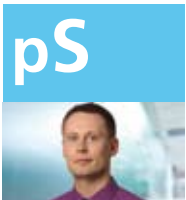
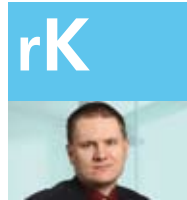
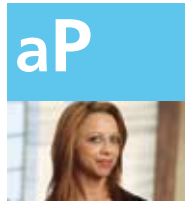


Our people are *precious elements* –  
our business is built on them  
and they form the basis  
of Modrá pyramida's success.



**356**

Our clients are serviced by  
**employees...**

**1,470**

...and  
**financial advisors**

**13.4**

Capital adequacy  
in 2010 reached  
**percent**

**768,204**

The number of valid construction  
savings contracts totalled  
**contracts**

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Modrá pyramida is a modern and dynamic company offering – in addition to traditional building savings products and housing loans – comprehensive financial consulting services built primarily on the relation client – financial advisor. It offers its clients the option of insurance, banking services, consumer loans as well as certain long-term savings and investment products. Qualified advisors of Modrá pyramida provide consulting services in 220 sales points throughout the Czech Republic.

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#### Shareholder Structure Company name:

Komerční banka, a.s.  
Registered office:  
Na Příkopě 33, Prague 1,  
Czech Republic  
Ownership interest: 100%  
Registered number: 45317054

#### Corporate Information Company name:

Modrá pyramida stavební spořitelna, a.s.  
Legal status: public limited company  
Incorporated: in the Register of Companies maintained at the Municipal Court in Prague, Section B, File 2281  
Registered office: Bělehradská 128/222, 120 21 Praha 2, Czech Republic  
Registered number: 60192852  
Incorporated: 9 December 1993  
Share capital: CZK 562,500,000  
Shares: 5,625 registered shares in book entry form with a nominal value per share of CZK 100,000  
Modrá pyramida stavební spořitelna, a.s., does not have any organizational units abroad.

# mL

## Mirka Lukášková

### Project Manager

After graduating on secondary School of Economy she worked in travel industry. When building savings banks began coming into existence in the Czech Republic, she joined – shortly after its establishment in 1994 – Všeobecná stavební spořitelna Komerční banky. State subsidy agenda fell within her competence. In year 2005 she significantly participated on launching of new information system including establishment of electronic archive. And for Mirka it was fateful. After finishing the project there was established a new department of methodology and processes, and thus also new work opportunities in the area of support of the whole IT system and communication with users. When Komerční banka became a hundred per cent owner of Modrá pyramida, it was necessary to manage another uneasy task – to ensure migration to a new information system. Mirka, already at her current position of project manager for management and ensurance of changes of production IT systems, performed this task with a verve and consistence.



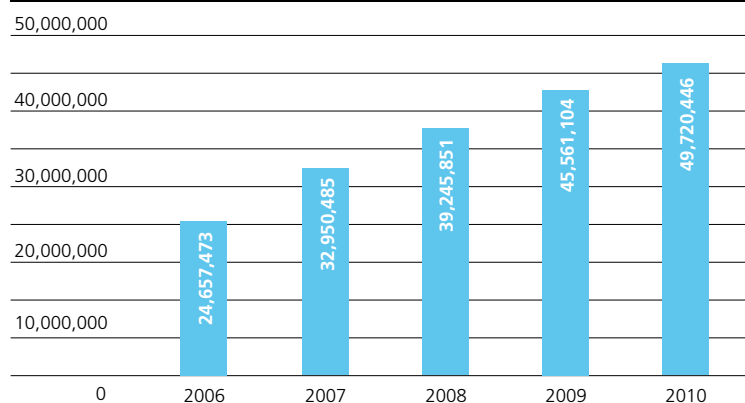
*"At the position of the project manager I have an opportunity to participate on projects and their management, to influence strategic decisions, gain new experience," says Mirka Lukášková. "I assert diplomacy, organizational skills and efficient communication with employees."*

