relocated. The number of KB ATMs was 677. The Bank also improved service for foreign clients through the specialised EXPAT Premium Branch in Prague and the Foreign Customer Desk at selected branches.

MojeOdměny

An important event in 2010 was the introduction of a new fees policy concept dubbed MojeOdměny. The aim of this innovative concept is to financially reward such client behaviour as is both convenient for the clients and at the same time cost-optimal for the Bank. MojeOdměny is designed around the idea that every client is able by his or her own activity to influence the final amount of fees that he or she pays to KB for a given period. The new concept automatically creates advantages for clients without their needing to sign up or register. In the first phase, all owners of KB payment cards are able to take advantage of the MojeOdměny concept. In 2011, it will be extended to other groups of banking operations.

A very important project in relation to KB Group's clients in Slovakia was the transformation of Komerční banka Bratislava to an organisational branch of the Komerční banka parent company. Activities on the Slovak market now focus especially on large and medium-sized companies. The KB branch in the Slovak Republic holds an especially strong position in that area, having at its disposal the know-how of the KB parent and synergies within the KB Group and the entirety of the Société Générale Group, through which it can provide to clients comprehensive financial solutions. Among other services, the Slovak branch offers cash management, electronic banking, payment cards, financing, investment banking products, and trade finance products. The KB branch in the Slovak Republic does not offer cash operations.

Co-operation with partners both within and beyond the KB Group were reinforced during 2010. Property insurance for individuals and businesses from Česká pojišťovna became a standard part of the offer to the Bank's clients at all its points of sale. Reciprocally, Česká pojišťovna's clients now have the possibility to apply for KB mortgage loans with the sales representatives of Česká pojišťovna, who thus now comprise yet another network for distributing KB mortgages. The Bank continued in co-operation with mobile provider T-Mobile on the project for the co-branded T-Mobile Bonus credit card, which is linked to the T-Mobile loyalty programme. As of the end of 2010, more than 64,000 clients had activated the card.

Client Services

In a competitive environment, the Bank focused on active customers, maintaining and growing client assets under management, and developments in lending.

Also in 2010, Komerční banka made use of the time-tested fundamental segmentation of its client base into the following groups:

- Individuals;
- Small Businesses (the indicative criterion being annual turnover up to CZK 60 million);
- Medium Enterprises and Municipalities (annual turnover roughly up to CZK 1.5 billion);
- Top Corporates (with annual turnover exceeding CZK 1.5 billion).

While preserving the basic model, client segmentation continued to be developed in 2010. KB improved sub-segmentation within the individual client segments while aiming to ensure a long-term individual approach to each

client, to offer a range of key products corresponding to the real needs of the individual sub-segments, to satisfy clients' continually increasing demands, and in a more active manner to provide individual financial advisory.

In developing its "know your client" approach, KB endeavours for the relationship managers to be truly acquainted with the client's profile and his or her needs, and thus to ensure differentiation of client services. A relationship manager has personal responsibility for the client portfolio entrusted to him or her, for the business results, and for building client relationships. Each client has a dedicated contact person within the Bank.

Individuals

Komerční banka further optimised its offer of financial products and services for individuals and continued in supporting an individual approach to all clients. The year 2010 also saw introduction of a number of new products across the entire spectrum of clients' financial needs.

KB has retained its position as the third largest bank on the Czech market in the Individuals segment. The overall number of clients at the end of 2010 reached 1.32 million, a decrease by 1.7%. In keeping with the Bank's strategy, however, there was a rise in the number of active clients intensively using KB's services. During the year, more than 105,000 new clients chose Komerční banka. With over 351,000 accounts for children and youth, KB retains its leading position in the children and youth segment.

Despite the prevailing difficult economic situation, the Bank recorded favourable outcomes for most lending products. KB increased its market share in mortgages for individuals, the volume of which grew by 9.0% to CZK 109.3 billion in 2010.

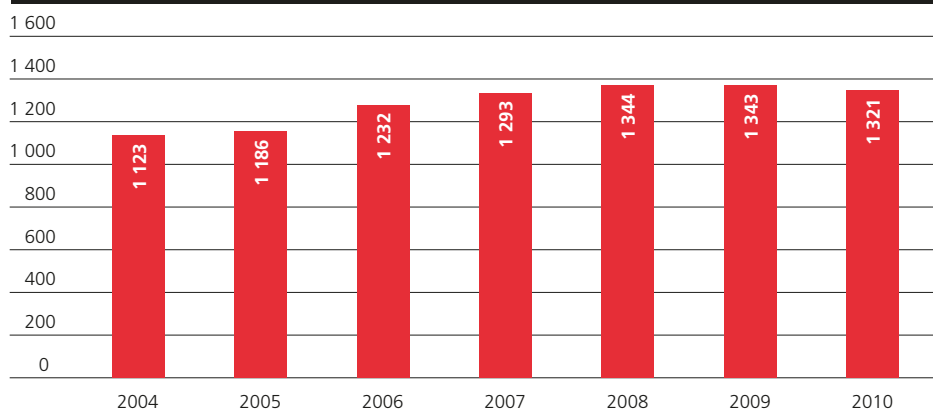
Standalone Bank - Individuals segment	2010	2009	Change %
Number of mortgages	89,900	82,700	8.7%
Volume of mortgages (CZK billion)	109.3	100.3	9.0%
Number of consumer loans	219,000	225,100	(2.7%)
Volume of consumer loans and overdraft loans (CZK billion)	14.7	15.8	(6.5%)
Volume of credit card loans (CZK billion)	2.6	2.6	(0.5%)
Number of active credit cards	168,700	182,100	(7.3%)
Number of packages with current account	981,700	987,800	(0.6%)

Flexibility of mortgage parameters, which is supported by a new communication concept, contributed to the growth in mortgage market share. For its Flexible Mortgage, Komerční banka now offers an early repayment option for a part of the loan at no charge. Also new is the possibility to draw a mortgage for construction to the client's current account without the client's needing to document invoices. Sales were also supported by low market interest rates, which allowed for decreasing the minimal interest rates for mortgage loans during the year. With all mortgages, KB offers the option to include insurance against the inability to repay.

The unique Premium loan is a new general purpose, unsecured loan available in cash and ranging from CZK 300,000 to CZK 2,500,000. It offers the possibility for early repayment with no penalty and free insurance against the inability to repay. Clients with pre-authorised credit lines may complete the application process wholly on-line in the Mojebanka internet banking environment.

Among others developments, the Bank further improved loans for university students to acquire notebook computers. It also offered quick solutions to individuals who suffered from flooding by cancelling the penalty for early withdrawal of term deposits, providing the possibility to obtain advantageous flood loans, and customising individual repayment schedules for loans already drawn.

Number of clients – Individuals during 2005–2010 (in thousands, KB standalone)



The range of deposit products was expanded by the new KB Bonus Savings Account, with favourable two-level interest earnings that reflect not only the deposit amount but also the duration of the saving.

With the KB Akcent 2 guaranteed mutual fund, the Bank broadened its assortment of investment products. This actively managed fund searches for the best growth potential among stocks in Europe, Asia and America, as well as in commodities. In co-operation with Komerční pojišťovna, KB offers recurring investments into guaranteed funds via the Vital Invest product. Clients' substantial interest has progressively led to offering the tranches Forte 2, 3 and 4. During 2010, total subscriptions exceeded CZK 2.6 billion.

In April 2010, KB became the very first bank on the Czech market to launch the Investment Calculator on its website. This helps consumers to avoid fundamental errors when investing and saving. Later in the year, there followed a new design of KB's website. This brought greater convenience, a clear and consistent structure for the wide range of information, and substantial improvement in the site's accessibility for visually or physically impaired users.

KB draws upon the synergies and potential of the client bases among all members of the KB Group. The clients of subsidiary or affiliated companies have begun using Komerční banka's advantageous offers, which are introduced in acknowledgment of their utilising the KB Group's services. Co-operation among members of the Group permitted preparing comprehensive and readily accessible solutions to meet client's financial needs "under one roof".

Private banking

KB offers private banking services in Prague, Brno and Ostrava to clients whose financial assets exceed CZK 20 million. Selected private banking services and investment advisory are provided to clients with assets over CZK 8 million at 20 regional branches.

In 2010, KB Private Banking again recorded double-digit growth both in the number of customers and total assets under management. Komerční banka thus confirmed its strong position on the market for high quality private banking services and investment solutions for high-net worth individuals in the Czech Republic.

Development of KB Private Banking is founded on two main pillars: the solid internal knowledge base and potential within KB, as well as direct co-operation with the Expert Centres of Société Générale Private Banking in the area of investments and analysis. The client offer is based on an open architecture model, whereby experts from KB optimise financial solutions for clients by including products of selected world renowned financial groups – always in a fully transparent manner.

Investors continued to prefer conservative products in 2010, mainly quality corporate bonds from primary offerings, as well as investment and barrier certificates. Also in great demand was the guaranteed savings deposit provided in co-operation with Komerční pojišťovna. The gradual recovery from the financial crisis and expected potential returns from the capital markets translated into increased demand for balanced solutions.

Small Businesses

In 2010, Komerční banka upheld its leading market position in the Small Businesses segment, in which it serves some 255,000 clients.

Segmentation adjustments helped in allocating clients to relationship managers' portfolios in a manner that is efficient and at the same time straightforward for ensuring high standards while attending to the needs of clients of different sizes, business segments, and breadth of demand for banking services. The Ambition 2015 programme has further sharpened KB's focus on products and services for small businesses.