# SELECTED KEY INDICATORS

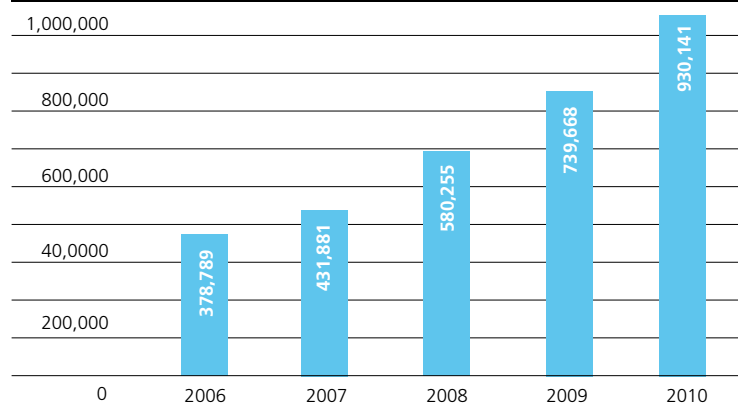
	Units	2010	2009	2008	2007	2006
Total assets	CZK '000	76,715,196	76,062,079	70,705,039	67,824,557	63,740,725
Volume of client deposits	CZK '000	68,177,784	65,323,698	63,397,678	61,888,768	57,455,176
Total volume of loans	CZK '000	49,720,446	45,561,104	39,245,851	32,950,485	24,657,473
Volume of assigned loans	CZK '000	7,125,862	7,324,035	7,293,111	7,371,517	7,141,042
Volume of bridging loans	CZK '000	42,594,584	38,237,069	31,952,740	25,578,968	17,516,431
Net profit	CZK '000	930,141	739,668	580,255	431,881	378,789
Dividend declared for the business year	CZK '000	0	0	0	0	0
ROAE*	%	28,10	28,18	27,71	24,12	26,75
Assets per employee	CZK '000	215,492	205,573	192,133	187,361	176,567
Profit per employee (FTE)	CZK '000	2,613	1,999	1,577	1,193	1,049
Capital adequacy	%	13,4	11,1	9,7	8,4	10,1
Headcount (at 31 December)	person	356	370	368	362	361
Valid contracts	number	768,204	805,325	841,367	869,379	907,252
Active assigned loans	number	84,922	92,419	101,848	113,906	121,402
Active bridging loans	number	65,490	65,428	63,386	60,998	56,048

Note: \* The figure complies with CNB calculation methodology to Decree No. 123/2007 Coll. stipulating prudential rules for banks, savings and credit unions and investment firms.

**Total volume of loans (CZK '000)**



**Net profit (CZK '000)**

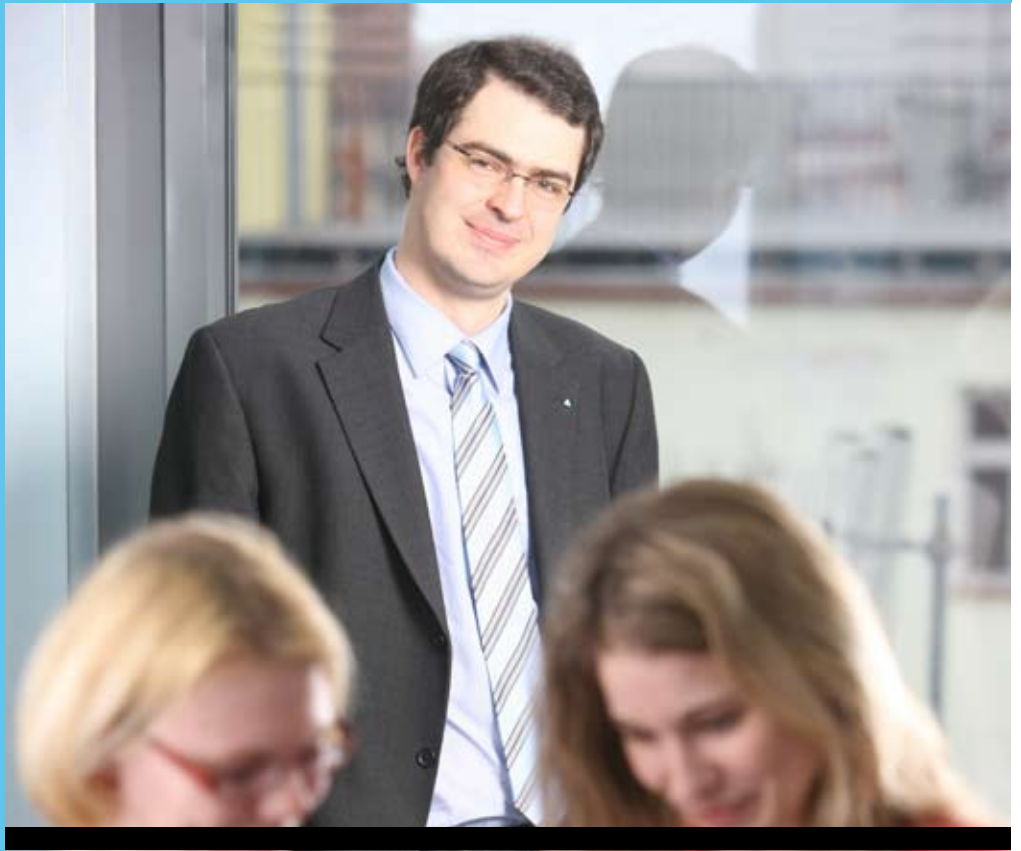


# aM

## Aleš Mašanský

### Business Director

He joined Modrá pyramida in March 2006, before that he gained experience in several areas. As a graduate of faculty of operational-economic of Česká zemědělská univerzita (Czech University of Agriculture) he entered the banking area by employment in GE Money bank. His career in Modrá pyramida began at the position of region director for region Praha východ. When Komerční banka bought 100% share in Modrá pyramida, he was offered a position of business director. Aleš Mašanský solves at his position long-term business strategy of the company. He and his colleagues think about where does Modrá pyramida want to go in sale of products, what will it sale and in what way. Subsequently he manages the change, plans individual steps and supervises its successful realization.



*"I am a team player," says Aleš Mašanský. "I need people who help me to realize my intentions and at the same time they are full of other ideas. I cannot do without enthusiasm, excitement for something, willingness to listen, creativity, honesty and fair acting. I worship a principle: if you want others to work enthusiastically, you must go as an example yourself."*

# INTERVIEW WITH THE CHAIRMAN OF THE BOARD OF DIRECTORS



This year, without question, was the most difficult year in history of building saving in Czech Republic. Not only was the economical crisis fading away including drop of interest in real estates but the building saving sector had to face up to strong several months lasting media supported discussion on measures in preparation which should restrict benefits of building saving in order to achieve savings in state budget deficit. The changes were adopted at the end of the year. Effective from the 1st January 2011 the exemption from taxation of income was cancelled, state subsidy was lowered and that for all even the existing contracts and state subsidy for year 2010 will be taxed by 50%.

## Year 2010 – milestone in Modrá pyramida development

### Mr. Chairman how do you assess the past year from the view point of these changes?

It was not easy year for building savings sector. Although we understood that in times of economy measures it must even come to lowering of state subsidy but from all the sorts of comments in media it was apparent that not only certain limitation of benefits could occur but perhaps even such interventions which could in its result lead to the liquidation of the system itself. This of course evoked uncertainty in particular at clients; the interest in new contracts and even in building savings loans has decreased. The darkest scenarios predicted massive departure of clients and thereby outflow of deposits by which the building saving banks would lose its ability to provide housing loans in such volume and under such conditions as until now. Fortunately such scenarios were not fulfilled and even after the adopted measures the building saving is an interesting product. But, as we know, there are further discussions about other changes.