Development of financing remains a strategic objective in the small businesses segment. As the economy has recovered, entrepreneurs' demand for operating and investment loans has grown. The Profi loan remains a crucial product, preferred for its minimal administrative demands, speed, and parameters such that it corresponds to the needs of entrepreneurs and small businesses. The Profi loan FIX remains also a favourite. Its fixed interest rate and annuity payment offer the entrepreneur the certitude of constant monthly instalments for the entire loan term as well as insurance against inability to repay.

Interest grew for loans secured by guarantees from Czech-Moravian Guarantee and Development Bank (ČMZRB) and the Support and Guarantee Agricultural and Forestry Fund (PGRLF). In particular, programmes to support operational financing of small businesses met a positive response among both business clients and banks. The interest in funds from ČMZRB programmes and for financing apartment building renovations to improve energy efficiency under the Ministry of the Environment's Green Savings programme exceeded the funds available under these programmes.

Standalone Bank – Small businesses segment	2010	2009	Change %
Volume of drawn loans, credit card receivables, overdraft loans	CZK 25.6 billion	CZK 25.1 billion	2.1%
Number of loans	139,700	145,800	(4.2%)

The overall loan amount drawn in the Small Businesses segment surpassed CZK 25.6 billion in 2010, even as the cost of risk in this segment diminished.

The new Profi Bonus savings account offered entrepreneurs an attractive saving option without a notice period for withdrawal and with two-level interest earnings. Thus, it conveniently complemented the banking services in everyday use.

The Bank has focused on targeted and precise solutions to meet the needs of narrower client groups. Examples include new interest-bearing custody accounts for notaries, and, on the other hand, accounts bearing no interest but also no fees that are designed for specific purposes of clients in the public sector. The offer was broadened under the Optimum Medicum package for physicians and pharmacies, even as this attractive account has now been made available also to dental practitioners.

Dynamic growth continues in the area of payment cards acceptance. The new Profi payment terminal offer includes transparent conditions for obtaining a payment terminal quickly and with minimal administrative requirements.

In 2011, KB will introduce innovations in financing as well as everyday banking services and insurance. The primary focus of all the Bank's activities will remain on the client and his or her needs. The objective is for relationship managers to be true financial services advisors and partners to entrepreneurs.

Enterprises and Municipalities

Komerční banka maintains its leading position on the banking services market for large and medium-sized enterprises and municipalities. The Bank benefits from its stability, broad services range, reliability, and individual approach. Renewed interest during 2010 for financing within this segment was related to both developments in the economy and the possibility to receive grants from EU structural funds.

The volume of loans provided by standalone Komerční banka in the segment of Enterprises and Municipalities increased by 5.7% year on year to CZK 93.9 billion. Deposits declined by 0.9% to CZK 118.5 billion.

In the area of financing renewable energy resources, especially active were clients with photovoltaic projects. KB prepared and successfully introduced new approaches for financing biogas stations. The year 2010 provided confirmation that clients appreciate being served by specialised teams, and the Bank's experts are helping clients to achieve the most economical financing.

The clients' needs for advice in financing projects supported by EU funds have been developing. While previously clients had requested more general information on grant programmes and help in finding the most advantageous grants, KB's EU Point specialists were more frequently asked in 2010 to help with specific problems and non-standard situations that arise while implementing grant-funded projects. The number of EU projects for which advice was given was approximately the same as in 2009, but the clients drew substantially more loans for pre-financing or co-financing grants.

Komerční banka expanded clients' access to obtaining loans under advantageous conditions under a European Investment Bank (EIB) programme to support independent small and medium-sized entrepreneurs and also under the Guarantee programme of the Czech-Moravian Guarantee and Development Bank (ČMZRB) on the basis of contracts with these institutions.

In the municipalities and public sector segment, KB increased its financing during 2010 of projects to improve the appearance of cities and towns and to enhance quality of life throughout the Czech Republic. The Bank also developed expert advisory services in the areas of public contracts, budgets, optimal financing of development projects, and possibilities for safely earning returns on available funds.

Clients who use investment banking products obtained broader possibilities for on-line communication with the Bank through new functions of the KB eTrading application. The range of functions in the direct banking applications Mojebanka and Profibanka also was expanded.

A new client magazine directed especially to exporters, Export Journal, is keeping clients better informed. It brings them sector perspective, opinions of reputable experts on export-related matters, information on Komerční banka's products and services, as well as lighter, travel-related features.

As has become a tradition, KB organised a number of advisory and consultation events for its clients. It became a general partner to several republic-wide and regional professional conferences focused on using alternative energy sources, support to exporters, and corporate financing options. Traditional events included the annual export conference and regional export seminars held in co-operation with the agency CzechTrade, the topics of which focused on export and trade finance products. KB had a significant participation also at the International Engineering Fair in Brno.

The Ambition 2015 programme has set several important targets for corporate banking, including to increase efficiency in the process of providing loans, develop investment banking products, and support synergies between the KB Group and Société Générale.

Komerční banka in Slovakia

As part of the project to transform Komerční banka Bratislava, a.s. (KBB), a cross-border merger of Komerční banka and KBB, previously a subsidiary of KB, was executed. As of 1 January 2011, the branch was entered into the Commercial Register under the name "Komerční banka, a.s., pobočka zahraničnej banky" ("Komerční banka, a.s., branch of a foreign bank").

The purpose of the cross-border merger was primarily to strengthen business activities and to optimise operations in the Slovak Republic. The branch has shifted the focus especially to large and medium-size corporations. The position of KB's branch in Slovakia is strong in this area. It is able to call on the know-how of Komerční banka as parent company as well as the synergies within the KB and SG groups, thus enabling the branch to provide its clients comprehensive financial solutions. Toward this end, the product range also was modified. KB's branch in Slovakia offers standard banking services, including cash management, electronic banking, payment cards, financing, and investment banking products, as well as trade finance products, for which KB is the leading bank within the Czech Republic. An individual personal approach and products tailored to the requirements of the specific client are integral aspects of the services offered. The Slovak KB branch does not offer cash operations.

Top Corporates

The Top Corporates segment also perceived the economy's gradual stabilisation during 2010. KB saw rejuvenated activity among top corporate clients but also increasing competition. Nevertheless, Komerční banka managed to retain its leading position on the corporate clients market.

The Top Corporates Arm recorded moderate year-on-year decline in the areas of loans and deposit products, especially due to reduced activity in the investment banking products area. In the financing area, both the top corporate clients and the Bank remained cautious. The segment achieved a significant decrease in the cost of risk.

Komerční banka participated in a number of prestigious transactions. As a reference project, we would point to the settlement of ownership interests for the MND oil and gas group through an escrow account. This became the largest transaction of its kind in the modern history of banking in the Czech Republic.

The offer of cash management products was expanded. A new cash pooling solution permits clients unlimited, real-time use of the entirety of their funds on their interconnected accounts. This arrangement brings significant optimisation in managing the client's cash flow and reduces the need for financing from external sources.

The popularity of trade finance products continued to grow. In particular, KB saw an increase year on year in revenues especially from export financing and bank guarantees. Documentary payments also showed good development. The electronic service TF OnLine, which is in operation for more than a year, acquired hundreds of corporate users.

As a result of the intensive co-operation within the KB Group and Société Générale, a number of interesting transactions in financial leasing of movable property and in operational leasing were successfully completed.

Investment Banking

Positive macroeconomic developments in the first year following the crisis were reflected in the situation on financial markets. While the global financial crisis and subsequent recession had brought great volatility to the markets in 2008 and 2009, we witnessed a notable calming in 2010. The Czech currency's volatility returned to its pre-crisis levels, and the CZK/EUR exchange rate returned to its long-term trend of moderate strengthening. Due to the low inflation and enduring uncertainties, the CNB held key interest rates more or less stable at their historically lowest ever levels. Thanks to the parliamentary election outcome, which raised hopes of implementing necessary reforms in the areas of pensions, health care and the labour market (and consequently improved the fiscal outlook), the Czech government bond market remained relatively immune to the mounting debt crisis in some European countries.

The results from proprietary trading ended slightly below the original expectations. Considering the low volatility and continuing signs of low liquidity on the markets, however, the outcome in this area can be seen as successful.

Despite continuing uncertainty at the beginning of 2010, transactions with clients returned to their anticipated volumes through the year. In the FX area, clients remained rather more cautious than previously in their use of hedging, which will only change with time. In the area of interest rate derivatives, by contrast, KB recorded significant growth in demand for hedging that was supported by the record low interest rates.

The KB Debt Capital Markets team reinforced Komerční banka's leading position in the area of structured financings and syndicated loans. In total, 21 loan financings and 4 bond financings were successfully executed in 2010. The list includes a number of transactions where KB took on roles as mandated lead arranger, facility agent, or club co-ordinator. KB DCM has been able to draw on the know-how of Société Générale in specific areas of expertise, such as project finance and leveraged financings.

After the rather successful 2009, M&A advisory performed rather poorly in 2010. As the Czech M&A market declined by about ca 40% in volume terms and in a relative absence of large transactions, the M&A department did not succeed to participate in any big transaction. Continuing caution among bidders as well as still often excessive expectations of sellers contributed to only a minimal number of smaller transactions being closed. Early in 2011, there appeared to be slight upturn in the M&A business.

Direct Banking

In 2010, Komerční banka crossed the threshold of 1 million clients using at least one direct banking channel. Direct banking is thus used by 63.3% of all the Bank's clients. The largest increase, by nearly 18%, was recorded for the Expresní linka plus service, which reached the number of 69,000 clients. As of the year's end, Mojobanka internet banking was being used by some 722,000 clients and their number had increased by 12% in the full 2010.

KB's direct banking also contributes to sales of other companies within the KB Group. In addition to expanding the offer of Modrá pyramida building savings products, supplementary pension insurance from Penzijní fond KB, and the life insurance of Komerční pojišťovna, there successfully continued in 2010 telephone selling of the co-branded credit card from ESSOX. In the context of the new strategic partnership with Česká pojišťovna, KB also introduced a clients acquisition offer including advantageous account maintenance and other banking advantages.

An interesting innovation was the launch of a hitherto unique application permitting a client to arrange a meeting on-line with one's own relationship manager via internet banking. Scheduling a meeting through internet banking always includes up-to-date information as to the availability of the relationship manager. The client may thus plan the meeting according to his or her own preference and time availability.

KB has also provided a video guide on the website that helps clients in setting up their computers for purposes of direct banking, with setting up products and services, and with arranging those on-line.

In both telephone and internet banking, the direct channels have reinforced their positions as active selling tools. Within the whole of KB, 38% of pre-authorised credit cards and 10% of pre-authorised consumer loans were sold through direct banking channels.

During 2011, KB will focus especially on increasing user convenience of direct channel services and on further broadening the parameters for the individual products (such as for on-line set-up of payment card parameters in internet banking).

Payment Products and Operations

The trend toward growing use of payment cards for retailer transactions continued in 2010. The number of these transactions executed with the use of payment cards expanded year on year by 15%, and the overall volume reached nearly CZK 40.5 billion. The number and volume of ATM transactions moderately decreased for 2010 in comparison to 2009, with KB clients withdrawing CZK 118.5 billion.

Internet payments by payment cards comprise the fastest growing area. The number of KB card payments at internet merchants increased year on year by 41%. Correspondingly, the growth in issuing virtual payment cards, which are designed solely for internet payments, was 13% compared to 2009.

As of 31 December 2010, KB recorded 1.67 million active payment cards in its portfolio. Most of these (86%) are still debit cards. KB significantly expanded its network of merchants for accepting payment cards. As of the year's end, the Bank was accepting cards in over 20,000 establishments of more than 12,000 merchants (an increase of 8%).

KB has successfully completed the transition to the new, safer type of payment cards with the so-called DDA chip. From 1 January 2011, the Bank only issues cards with this chip. KB also has commenced activities in using contactless chip technologies. In September, KB introduced a mobile ATM at the International Engineering Fair in Brno. Hitherto, it was only the second bank in the Czech Republic to do so.

In the area of domestic interbank cashless payments, KB successfully automated and accelerated the continuous crediting of all payments following payments processing in the Clearing Centre of the Czech National Bank. Komerční banka now credits priority payments after 10 minutes and standard payments after 1 hour. A so-called second round for debiting of SIPO direct debit payments has been introduced. KB now automatically includes clients whose SIPO was not debited from their accounts at the first time of debiting due to insufficient funds into the second debiting round, which generally takes place 10 days later. More than 60% of payments not executed in the first round are made in the second round.

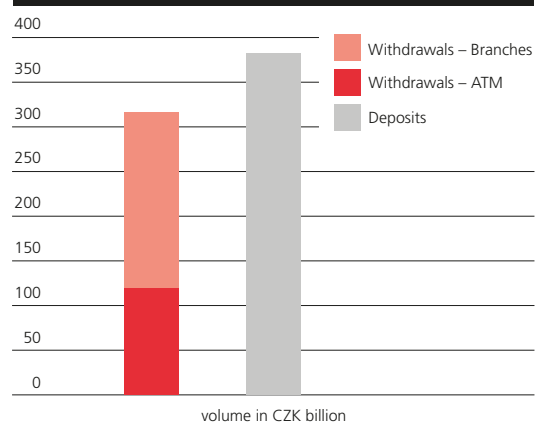
In its foreign payment operations, KB newly introduced the execution of foreign payments in other currencies not listed among those on the Bank's table of exchange rates. Payments can now be performed in 110 currencies to more than 160 countries. Also new is the possibility to set up standing orders in foreign currencies and in CZK abroad, as well as in foreign currencies to another bank within the Czech Republic.

As part of its Cash Centres payment operations project, Komerční banka has boosted the number of its branches from which cash containers from clients and cash counters at individual branches are sent for processing to a centralised cash-processing department in Prague. The number of Cash Centres will increase in 2011, and that will free up the branches' capacities for business activities while optimising cash processing.

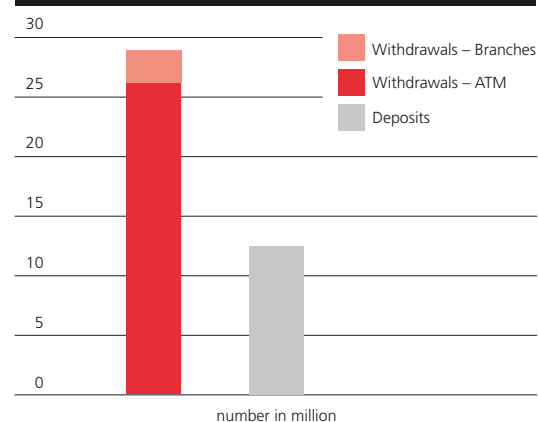
Komerční banka has joined a new project of the Czech National Bank, known as "multinominal banknote processing", which increases the quality of cash payment operations for the Bank and its clients.

The volume of cash deposits carried out by clients across the Bank's cash counters was CZK 380.3 billion (a decline of 5.8% compared to 2009). The total volume of withdrawals over the counter and by ATM reached CZK 314.7 billion (an increase of 3.8%). The total number of cash withdrawals over the counter and by ATM in 2010 was 28.9 million, representing a year-on-year decline of 2.7%. Withdrawals from ATMs account for 90.7% of all cash withdrawals at KB.

Volume of cash transactions in 2010



Number of cash transactions in 2010



Employees

An uneven development in unemployment characterised the Czech labour market in 2010. The unemployment rate was gradually decreasing from March to September, when it dropped to 8.5%. At the end of the year, the positive development gave way to a leap to 9.6% that was largely due to traditional seasonal factors.

This situation was reflected also in the turnover rate of employees, which, similarly to in 2009, remained on a low level at KB. The Bank's development dynamics were thus supported by the internal mobility of its employees.

At the end of 2010, Komerční banka had a total of 7,793 employees. Of these, 3,677 (47%) worked at the headquarters and 4,116 (53%) in the distribution network. KB was employing 879 people in Brno region, while 838 were in South-west Bohemia, 815 in Hradec Králové 803 in Ostrava, and 781 in Prague. Compared to the end of 2009, the overall number of the Bank's employees remained stable, decreasing by just 32 employees (0.4%). Compared to the same period from the previous year, neither did the number of employees at KB's subsidiary companies change. As of 31 December 2010, these companies employed a total of 865 people, an increase of 4 employees.

Komerční banka devotes great effort to bringing onto its team talented employees with the necessary skills and development potential. Toward that end, KB uses modern communication means and seeks diverse opportunities to present itself in the labour market. One interesting project, for example, was to participate in the first virtual Czech and Slovak job fair.

Ambition 2015 in human resources area

In 2010, Komerční banka launched a number of human resources initiatives under the umbrella of KB Ambition 2015. These were conceived based upon results of employees' surveys and also expert studies. Projects of Human resources of KB involved, among others, the areas of corporate culture, motivation and employees' development and career growth. Great efforts were devoted to improving the quality of managerial work, enhancing individual approach towards employees needs and supporting staff mobility between the headquarters and distribution network. As part of the changes, the Bank pursued further improvement of the Talent management programme and enhancement of its desirability on the labour market.

The first output from the Ambition 2015 programme in the human resources area was an innovative training course for the entire sales team named "KB, the Clients' Bank" in late 2010. The purpose of the extensive training was to strengthen the selling skills of the banking advisors while improving the clients' experiences with KB. Also part of the training was a section for managers dedicated to supporting their subordinates in using new processes and tools.

KB as an Equal Opportunity Employer: Programmes for Specific Populations

KB's fundamental vision in the human resources area is to create a long-term partnership with the employees, a prerequisite for which is to offer attractive professional and career development. With the aim to provide equal career opportunities for all employees, including those populations disadvantaged in the labour market, Komerční banka initiated in 2008 the CARMEN, career management programme. In 2010, KB addressed improving the quality of its offer to individual employee groups within this programme.

For those on maternal and parental leaves, the Bank launched an information and communication portal. Komerční banka continued its active support of flexible working arrangements with the intention of increasing the recovery back to KB of employees taking parental leave and to facilitate their integration into the working process. Since 2008, the recovery rate of employees from parental leave has improved by more than 7%.

One of the groups upon which KB focuses when acquiring new employees are students and graduates of tertiary education institutions. In 2010, the Bank offered them participation in the fourth season of the international game Citizen Act, as well as recruitment for the position of inspectors (Inspecteur Général) in Société Générale. For new graduates who became KB employees, the Bank organises the integration development programmes ConnectinG and ConnectinG+.

KB pays close attention to the development of talented employees. In 2010, the Bank worked on improvements in the offer for talents based on their feedback and also on extending the Talent Management programme across the Group. In 2010, 289 employees were included into the Talent Management Programme.

In the area of employing persons with disabilities, Komerční banka maintains its established policy. It attends and conducts events for the disadvantaged with the aim of supporting them in realising their potential in the labour market. In 2010, KB welcomed students of the Jedlička Institute's secondary vocational school to the Na Příkopě 33 branch. Managers acquainted the students with financial issues and prepared a lecture on job searching and conducting oneself in job interviews.

Employee Training and Personal Development

Komerční banka follows the principle that its employees' education and development should correspond to actual needs related to their performance in a given position. KB considers internal knowledge transfer a natural part of employee development, both in the forms of training courses and internships. The Bank also is continuously

expanding the range of its e-learning programmes, for both instruction and testing. The average number of training days per employee increased year on year in 2010 from 4.5 to 5.1.