### How has Modrá pyramida prosper this year?

Of course we had to react to this situation sensitively. In particular by maintaining our existing client's trust, acquiring new ones and providing loans. This meant to have sufficient number of qualified advisors and to come up with new interesting products for clients. Today I may, with satisfaction, say that past year was successful for Modrá pyramida. We succeeded to manage the difficult market situation, we were able to prevent the outflow of clients and we even managed to increase volume of deposits. I consider this to be the greatest achievement. Thanks go to all employees and advisors of our distribution network. The existing clients were addressed by the opportunity of contract prolongation under favourable conditions – so called Prodloužení Plus due to which we could maintain the existing clients and deposits. Also a unique concept of Wise saving "Moudré spoření" with advantaged interest rate arouse an interest, we have successfully opened new Hypocenters in Brno and Hradec Králové, we have extended the possibilities of loans in the area of modernization of housing fund – both Rychloučvř



(Small unsecured loan) for new clients and Renoúvěr multi (Unsecured loan) for housing cooperatives and associations of owners. An extensive organizational change of our distribution network was carried out in order to effectively manage, develop and improve services for clients.

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### How would you briefly, only by few words describe year 2010?

The year was complicated, successful but mainly it was year full of changes. I would even call it a significant milestone in history of Modrá pyramida.

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### Does it mean that you are changing a strategy of the building savings bank?

Yes, entirely. In autumn last year we introduced a new strategy of development inside of Modrá pyramida. We base it on both the current market situation and on positioning of Modrá pyramida within the Komerční banka group. Its base is a change of business model from building savings bank to provider of complex financial advisory. Long gone are the times when being an expert on building savings was sufficient. Of course housing financing will continue to be of permanent interest but as a part of comprehensive financial advisory with Komerční banka background including mortgages. We are going to expand our distribution network and at the same time we will promote Modrá pyramida's brand – in order to strengthen the advisory role itself because it will be just the Modrá pyramida advisors who will manage the relationship with a client. This will concern both the development of relationship with existing clients where we have extensive experience but also acquiring new so called secondary relationships with those clients who do not have primary relation with Komerční banka will be crucial. This includes extended product portfolio in particular within Komerční banka group. For fulfilment of this strategy we have determined precise process which comprises partly of its own advisors network development plan and partly of additional products offer development plan so that Modrá pyramida would not be dependant on a sole state regulated product. So we gradually expand our offer of the possibility of insurance, banking services, customer loans but we will also offer mortgages of Komerční banka and also long term saving and investment products.

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### You talked about strengthening of Modrá pyramida's brand, what should this brand evoke in the first place?

As one of the last year's important changes I consider change of the whole communication concept within which at the forefront stands our logo symbolizing a pyramid. With this concept we entered the market with large TV campaign last year in autumn and from the evaluation we know that it had positive response and impact. And so we gradually change what should be typical for us with an emphasis on the design of our advisory centres so that Modrá pyramida's entry into the sector of financial advisory was increasingly perceived. The meaning is that Modrá pyramida will be perceived as strong and reliable partner with excellent products and extensive professional advisors network and at the same time as modern innovative company.

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### Modrá pyramida have already demonstrated this several times– it received the highest award in prestige competition Fincentrum Bank of the year six times in a row which in the history of the competition no other financial institution has ever achieved so far. What do these awards signify to you?

First I have to say that we value these awards highly. For us they are confirmation that by product development, services quality and most of all by building relationships with clients we are leaders in our field. Over the years of being on the market Modrá pyramida addressed hundreds of thousands of clients, brought to its ranks hundreds of employees and advisors and collected many awards but primarily experiences. I am convinced that our background is strong enough to develop complex financial advisory and soon we will be leaders in this field.

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### What do you want to be exceptional in?

We do everything we can to be distinguished mainly by the quality. Quality of service, quality of communication with client and quality of products. In doing so at the first place we put the relationship between financial advisor and client for whom we want to be a reliable financial advisor.



Miroslav Hiršl

Jan Pokorný

Jiří Votrubec

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As at 1.2.2011

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## Board of directors

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### Jan Pokorný

Chairman of the Board of Directors

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### Miroslav Hiršl

Vice-Chairman of the Board of Directors

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### Jiří Votrubec

Member of the Board of Directors

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## Supervisory Board

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### Henri Bonnet

Chairman of the Supervisory Board

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### Peter Palečka

Vice-Chairman of the Supervisory Board

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### Patrice Taillandier-Thomas

Member of the Supervisory Board

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### Milan Orkáč

Member of the Supervisory Board

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### Josef Květoň

Member of the Supervisory Board

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### Tomáš Tomiczek

Member of the Supervisory Board

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# REPORT OF THE BOARD OF DIRECTORS ON BUSINESS ACTIVITIES AND ASSETS OF THE COMPANY FOR 2010

From the point of view of the building savings, year 2010 was the most difficult one in its existing history. Based on the policy statement of the new government there were discussions not only about the amount of state subsidy but also about a wide range of other measures which should significantly influence the system of building savings in the Czech Republic. At the end of the year the major changes were adopted – the state subsidy was lowered to CZK 2,000 for all contracts, 50% taxation on the state subsidy for year 2010 was decided and tax exemption of interest was cancelled. Under the leadership of the Ministry of Finance CR further meetings on other possible changes are being held and there are discussions in media.

In 2010 on the Czech building savings market, there were 533 thousand new building savings contracts with total target amount of CZK 166 billion concluded and loans in the volume of CZK 58 billion granted. At the end of 2010, in total the clients' savings deposits amounted to CZK 430 billion and loans to CZK 293 billion in the books of building savings banks.

Although the building savings market was strongly influenced by anticipated changes and ongoing discussions about the amount of state subsidy and future of building savings, last year Modrá pyramida managed to conclude 155 thousand new contracts and target amount increases with total amount of CZK 33 billion. This signified year-on-year decrease by 17.1% as measured by volume of target amount. According to number of newly concluded building savings contracts the market share of Modrá pyramida is 17.1%. This signifies decrease by 4.1% and third place in the ranking of building saving banks.

Despite the drop in newly concluded savings contracts, Modrá pyramida recorded growth of volume of clients' deposits. Their volume reached CZK 68 billion which signifies growth by 4.4% in comparison to the previous year. The Company's total assets reached threshold of CZK 76.7 billion, in comparison to the end of 2009 it is increase by 0.9%.

At the end of the past year the number of valid building savings contracts was 768 204 contracts with target amount of CZK 238.1 billion.

In 2010 Modrá pyramida provided its clients with almost 14 thousand loans at volume of CZK 9.0 billion, in comparison to the previous year it signifies drop by 13.2%, whereas overall volume of loans provided by building savings banks dropped by 12%. The most favourite product in 2010 was Hypoúvěr (mortgage-like loan) again, there was also an increased interest in loans for renovation purposes and housing modernization, both in form of current Renoúvěr Multi designed for revitalization of panel and residential buildings and in form of Rychlouvěr (small unsecured loan) extended also to non-clients. Modra pyramida's market share corresponds to 15.6% as for contractual loan volume which signifies year-on-year drop by 0.2% and 3rd place on the market.

In 2010 total volume of loans provided for housing purposes increased by 9% and reached CZK 49.7 billion, ratio of loans provided for housing purposes to received savings deposits increased to 72.9%.

With the profit after tax in the amount of CZK 930.1 million Modrá pyramida managed to fulfil the plan for 2010 despite the environment of deteriorated economic situation.

The ordinary financial statements for 2010 were prepared with due care and diligence and were reviewed by an independent auditor – the auditing company Ernst & Young s.r.o. with its registered office Prague 2, Karlovo nám. 10, post code 120 00. The auditing company performed the audit in accordance with the regulations valid in the Czech Republic and has stated that the financial statements give a true and fair view of the financial position of the company Modrá pyramida stavební spořitelna, a.s., as at 31 December 2010 and of the results of its financial performance in accordance with the accounting regulations applicable in the Czech Republic.

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## Strategy

In 2010 Modrá pyramida introduced a new company development strategy resulting from the current market situation and Modrá pyramida's position within the Komerční banka Group which consists in business model change from building savings bank to provider of complex financial advisory. Basis for this development is expansion of internal network of advisors and building of relationship between client and advisor, but also establishing of secondary relationships with clients who do not have primary relationship with Komerční banka and also extension of product offer primarily in the frame of Komerční banka Group. Process of Modrá pyramida's transformation for purposes of fulfilment of this strategy was drawn up and approved, including plan of internal advisors network development as well as development of other products offer so that Modrá pyramida would not be dependant on the one state-regulated product.