Komerční banka has created a coherent system of developmental and integration programmes which comprehensively covers the education of key employee groups. The programme Starting is designed for all incoming employees. All fresh graduates from tertiary institutions are included in the ConnectinG programme, the purpose of which is to facilitate their integration into KB. ConnectinG+ is a follow-up programme, whereby graduates with the greatest potential gain deeper insight into the functioning of the entire KB Group. The development programme system culminates in the ChallenginG programme for future managers.

Training courses focused on strengthening and broadening professional skills and improving client satisfaction are conducted under the heading Ambition 2015. The individual training courses are continuously being prepared as the product and services offer to clients is innovated.

Remuneration, Commitments to Employees

Komerční banka fulfilled its obligations to employees regarding basic wages and provision of employee benefits under the collective agreement and its amendments in effect for 2010.

Employees of KB and subsidiary companies were for the seventh time offered possibility to subscribe shares in the Société Générale Global Employee Share Ownership programme. The Bank also expanded its co-operation with the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry, which consists of providing and paying for preventive medical care beyond the medical care covered by public health insurance. In addition, the company Kardia offered to the employees new medical care, the so-called PREVENT INDEX, which screens for a number of health risk indicators.

Risk Management

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies. In its policies, the Bank takes into consideration developments regarding all types of risk, i.e. credit, market and liquidity risks, as well as regulatory, legal, concentration, operational and environmental risks.

Credit Risk Management

Risk management units closely co-operate with the business units in order to support the Bank's business activities and to make the credit process more efficient while closely monitoring the quality of KB Group's risk portfolio. The continuous strengthening of credit risk management takes in all its components, including policies, tools, processes and staff expertise.

The credit risk audit activity was transferred to the Bank's Internal Audit in April 2010 to further strengthen its independence and to integrate internal control processes in line with Société Générale Group principles.

Loan origination and credit risk monitoring

Enhanced credit risk management plays a role not just in preventing risk, but it also significantly supports the Bank's business activities, including to better utilise business synergies within the Group.

Principal activities in 2010 were focused on:

- optimising approval and monitoring processes to support business activities,
- proactively preventing credit fraud,
- supporting KB Group synergies, and
- integrating Basel II components and results.

Optimising approval and monitoring processes to support business activities

In 2010, the Bank focused mainly on the following areas: updating models for credit risk management so that they optimally reflect both current developments in the macroeconomic environment and KB's stipulated business targets, regularly analysing profitability with the aim to optimise granting criteria for the Bank's credit products, and further improving the efficiency of regular monitoring while focusing on risk profile development and the quality of risk tools and models. As in previous years, the results of regular stress testing played a substantial role in all these areas.

In the individual clients segment, the Bank focused especially on further improving behavioural models and procedures that enable fast and simple granting of basic credit products. The current model evaluating clients' KB and Modrá pyramida data has been significantly extended by evaluating data from other Group entities, Penzijní fond KB and Komerční pojišťovna, as well as the IKS KB asset management company. This adjustment further increased the precision and potential of the behavioural approach to providing credit. Furthermore, the Bank implemented a new behavioural model for granting prestigious Platinum credit cards to affluent clients that is based on assessing a wider spectrum of information.

In the small business segment, the Bank initiated a process to update all rating models with the aim to reflect both the crisis experience and expected development in the macroeconomic environment. The updated models will be implemented in the first half of 2011.

The Bank has also improved the LGD (Loss Given Default) models for both aforementioned retail segments to reflect the latest developments in recovery efficiency and improvements in the model for recovery costs allocation.

Based upon results from back-testing and stress testing of rating and LGD models, the Bank initiated a regular process of risk–profitability assessment with the aim to optimise the setup of granting criteria for credit products. The adjusted criteria will be implemented in the first quarter of 2011.

In the corporate segment, KB implemented updated rating models reflecting experience from the economic crisis and hence more precisely assessing clients' risk profiles. In addition, an existing rating model for municipalities was recalibrated to provide results that are consistent with the long-time expert assessment of this segment.

All KB scoring, rating, LGD and EAD models were back-tested quarterly, their quality was carefully monitored, and any deterioration triggered corrective measures. KB intensively monitored portfolio in order to maintain the Bank's capacity to efficiently control developments for particular risk characteristics.

Proactively preventing credit fraud

During 2009, KB had conducted an extensive project with the aim to develop an automated system for identifying and coordinating reaction to suspicion of credit fraud. The new system had been implemented at selected branches (pilot mode) in the last quarter of 2009. In 2010, that system was successfully extended to the entire distribution network. The new system is fully integrated into the Bank's key applications, and its use across the entire KB Group is planned.

Supporting KB Group synergies

The Bank extended its behavioural scoring model so that it evaluates not only data from KB and Modrá pyramida but also clients' data from IKS, Penzijní fond KB, and Komerční pojišťovna. That improved and extended the possibility to grant consumer loans or credit cards to the clients of the Group.

As in previous years, KB supported several of the Group's entities in developing rating models (Modrá pyramida, Factoring KB and SGEF), and it also advised on optimising granting processes (Modrá pyramida).

Integrating Basel II components and results

KB Group uses two advanced approaches for calculating risks: the "Advanced Internal Rating Based" (AIRB) approach for credit risk and the "Advanced Measurement Approach" (AMA) for operational risk. During 2010, ESSOX implemented new AMA model for operational risk measurement.

Capital adequacy ratio of KB Group slightly improved during 2010 mainly thanks to increase of regulatory capital. Capital was increased by undistributed profit from 2009.

In 2010, KB focused on a deeper integration of Basel II components and results into its business processes – both within the Bank itself and in its subsidiaries. The Group will continue this integration in 2011 in order to optimise its capital allocation and profitability measurement.

Capital adequacy (as of 31 December 2010 in CZK billion)	Capital Ratio	Capital Ratio Tier 1	Total Capital Requirement	Credit Risk Capital Requirement	Market Risk Capital Requirement	Operational Risk Capital Requirement
KB Group	15.27%	13.95%	27.5	23.3	0.7	3.5
Standalone KB	16.67%	15.19%	24.6	20.9	0.7	3.0

Komerční banka closely monitored the proposed changes in legislation on capital requirements known as Basel III. According to the first estimates, the new regulation will have only limited impact on KB due to its already solid capital position.

The Bank continues in regular stress testing as an integral part of its risk management. Stress testing results in 2010 confirmed that KB would meet the regulatory requirements on capital adequacy even in the case of an unexpected negative development in the Czech economy.

Provisions

The Bank classifies all its assets arising from financing activities into five categories according to Czech National Bank Decree No. 123/2007, taking into account both quantitative criteria (payment discipline and financial statements) and qualitative criteria (in-depth client knowledge, as well as the client's behaviour and history). Since 2008, and in compliance with Basel II rules, the contagion principle has been implemented in classifying co-applicants and guarantors in relation to defaulted receivables.

All significant impaired exposures are assessed individually, and at least every quarter, by three levels of provisioning committees or, whenever required, by recovery specialists. Provisions are established upon the present value of estimated future cash flows to the Bank and after considering all available information, including the estimated value of collateral and the expected duration of the recovery process. The remaining receivables (especially from the mass retail segment) are provisioned based on the EL (Expected Loss) and ELBE (Expected Loss Best Estimation) statistical models that reflect the specifics of the given receivables (client segment, product type and risk classification). These models were developed in accordance with the Basel II requirements and were implemented in August 2007. In November 2009, the provisioning models were updated with respect to updated EL and ELBE values based on the latest loss observations and new risk drivers while reflecting the phase of the economic cycle. Based on regular models back-testing on a quarterly basis, the Bank confirmed the EL and ELBE values' validity also for 2010.

Real estate valuation

In compliance with Czech and Basel II rules and regulations, the valuation and monitoring of real estate collateral accepted by the Bank as security for corporate and retail loan exposures is delegated to a dedicated team. This team of internal specialists is part of the Bank's risk division and co-operates with a broad group of external valuation experts.

The Bank focused during 2010 on monitoring the residential real estate market in order duly to identify negative developments and implement adequate measures. Due to observed material decline of market prices in some regions, a collective decrease in collateral values for properties located in these regions was recorded in 2010's fourth quarter. In line with this activity, an annual process was established for regularly reviewing discount factors used in updating residential property values.

Commercial real estate is revalued in accordance with Basel II rules as an integral part of the regular monitoring activity.

Recovery activities

The Bank's recovery activities were marked by still weak economic development and the aggravated financial situations of some clients. This put the recovery performance under pressure, as, for example, recovery periods were extended due to greater use of judicial proceedings for recovery and increasing complexity in recovering real estate collateral.

Given the increased portfolio volume in recovery, the Bank continued in optimising its recovery capacity and processes. For instance, the use of external capacities covered approximately 17% of the total portfolio exposure in recovery and represented 82% of the total number of clients in recovery. During 2010, the KB also continued in regular monthly auction sales of unsecured retail receivables to selected investors in order to maximise the recovery rate. A main focus is on further automating recovery processes, including to replace the existing recovery application with a new one.

Increased attention was devoted to implementing amendments to the bankruptcy law within the Bank's recovery processes. KB also made active use of reorganisation processes for cases of client insolvency.

Capital Markets Risks Management

The Capital Markets Risks Department is responsible for managing market risk and counterparty risk in KB Group's capital markets activities. In order to ensure proper segregation and independence of its activities, this department reports directly to the Bank's Chief Risk Officer as well as to Société Générale Group's Market Risk Division. Market risks within Komerční banka are managed in accordance with the following principles, which are regularly reviewed by the Board of Directors:

- All risks are systematically and regularly monitored, and they are reported independently from business units.
- Methods for measuring risks and control procedures are defined and approved by Komerční banka's management and Société Générale Group's Market Risk Division.
- Limit applications are processed based on requests from business units and within the global limits established by the Board of Directors.
- All regulatory requirements are meticulously controlled.

Investment banking new product policy

Prior to their launch, new capital market products are comprehensively analysed by all relevant units of the Bank. Following this analysis phase, and provided that all risks are deemed acceptable, formal approval is granted by the Investment Banking New Product Committee that is co-chaired by members of the Board of Directors responsible for risk and investment banking.

Market risk management methods for the trading portfolio

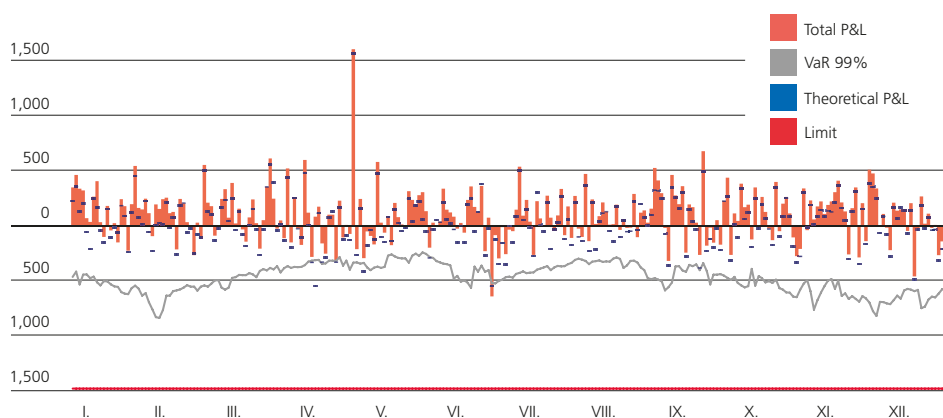
Assessment of market risks in the trading portfolio of KB is based on three main types of indicators that are used to quantify limits and measure corresponding exposures:

- The Value-at-Risk (VaR) historical simulation method (see details below), calculated with a 99% confidence level and a one-day time horizon. All open positions of the trading portfolio are subject to VaR computation.
- Measurement using crisis scenarios (stress testing) takes into account low-probability events not covered by VaR. The Bank performs several types of stress tests for underlying asset exposures in the foreign exchange, interest rates and equity areas. Shock scenarios are calibrated based on historical studies or hypothetical analysis and are regularly reviewed.
- Additional limits are used to measure interest rate sensitivities, FX positions, and credit spread sensitivities. The system of limits provides a comprehensive picture of market risks undertaken and of investment strategies.

Value-at-Risk method

Komerční banka has been using the VaR historical simulation method since 2003. The method uses scenarios simulating one day variations of relevant market parameters over a period taking in the last 250 trading days and allows simple consolidation of the VaR indicator within SG group. The method is based on historical scenarios and takes into account the correlations between various financial markets and underlying instruments. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable scenarios. This loss is calculated as the average of the second and third largest possible losses from the 250 scenarios considered.

VaR vs P&L – 1 Year History



Back-testing

The accuracy of the VaR model is tested on an ongoing basis. The back-testing consists of comparing trading results (both the actual daily result and a hypothetical result, i.e. excluding profit and loss from deals concluded intraday) with the VaR indicator. The number of excesses ought not be greater than 1% of days over a given time period. Inasmuch as the market conditions gave rise to some new risk factors which are not fully captured by the current model, daily losses (real or hypothetical) in 2010 exceeding the 99% VaR occurred in 2% of the days over the full year. A major project for improving the VaR calculation by implementing a more sophisticated VaR model will be launched in 2011 in collaboration with Société Generale's Market Risks Department.

Counterparty risk on capital markets activities

In the field of counterparty risk from capital markets activities, the principle of pre-authorisation (ensuring there is authorisation prior to executing any trade with a counterparty) is systematically applied for all capital markets transactions. Limits monitoring encompasses KB structural and trading book operations on capital markets but also all KB subsidiaries, namely the structural book transactions of Modrá pyramida and Penzijní fond Komerční banky. Front office dealers are provided daily with available limits for clients. Any breach of limit is immediately reported to the relevant level of management within the Bank. The Board of Directors is regularly informed of all limit breaches on a monthly basis.

The measurement of counterparty risk arising from derivative products sold to the Bank's clients is based on the Credit Value at Risk (CVaR) indicator. Using Monte-Carlo simulation, CVaR quantifies the potential replacement costs associated with a client of the Bank in case of that client's possible future default under the given market conditions and taking into consideration such specific parameters as the type of derivative product, time to maturity, nominal amount of the transaction, and volatility of the underlying asset. With a confidence level of 99%, CVaR measures the Bank's maximum risk arising from its derivative deals concluded with a specific client. It thereby quantifies counterparty risk in cases of adverse market scenarios.

Asset and Liability Management (financial risks and liquidity)

ALM and ALCO in KB Group

Komerční banka's Asset and Liability Management department (ALM) designs measurement methods and manages the Bank's interest rate, liquidity and foreign exchange risks and, as an intermediary, also those of the Group. This is because KB ALM methodically oversees the processes and procedures of asset and liability management within the individual entities of KB Group, as well. ALM aims to achieve stability in the financial results by minimising the impacts from changes in interest and exchange rates while ensuring at all times the sufficient availability of liquid funds. ALM provides this optimisation of KB Group's financial performance by means of transactions approved by the Assets and Liabilities Committee (ALCO).

The ALCO, whose members are, among others, members of the Bank's senior management and, as observers, SG Group representatives, approves rules and methods used in managing the aforementioned risks. The ALCO oversees the level of risk taken on and the proposed hedging transactions that the Bank executes in order to reduce risk.

All ALM activities fully comply with rules of the Czech regulatory authorities and with relevant international banking regulations.

Funding of KB Group

Client deposits comprise a crucial part (approximately 80%) of the Group's total liabilities and shareholders' equity, and these include current and savings accounts, term deposits, and deposits of pension scheme subscribers. This figure remained stable throughout 2010. Within the Group, Komerční banka itself holds – at around 80% – the largest proportion of these accounts (of which around 55% is current accounts), followed by Modrá pyramida with more than 10% (building savings) and Penzijní fond KB with approximately 5% (deposits of pension scheme subscribers).

In addition to the broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues and loans taken. Komerční banka continued to issue debt securities during 2010, which totalled CZK 1.8 billion in nominal value. As of the end of 2010, the total nominal amount of mortgage bonds and other debt securities placed reached CZK 30.5 billion, of which CZK 17.3 billion is placed outside KB Group.

The Bank's liquidity and capital adequacy continued to be increased by a subordinated loan in the amount of CZK 6 billion with an interest rate tied to 1M PRIBOR, which was taken at the end of 2006 in order to support the Bank's long-term growth potential while optimising its capital structure.

KB Group's liquidity – monitoring and management

Liquidity risk management is primarily designed to ensure that KB and the entire Group can meet their payment obligations at all times. This includes maintaining adequate volumes of cash as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily increasing the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management, which minimises the occurrence of unforeseen payment demands during a given period. This primary objective is achieved by way of managed coverage of the Bank's maximum anticipated cash-out with a very high confidence level of 99% over a sufficiently long future period (one year).

A liquidity snapshot broken down by currency – CZK, USD, EUR and others – is monitored on two levels of market behaviour: normal and stressed scenarios. Sufficient liquidity is controlled using a system of limits. To achieve these, KB uses on balance sheet instruments (e.g. bond issues, loans taken) and off balance sheet instruments (cross currency swaps, foreign exchange swaps). Both normal and stressed liquidity scenario methodologies are updated as needed in order to achieve more precise liquidity measurement with the goal of maximising correspondence – and especially in the key deposits area – between the modelled estimated product maturities and actual payments.

The Group continually records high liquidity. During 2010, it covered all its liabilities from its internal resources without problems, and thus it had no need to obtain secondary funding in financial markets (e.g. by issuing securities). The ratio of client loans to client

deposits was below 72% at the end of 2010. This level of liquidity reflects, among other facts, a preference for assets with shorter maturities when reinvesting client deposits. By using interest rate derivatives, the Bank achieves greater independence between liquidity management and managing interest income (interest rate risk) even as it achieves a stable interest margin while holding assets with short maturities. The level of liquidity is clearly demonstrated by the Bank's ability to cover an approximate 30% outflow of all client liabilities during the course of one year without great problems. The Czech National Bank adopted a provision at the end of 2008 that KB perceives as strengthening the banking sector's liquidity. The central bank implemented delivery repo operations through which it lends cash to banks against a pledge of specifically enumerated securities.

Structural interest rate risk of KB Group – monitoring and management

KB Group has divided its business activities according to their nature into the Structural Book and Market Book. Transactions executed with clients through the branch network typically fall within the Structural Book while operations on the interbank market belong in the Market Book. Interest rate risk is measured and managed separately for the Structural and Market books. Structural interest rate risk is defined as the risk to the Group of potential loss due to changes in market rates.

With regard to structural interest rate risk, Modrá pyramida and KB are the most significant members of the Group. The Group manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity analysis) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of the volatility of future interest income. KB also has implemented an asset and liability management system supplied by SUNGARD, which has been used since 2008 in Modrá pyramida as well. The aim of the Group is to minimise structural risk and not at all to speculate on interest rate changes. To this end, the Group has established limits close to zero, which must not be exceeded. The reasons for limits close to zero are only technologically related and ensue, for example, from the time needed for processing large volumes of data. The Group in 2010 did not exceed this limit, and thus it can be considered that structural interest rate risk was minimized.