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## Products and awards

In the loan area Modrá pyramida extended its product offer by product Rychloúvěr (small unsecured loan) for new clients. This product can be used for smaller or medium sized reconstructions or flat renovations. The main advantage of this product is that a client does not need any form of guarantee or collateral.

As a part of the basic product offer, there were also very popular banking products prepared in cooperation with Komerční banka such as credit cards, consumer loans and current accounts. These banking products are set up the way so that the client can receive additional advantages if these are used with products of Modrá pyramida, e.g. more advantageous interest rate on Modrá pyramida loan if the loan is repaid from current account of Komerční banka. What is to be mentioned is also the offer of pension insurance of Pension Fund of Komerční banka but also newly improved product of risk life insurance in cooperation with Komerční pojišťovna which provides client with significantly better security and safety. Property insurance and motor third party liability in cooperation with Allianz insurance company complete the overall offer of insurance.

Modrá pyramida crowned the year 2010 with a historic success when it was awarded as the only financial institution the best prize for the sixth time in a row in one of the most prestigious competitions "Fincentrum Bank of the Year" and is thus a holder of awards Building Savings Bank for years 2005, 2006, 2007, 2008, 2009 and 2010.

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## Advisors network

In the past year, changes in the system of distribution network management with focus on its extension and quality enhancement continued. The main goal of all executed changes is permanent enhancement of quality of provided services and higher professional level of financial advisory and building relationships with clients. Every client

# In 2010, Modrá pyramida won the sixth highest award in the Bank of the Year competition.



has at his/her disposal an advisor who knows the client's needs and, thanks to a wide offer of the financial products, is always able to provide the best solution to the client. Besides continuing development of the network of 1,500 advisors, Modrá pyramida's clients can also use all branches of Komerční banka, a.s. and the network of selected mediatory agencies as well.

For sales network the year 2010 meant successful development of hypocentres concept outside of Prague. Hypocentrum in Brno and Hradec Králové cooperate with number of developer companies and thus offer the clients of Modrá pyramida a complex solution to their housing needs, from selection of the real estate to the most convenient form of financing.

### Control system

Internal audit, as an independent unit, performed audit, control and consultancy activities. It is an integral part of the management and control system of the bank. When performing its activities, Internal Audit closely cooperated with the Audit Committee of Modrá pyramida and with the Internal Audit of Komerční banka. It informed regularly the Board of Directors, the Audit Committee and the Supervisory Board on its results of activities through summary reports. The activities of Internal Audit are

governed by a strategic and operational (annual) plan drawn up based on the risk analysis.

In the area of risk management, the Board of Directors of Modrá pyramida continually adopts measures in order to ensure permanent high level of security and transparency of adopted decisions in all business and financial processes.

In Prague, 8 March 2011

Board of Directors  
of Modrá pyramida stavební spořitelna, a.s.

# dP

**David Peška**

**Transformation Director**

During his studies at Vysoká škola ekonomická (University of Economics) he started to work for Société Générale as an assistant to the business director for top corporate clients. In the fourth year of his studies he joined Komerční banka at first as a debt capital markets specialist, later he went to a branch in Prague as a head of sales support and subsequently he became a head of quality promotion. With his transition to Modrá pyramida he was offered a position of director of external distribution. Today David Peška is a transformation director in Modrá pyramida. He coordinates all projects, whose aim is a new direction of the company. He works on transformation of Modrá pyramida to a company oriented on financial advisory services with the stress on the field of housing financing. It includes projects connected with changes in distribution network – innovated system of recruitment, training and motivation, development of outlets. But to this area also belongs extension of product portfolio, change of communication strategy and new role of distribution network of Modrá pyramida within KB Group.



*"I take advantage of all experience gained up to now, for example skills of negotiation", says David Peška.*

*"Advantage is also resistance to stress, pragmatic approach to problems solving and interest in innovation. I also utilize my sport spirit, which means resilience, persistence and ambition to win."*

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## Employees

At the end of year 2010 the total number of Modrá pyramida's employees was 356.

In the past year the organizational changes of which object was to streamline activities within the scope of sales and loan coaches were successfully implemented.