The Bank uses such standard market instruments for hedging against interest rate risk as interest rate swaps (IRS) and forward rate agreements (FRA), as well as investing in securities. All deals are immediately entered into the front office system, where they are recorded and priced.

Securities are for the most part held by the Group in the available-for-sale (AFS) portfolio, even though the Group does not acquire them with the intention to sell them before maturity. The reason for this choice of portfolio lies in the fact that the held-to-maturity (HTM) portfolio, which would be more appropriate in terms of accounting (as a bond is maintained at amortised cost, and mark-to-market valuation does not occur), has strong restrictions with potential negative impacts of a fundamental nature and therefore it is the strategy of the SG Group overall to minimise use of the HTM portfolio. The amendment to the law on pension schemes effective in 2009 allows the use of HTM securities portfolios in pension funds. The Group has taken advantage of this opportunity and introduced the HTM portfolio treatment also in Penzijní fond KB, because, in the Group's opinion, the use of HTM and related accounting better reflects the corresponding long-term nature of investing the pension participants' funds.

As the overall aim of ALM is to ensure stable interest income into the future, these hedging transactions are acquired mainly against liabilities with stable interest rates. KB purposely uses the term "stable" rather than "fixed" interest rates, because the rates of some deposit products are neither floating nor fixed in the true sense of the word, but they do correlate with market rates in some way, and the Bank's aim, moreover, is to put together assets so that they correlate with market rates in a similar manner.

From an accounting viewpoint, bonds in the AFS portfolio and the majority of hedging derivatives for cash-flow hedging are revalued by marking to market only in the statement of financial position (directly to the shareholders' equity accounts) and thus without impact on the profit and loss statement. Only in the case of a sale of these instruments or the termination of a hedging relationship (for derivatives) would such an impact occur. As a result of the accounting treatment for bonds in the AFS portfolio and of hedging derivatives, the shareholders' equity account will be affected by the impact of revaluation of both types of instruments to market value. The special nature of the shareholders' equity account for the revaluation of these instruments, however, is such that it does not represent relevant information about the influence on the value of the Bank, as only selected types of instruments are revalued and not all of them as a whole. That is given by the fact that only a selected group of instruments (a group of instruments for which there exists general agreement on how to measure their market values) is represented in this account and the remaining part of the balance sheet is exempt from revaluation on the mark-to-market principle and continues to be recorded according to the accrual principle.

Because only a single side of the interest rate position is revalued and the other remains based on the accrual principle, with increasing rates in the market the value of this capital account will decline and may even acquire negative values.

Interest rate derivatives (derivatives for hedging risk in the Structural Book) are accounted for in accordance with the valid accounting regulations (including IAS 39) in order to achieve the most accurate accounting presentation. KB has worked out a detailed strategy of interest rate risk management that includes descriptions of which derivatives are allowed, how these may be used, and the procedures for their accounting valuations.

Structural foreign exchange risk of KB Group – monitoring and management

Structural foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis. The Group's position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the Structural Book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in KB itself. The maximum open foreign exchange position of the Structural Book in 2010 was less than 0.15% of the Bank's capital and thus essentially negligible.

Price setting

Client interest rates and the methodology for setting them in accordance with external conditions are established by the Commercial Committee, in which members of the Bank's senior management are represented. ALM provides for issuing KB's foreign exchange rate list, sets or proposes the external interest rates used for deposit products, and determines the Bank's base lending rates from which loan rates are derived.

By means of a special intranet application, ALM also supports the distribution network in carrying out KB's internal loan-pricing. This application provides the Bank's relationship managers with a direct connection to ALM experts who provide them with exact pricing for individual loan transactions.

The price-setting strategy is to offer clients products bearing competitive interest rates while always taking into account costs connected with the price of liquidity and hedging against interest rate risk and so that the margins and financial stability are preserved even despite possible changes in market conditions.

Influence of the financial crisis and recession on KB Group's market risk and outlook for the future

KB Group is governed by a conservative investment policy, thanks to which it did not invest funds into so-called "toxic assets". Consequently, it was unaffected by the immediate impacts arising from the first phase of

the financial crisis. The Bank has preferred investments in assets bearing low risk. Government bonds have always been considered as such. Deterioration in the credit profiles of several European countries needs to be perceived as one of the secondary impacts of the financial crisis, caused by a combination of those states' high indebtedness and limited competitiveness. KB's exposure to more endangered sovereigns in the euro zone is limited and does not affect its financial stability. Potential impacts could be expected in the case of restructuring the government debt of those countries whose debt is held by the Bank. The impact would take the form of a decrease in the Bank's profit for the respective accounting period.

Deterioration in the market environment creates another form of impact from the crisis. The Bank must face up to that just as do all other economic entities. This means mainly increased instability in the market and its diminished functionality, as only short-term trading still prevails. The Bank, however, remains independent of secondary financial resources, and it therefore does not expect material negative impacts in relation to the aforementioned situation.

KB Group is generally overcoming the impacts of the crisis without substantial problems. Komerční banka's liquidity is at a very good level, which is manifestly documented by its ratio of client loans to client deposits that is less than 72%.

To a large extent, increase in regulatory requirements in the banking industry also can be attributed to the financial crisis. The new regulatory concept known as Basel III focuses primarily on the definition of capital, increase of banks' capital adequacy and liquidity, and implementation of the new leverage ratios.

Since the structure of KB's capital is not complicated, the expected decrease due to the new calculations for regulatory capital is very limited and this arises mainly from limits on the inclusion of minority capital from the consolidated subsidiaries and from other deductible items. KB meets also the newly defined minimal capital levels, because its current level of capital adequacy is well above the increased regulatory requirement.

Komerční banka has conducted a preliminary assessment of its liquidity in view of the newly defined Liquidity Coverage Ratio and Net Stable Funding Ratio. Required levels for both ratios would be safely met, as the Bank's overall liquidity is solid.

Although the regulators are still contemplating what will be the target level of the required leverage ratio, at the time of preparing this report a level of 3% has been indicated. The healthy position of the Bank is confirmed by this indicator, as well, thus providing KB significant room for further growing its business.

KB continuously assesses regulatory developments so that it remains ready to reflect regulatory changes. According to the Bank's current knowledge, the proposed regulatory amendments within the Basel III concept will probably not have significant negative consequences for Komerční banka.

Compliance Risk

Compliance risk is the risk of breaching regulatory rules and standards of ethical conduct, including such standards to which the Bank has made a specific commitment. The potential negative consequences include litigation with regulatory institutions and clients, monetary damages (fines or compensation for damage), and injury to the reputation of Komerční banka. The responsibility for compliance risk management in KB is dual in nature: It is the responsibility of the Compliance Department as the central unit for managing compliance, but it also is the obligation of all managers and employees to know and comply with the legal regulations and standards that apply to them.

Key tasks in the compliance area include to define principles and processes for the compliance function, for preventing the risk of money laundering and financing of terrorism, and for ensuring compliance with legal regulations related to financial markets, banking law, consumer protection, consumer data protection, and fair competition. The Compliance Department is also responsible to create rules guiding employees in their ethical behaviour. The Bank advises its subsidiaries in these areas and ensures that the compliance risk management is efficient.

The main objectives which the Bank established for 2010 in this area were achieved. As its first priority, KB successfully adopted the requirements of the new law on consumer credit which incorporates the obligations set out by a European Union directive into Czech law. These obligations relate mainly to providing information to consumers before conclusion of the consumer loan contract, as well as during its duration. New and forthcoming regulations, primarily EU requirements for capital management and credit exposures also were closely monitored.

At the beginning of 2010 the process of validation of new retail and corporate products has been modified as the New Product Committee for Corporate and Retail Banking has been established. The objective of the Committee is to ensure that before the launch of the new product all types of risks have been clearly identified, assessed, understood and accepted. Composition of the New Product Committee co-chaired by Executive Directors of Risks and Marketing ensure comprehensive analysis by all relevant Bank departments. Functioning of the Committee thus effectively complements the model of validation of new investment banking products.

Among the main tasks of the Compliance Department for 2011 are to focus on monitoring regulatory developments expected to include a number of new European Commission initiatives on consumer protection, assessing their impacts for the Bank, and eventually managing their implementation in practice.

Operational Risk

The Bank intensified interconnection of its tools for managing operational risks (including for monitoring, assessment, and operational risk control) with those used for calculating the capital requirement for this type of risk. KB has been applying the Advanced Measurement Approach (AMA) for this purpose since 2008. The aim was to increase efficiency of the operational risk processes while focusing especially on the Bank's most sensitive activities.

In addition to the standard tools utilised within the AMA approach, such as collection of data on actual operational risk losses, risk control self assessment, key risk indicators and scenario analysis, the Bank implemented also a system of permanent supervision composed of daily and formalised controls. The system of controls was reviewed during 2010 at the level of the Bank's individual arms, to ensure that it reflects the results of risk self assessment and the changes in KB's processes and organisation.

Active operational risk management is ensured by means of the Operational Risks Committee, which determines Komerční banka's overall strategy in the area of operational risk. The committee also adopts appropriate steps in case of any negative development and approves principal changes in the insurance programme utilised in the Bank for mitigating impacts of operational risk events.

During 2010, KB recorded 533 operational risk losses in a total gross amount of CZK 68 million. While in a year-on-year comparison the Bank recorded a significant decrease in the volume of such losses, this in fact reflects an extraordinary loss incurred in the first quarter of 2009.

The consolidated management of operational risk underwent important changes. The ESSOX subsidiary received regulatory approval to apply AMA in the consolidated operational risk management as of 1 January 2010 (on a standalone basis, ESSOX is not required under Basel II to hold regulatory capital). Closer co-operation was also developed with the remaining members of KB Group, even if they still applied the standardised approach.

Business continuity

Business continuity management is a comprehensive scheme comprising methodologies and procedures to ensure that specified business and support functions can be continued or recovered on a timely basis in case of their disruption. The aim is to minimise the operational, financial, legal, reputation and other consequences of such disruption. To achieve this aim, documentation for business continuity has been elaborated, which includes the analysis of business impacts, a recovery strategy, as well as crisis management and business continuity plans. The plans are meticulously and continuously tested. All main business and supporting activities are covered by appropriate business continuity plans.

Information security

KB is aware of the importance of information for its business. With regard to the importance and sensitivity of information that the Bank acquires, processes and archives, it duly secures data throughout the data life cycle.

Legal Risk

KB reduces its legal risks with the support of a team of expert lawyers when concluding and executing trades and contracts, introducing new products and processes, and preparing standard contract forms. The Legal Department provides information about currently valid, proposed and pending law, as well as about significant judicial decisions with potential to influence KB. It also represents the Bank before the courts, financial arbiter and enforcement authorities. It co-ordinates with KB's subsidiaries in the legal area.

The main events in the legal area in 2010 included establishment of the central securities depository in the Czech Republic, an amendment to the Consumer Protection Act, and the cross-border merger of KB and KB Bratislava. During 2011, the Legal Department will continue its active co-operation with the Czech Banking Association on analysing draft legislation, it will inform the Bank about new legislation and it will review all standard contract documentation in KB for compliance with Czech and EU regulations.

Internal Audit

The Internal audit function in KB benefits from a flexible organisational structure implemented as of 2009. On 1 April 2010, credit risk audit became a part of Internal Audit's responsibilities, having been shifted from the Risk management unit.

The activity in 2010 focused on covering the most important risks and functions of the Bank while fully controlling all regulatory requirements. Overall, 94 audits were completed (including 32 special investigations). The audits covered both the distribution network and head office units, and they were directed also to certain companies providing KB with outsourcing services.

Within SG Group, a global division for internal audit and control was set up as of 1 April 2010. With a matrix structure based on a geographic principle, it merged internal audit departments in various companies of SG Group into regional centres. KB's Internal Audit became one of the centres, consolidating auditors from all SG Group companies in the Czech Republic. It stands ready to provide audit services also to other SG Group entities in Central Europe (the Czech Republic, Slovakia, Poland, Hungary, Lithuania, Latvia and Estonia). Operating expenses incurred in the auditing will be charged to the audited companies. Preparations commenced in 2010 for implementing the new structure after the respective contracts were to be signed at the turn of 2010 and 2011.

Environmental Risks

In its operations, Komerční banka fulfils all legal requirements for protecting the environment and it regularly monitors a number of environmental indicators as to the Bank's influence on its surroundings. Voluntary measures adopted to reduce environmental impacts are described in the Corporate Social Responsibility chapter.

Komerční banka Financial Group

As of 31 December 2010, KB Financial Group comprised seven companies. Of these, KB held majority interests in six companies and a 49% share in Komerční pojišťovna.

In addition to its ownership interests in the Group, KB has maintained strategic interests, where it has ownership of 20% or less, in Czech Banking Credit Bureau, a.s. (20%) and Českomoravská záruční a rozvojová banka, a.s. (13%).

With the aim to develop most effectively and to maximise the use of all potential synergic effects, KB Financial Group continued during 2010 in developing close business co-operation with individual companies within the KB Group and with other members of the Société Générale Group operating on the Czech market. Special emphasis is given to developing new products and innovating proven ones while improving joint coordination in business areas and in distribution. This co-operation results in an optimal and comprehensive range of products for individuals as well as for corporate clients.

Changes in Ownership Interests in 2010

In May 2010, the owners' equity was reduced in the company Bastion European Investments S.A. (hereinafter also "Bastion") by EUR 2 million (CZK 57 million). As the majority shareholder of Bastion, only the Bank participated in this decrease. The reduction in shareholders' equity had been planned.

In June 2010, the Bank's Board of Directors approved the report of the liquidator of ALL IN REAL ESTATE Leasing, a.s., in liquidation, who had proposed distributing the expected liquidation balance of CZK 2 million and it instructed the liquidator to propose striking the company from the commercial register. The company was deleted from the commercial register as of October 2010.

In July 2010, the share capital of Komerční pojišťovna was increased by CZK 301 million from retained earnings by increasing the nominal value of the shares.

Based on a decision by the Bank's Board of Directors from July 2010, the shareholder's equity of Penzijní fond Komerční banky was decreased by CZK 300 million by paying out additional paid-in capital which had been invested in May 2008 to strengthen that company's financial position. A decrease of other capital funds is not subject to recording in the commercial register.

In October 2010, the Bank's Board of Directors decided to increase the shareholder's equity in Modrá pyramida by subscribing additional shares in the total value of CZK 550 million in order to strengthen its financial position. The registered shares were fully paid up in November 2010.

At 1 January 2010 as effective date the Bank merged with its 100% controlled subsidiary Komerční banka Bratislava, a.s. (hereafter 'KBB') as cross-border merger. The merger was entered in the Commercial Register at 31 December 2010 and KBB was dissolved without liquidation. The purpose of the merger was to improve the quality of services for corporate clients on the Slovak market. At the same time, as of 1 January 2011, a branch of the Bank was established in Slovakia.

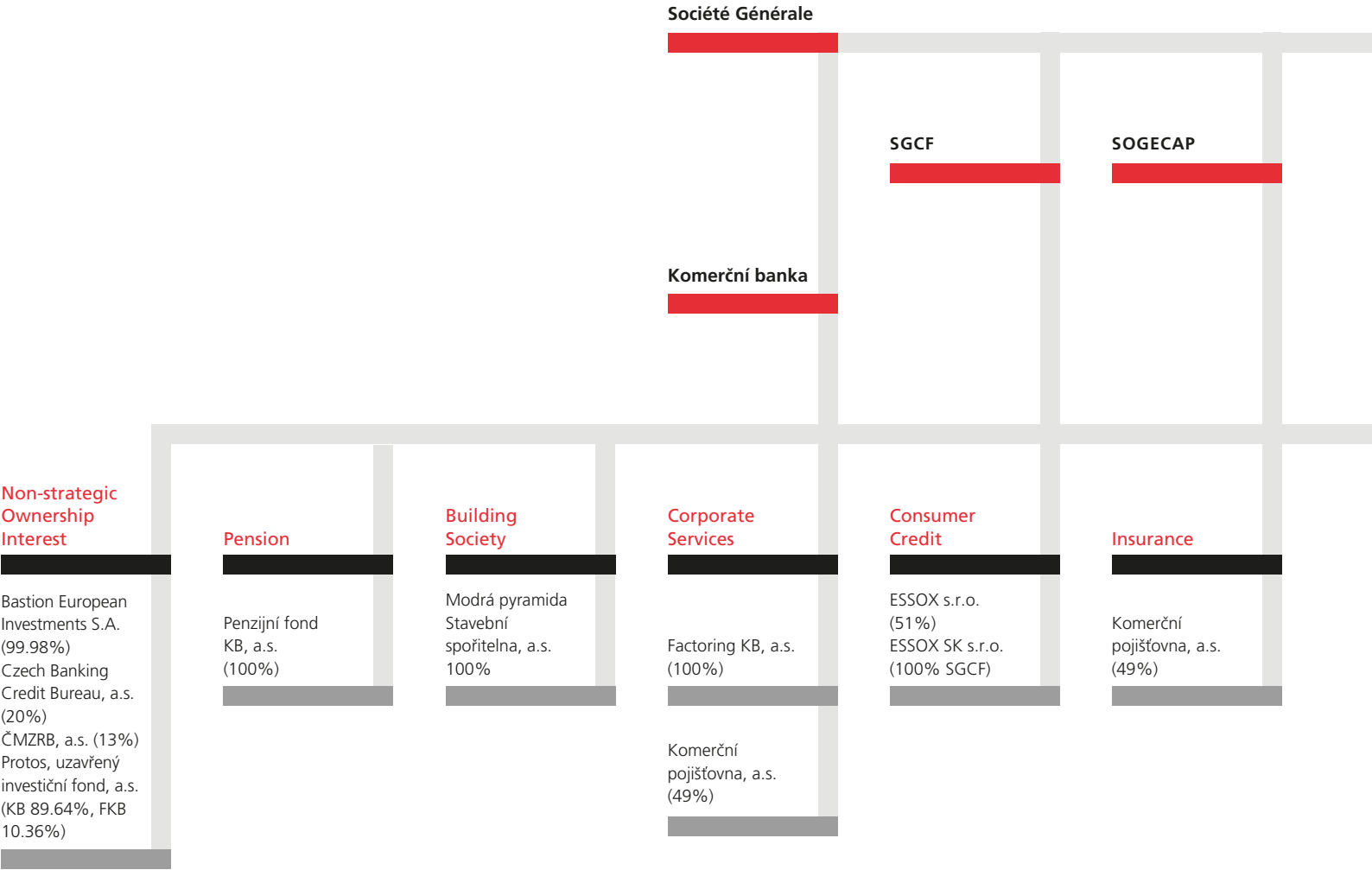
Subsidiaries and associate companies in the KB Financial Group

Company	Share capital	KB participation in the share capital – nominal	KB participation in the share capital – relative	Net book value	Nominal value per share	Consolidation method
	CZK thousand	CZK thousand	%	CZK thousand	CZK thousand	
Domestic participation						
Modrá pyramida stavební spořitelna, a.s.	562,500	562,500	100	4,872,282		Full
Penzijní fond Komerční banky, a.s.	200,000	200,000	100	230,000		Full
Factoring KB, a.s.	1,184, 000	1,184,000	100	1,190,000		Full
Protos, uzavřený investiční fond, a.s.	5,000,000	4,482,000 / 5,000,000*	89.64 / 100	11,705,000 / 13,000,000*		Full
ESSOX, s.r.o.	2,288,086	1,165,387	50.93	1,165,387		Full
Komerční pojišťovna, a. s.	904,152	443,012	49	482,140		Equity
Total						
Foreign participation						
Bastion European Investments, S. A.**	16,029	16,029	99.98	3,603,568		Full
Total						
Total						

* Direct share/ Group share

** According to historical exchange rate

Structure of Komerční banka
and Société Générale Financial Groups
in the Czech Republic and Slovakia





Modrá pyramida stavební spořitelna, a.s.