This year for the first time we have selected employees for the Talent management programme in which we have concentrated on individual development of the participants. We also continued in improvement of managerial skills, employees from the head of the teams positions participated in interactive training.

Due to the close cooperation with Komerční banka in the second part of the year we commenced to use their Shared services centre which ensures our payroll processing.

In the area of working environment improvement we carried out reconstruction of the canteen for the employees. The change of environment was completed also by extended selection of warm and cold dishes on offer.

Historically new event was MOPYÁDA, sports competition of employees and advisors of our distribution network. The teams of sport enthusiasts from the whole country competed in several sport disciplines and also individuals could compete. Due to the success of the event we expect its repetition.

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## Environment

Modrá pyramida is environment cautious and by no means have its activities affect on it. To this it leads both its employees and clients to whom in the last year offered advantaged "Green loans" intended to financing of ecologically suitable modern living solutions with utilization of state subsidy program Green for savings.



# REPORT OF THE SUPERVISORY BOARD OF THE COMPANY ON CONTROL ACTIVITIES IN 2010

Throughout 2010, the Supervisory Board of the Company supervised the activities of the Board of Directors and the business activities of the Company in compliance with generally binding legal regulations and with the Articles of Association of the Company.

The Supervisory Board performed its control function by discussing in detail the individual issues at three ordinary Supervisory Board sessions held on 1st April, 15th September and 8th December 2010, based on supporting materials prepared by the Board of Directors of the Company. The members of the Board of Directors as well as other invited members of the Company's management participated in meetings of the Supervisory Board. The Supervisory Board reviewed documents and written materials which included information about strategic and business management of the Company.

In 2010, within the framework of its control activities, the Supervisory Board focused also on reviewing effectiveness and efficiency of the management and control system of the bank, including efficiency of the internal audit. The Supervisory Board states that the management and control system is functioning and resistant.

The Supervisory Board reviewed the ordinary financial statements for year 2010, submitted by the Board of Directors, and found them to be prepared based on properly conducted accounting procedures and to be in compliance with the regular reports on the bank's financial position. Furthermore, the Supervisory Board reviewed the proposal of the Board of Directors to allocate the Company's profit after tax as at 31 December 2010 in the amount of CZK 930,140,747.31 and stated that this proposal was in compliance with legal regulations and the Articles of Association of the Company. The Supervisory Board will inform the sole shareholder of the Company Komerční banka, a.s. on the results of its review performed.

The Supervisory Board noted the report for 2010 of 8th March 2011 prepared by a new independent auditor, the company Ernst & Young s.r.o. with its registered office 120 00 Prague 2, Karlovo nám. 10, Corporate ID 26704153. The Supervisory Board understood from this report that the independent audit of the ordinary financial statements for 2010 had been performed in accordance with the relevant legal regulations and with valid auditing standards. The

independent auditor expressed its opinion on the ordinary financial statements as at 31 December 2010 concluding that the financial statements give in all substantial aspects a true and fair view of the assets, liabilities and financial situation of the Company and that the results of its financial performance for the period from 1 January 2010 to 31 December 2010 are in accordance with the accounting regulations applicable in the Czech Republic.

The Supervisory Board recommends the sole shareholder to approve the ordinary financial statements for year 2010. The Supervisory Board also recommends the sole shareholder to approve the proposal of the Board of Directors to allocate the Company's profit after tax as at 31 December 2010 in the amount of CZK 930,140,747.31 as follows:

– contribution to the reserve fund of 12,500,000.00 CZK reaching the amount of CZK 112,500,000.00 in accordance with provision of Section 217 of the Commercial Code and Article 22 of the Articles of Association of the Company, in relation to the increase in share capital of the Company performed in December 2010,

– undistributed profit CZK 917,640,747.31.

The Supervisory Board, in compliance with legal regulations, also reviewed the Report on Relations between related parties as at 31 December 2010, prepared by the Board of Directors of the Company in accordance with Section 66a, subsection 9 of the Commercial Code. The Supervisory Board states that the Company did not suffer any loss resulting from the relations between the related parties in the accounting period from 1 January 2010 to 31 December 2010.