Shareholder structure

Komerční banka 100%

Core business

Building savings deposits and loans

Market Position

Third position on building savings market (market share 16.9% as measured by loans to clients).

Main Products

- State-subsidised savings accounts
- Bridging loans
- Building savings loans

Contact

Modrá pyramida stavební
spořitelna, a.s.
Bělehradská 222/128
120 21 Prague 2, P.O.Box 40
ID: 60192852
Phone: +420 222 824 111
Fax: +420 222 824 113
E-mail: info@mpss.cz
Internet: www.mpss.cz
www.modrapyramida.cz



Penzijní fond Komerční banky, a.s.

Shareholder structure

Komerční banka 100 %

Core business

Penzijní fond

Market position

Penzijní fond Komerční banky, a.s. kept its position on the pension fund market in 2010. Market share by number of participants is 10.9% and as measured by volume of assets under management is 13.3%.

Rating

Aa1.cz according to Moody's (the highest rating among Czech pension funds)

Main products

- State-subsidised pension insurance

Kontakt

Penzijní fond Komerční banky, a.s.
Lucemburská 7/1170
130 11 Prague 3
ID: 61860018
Phone: +420 272 173 172
Fax: +420 272 173 171
E-mail: pf-kb@pf-kb.cz
Internet: www.pfkb.cz

Financial summary (CAS, CZK thousand)

	31 December 2010	31 December 2009
Total assets	76,715,196	76,062,079
Total loans	49,720,446	45,561,104
Shareholder's equity	5,646,322	4,213,774
Share capital	562,500	500,000
Net banking income	1,780,280	1,567,909
Profit before tax	1,025,890	797,110
Net profit	930,141	739,668

Financial Summary (CAS, CZK thousand)

	31 December 2010	31 December 2009
Total assets	30,601,851	28,610,680
Total volume on client accounts	28,718,275	27,178,729
Shareholder's equity	1,585,835	1,331,413
Share capital	200,000	200,000
Net operational income	853,937	226,876
Profit before tax	726,824	77,633
Net profit	726,815	74,606



Factoring KB, a.s.

Shareholder structure

Komerční banka 100 %

Core business

Factoring

Market position

Fifth place on the factoring market, managing 10.5% of the factoring portfolio on the Czech market.

Main products

- Domestic factoring
- Export factoring
- Import factoring
- Modified factoring
- Receivables management

Contact

Factoring KB, a.s.
 Lucemburská 7/1170
 130 11 Prague 3
 ID: 25148290
 Phone: +420 222 825 111
 Fax: +420 224 814 628
 E-mail: info@factoringkb.cz
 Internet: www.factoringkb.cz

ESSOX, s.r.o.

Shareholder structure

Komerční banka 51 %
 SG Consumer Finance 49 %

Core business

Providing consumer loans, credit cards and automotive financing

Market position

12.8% market share in the consumer finance market.

Main products

- Consumer loans (one-time loans for single purchases)
- Revolving credit (credit card)
- Automotive financing

Contact

ESSOX, s.r.o.
 Senovážné nám. 231/7
 370 01 České Budějovice
 ID: 26764652
 Phone: +420 389 010 111
 Fax: +420 389 010 270
 E-mail: essox@essox.cz
 Internet: www.essox.cz

Financial Summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	5,464,504	5,156,690
Factoring portfolio	2,460,787	2,260,531
Shareholder's equity	1,506,949	1,505,428
Share capital	1,184,000	1,184,000
Net operational income	142,231	164,571
Profit before tax	6,300	25,319
Net profit	9,402	28,282

Financial Summary (CAS, CZK thousand)	31 December 2010	31 December 2009
Total assets	10,554,883	10,687,687
Shareholders' equity	2,668,061	2,435,776
Share capital	2,288,086	2,288,086
Loans to clients*	7,184,245	7,404,195
Net operational income	1,440,178	1,221,609
Net profit/loss	232,285	174,355

* loans and receivables related to business relations



Komerční pojišťovna, a.s.

Shareholder structure

SOGECAP 51 %
Komerční banka 49 %

Core business

Insurance

Market position

12.3% share on the life insurance market (measured by premiums written for the year 2010)

Main Products

- Saving life insurance
- Risk life insurance
- Capital life insurance
- Investment life insurance
- Accident insurance
- Payment card insurance
- Travel insurance

Products sold as benefit of other products

- Travel insurance for payment cards
- Risk life insurance for credit cards
- Risk life insurance for consumer loans

Contact

Komerční pojišťovna, a.s.
Karolinská 1/650
186 00 Prague 8
ID: 63998017
Phone: +420 222 095 999
Fax: +420 224 236 696
E-mail: servis@komercpoj.cz
Internet: www.komercpoj.cz

Financial Summary (CAS, CZK thousand)

	31 December 2010	31 December 2009
Total assets	21,700,214	14,498,778
Technical reserves	19,956,068	12,949,677
Shareholders' equity	1,382,293	1,225,247
Share capital	904,152	602,768
Gross premiums written	8,981,639	4,824,610
Net profit/loss	139,116	71,736

Protos, uzavřený investiční fond, a.s.

Shareholder structure

Komerční banka 89,64 %
Factoring Komerční banky 10,36 %

Core business

Investment fund

Main Products

- Mutual fund management

Contact

Protos, uzavřený investiční fond, a.s.
Dlouhá 34/713
110 15 Prague 1
ID: 27919871
Phone: +420 224 008 888
Fax: +420 222 322 161
E-mail: info@iks.kb.cz
Internet: www.iks-kb.cz

Financial Summary (CAS, CZK thousand)

	31 December 2010	31 December 2009
Total assets	14,028,163	14,127,621
Shareholders' equity	14,001,212	14,069,984
Share capital	5,000,000	5,000,000
Net interest income	582,836	584,925
Profit before tax	567,437	569,547
Net profit	539,067	541,070

Bastion European Investments, S.A.

Shareholder structure

Komerční banka 99,98 %
Société Générale 0,02 %

Core business

Project finance

Main Products

Special purpose Belgian company for a single long-term project finance transaction.

Contact

Bastion European Investments, S.A.
Place du Champ de Mars 5, Ixelles
1050 Brusel
ID: BE 0877.881.474
Phone: + 32 2 506 65 51
Fax: + 32 2 506 65 73



Komerční banka Bratislava, a.s.

(As of 31 December 2010, Komerční banka Bratislava, a.s. dissolved by the merger with the Bank. At the same time, as of 1 January 2011, a branch of the Bank was established in Slovakia, through that KB has therefore been providing services in the Slovak Republic.)

Shareholder structure

Komerční banka 100 %

Core business

Complete banking services for corporate clients
Trade finance and settlement between the Czech and Slovak republics

Market position

Niche position on the Slovak market (less than 1% of that market), restructuring of client portfolios, focus on medium and large corporate clients with activities on both the Czech and Slovak markets

Main Products

Short-term and investment loans, guarantees
International payments
Foreign exchange instruments (spot, forward), interest rate instruments (forward rate agreements, swaps) and other derivative products
Money market deposits and loans

Kontakt od roku 2011

Komerční banka, a.s.
pobočka zahraničnej banky
Hodžovo námestie 1A, P.O.Box 137
810 00 Bratislava
Slovenská republika
ID: 47231564
Phone: +421 259 277 328
Fax: +421 252 961 959
Email: koba@koba.sk
Internet: www.koba.sk

Financial Summary (IFRS, CZK thousand)	31 December 2010	31 December 2009
Total assets	6,574,168	7,074,521
Shareholders' equity	3,296,388	3,558,480
Share capital	16,029	16,029
Net interest income	122,311	153,226
Profit before tax	121,924	152,829
Net profit	121,937	151,837

CZK/EUR exchange rate 26.465 as of 31 December 2009 (CNB), CZK/EUR average exchange rate 26.445 for the period from 1 January 2009 to 31 December 2009 (CNB)
CZK/EUR exchange rate 25.060 as of 31 December 2010 (CNB), CZK/EUR average exchange rate 25.290 for the period from 1 January 2010 to 31 December 2010 (CNB)

Financial Summary (IFRS, CZK thousand)	31 December 2010*	31 December 2009
Total assets	4,639,330	6,596,883
Loans to customers	3,302,537	4,781,695
Deposits from customers	2,405,815	2,823,950
Net banking income	156,323	203,781
Net profit	(137,767)	(337,159)

CZK/EUR exchange rate 26.465 as of 31 December 2009 (CNB), CZK/EUR average exchange rate 26.445 for the period from 1 January 2009 to 31 December 2009 (CNB)
CZK/EUR exchange rate 25.060 as of 31 December 2010 (CNB), CZK/EUR average exchange rate 25.290 for the period from 1 January 2010 to 31 December 2010 (CNB)