In Prague, on 31 March 2011

The Supervisory Board of Modrá pyramida stavební spořitelna, a.s.

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Modrá pyramida stavební spořitelna, a.s.:

- I. We have audited the financial statements of Modrá pyramida stavební spořitelna, a.s. ("the Company") as at 31 December 2010 presented in the annual report of the Company on pages 20 – 46 and our audit report dated 8 March 2010 stated the following:

We have audited the accompanying financial statements of Modrá pyramida stavební spořitelna, a.s., which comprise the balance sheet as at 31 December 2010, and the income statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of Modrá pyramida stavební spořitelna, a.s., see Note 1 to the financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

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In our opinion, the financial statements present fairly, in all material respects, the financial position of Modrá pyramida stavební spořitelna, a.s. as at 31 December 2010, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

- II. We have also audited the consistency of the annual report with the financial statements described above. The management of Modrá pyramida stavební spořitelna, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 2 - 15 a 52 - 53 is consistent with that contained in the audited financial statements as at 31 December 2010. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of Modrá pyramida stavební spořitelna, a.s. for the year ended 31 December 2010 presented in the annual report of the Company on pages 47 - 51. The management of Modrá pyramida stavební spořitelna, a.s. is responsible for the preparation and accuracy of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Modrá pyramida stavební spořitelna, a.s. for the year ended 31 December 2010 is materially misstated.



Ernst & Young Audit, s.r.o.

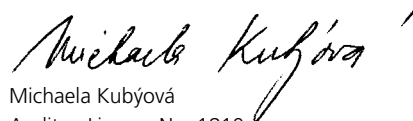
License No. 401

Represented by



Jan Fanta

Partner



Michaela Kubýová

Auditor, License No. 1810

8 March 2011

Prague, Czech Republic



# FINANCIAL PART

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# BALANCE SHEET AT 31 DECEMBER 2010

CZK '000	Row no.	2010			2009	
		Gross	Provisions	Net	Net	
<b>ASSETS</b>						
<b>1</b>	<b>Cash in hand and balances with central banks</b>	<b>1</b>	<b>694,810</b>	<b>0</b>	<b>694,810</b>	<b>1,151,447</b>
<b>2</b>	<b>State zero-coupon bonds and other securities eligible for refinancing with the central bank</b>	<b>2</b>	<b>12,086,229</b>	<b>0</b>	<b>12,086,229</b>	<b>15,774,599</b>
	Of which: a) Issued by Government institutions	3	12,086,229	0	12,086,229	15,774,599
	b) Other	4	0	0	0	0
<b>3</b>	<b>Amounts due from banks and savings associations</b>	<b>5</b>	<b>13,138,949</b>	<b>0</b>	<b>13,138,949</b>	<b>11,467,788</b>
	Of which: a) Repayable on demand	6	5,737	0	5,737	7,567
	b) Other receivables	7	13,133,212	0	13,133,212	11,460,221
<b>4</b>	<b>Amounts due from clients – members of savings associations</b>	<b>8</b>	<b>49,779,596</b>	<b>749,941</b>	<b>49,029,655</b>	<b>44,971,122</b>
	Of which: a) Repayable on demand	9	0	0	0	0
	b) Other receivables	10	49,779,596	749,941	49,029,655	44,971,122
<b>5</b>	<b>Debt securities</b>	<b>11</b>	<b>269,815</b>	<b>0</b>	<b>269,815</b>	<b>265,265</b>
	Of which: a) Issued by Government institutions	12	0	0	0	0
	b) Issued by other entities	13	269,815	0	269,815	265,265
<b>6</b>	<b>Shares, share certificates and other equity investments</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7</b>	<b>Equity investments in associates</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Of which: In banks	16	0	0	0	0
<b>8</b>	<b>Equity investments in subsidiaries</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Of which: In banks	19	0	0	0	0
<b>9</b>	<b>Intangible fixed assets</b>	<b>21</b>	<b>386,801</b>	<b>145,898</b>	<b>240,903</b>	<b>241,194</b>
	Of which: a) Start-up costs	22	0	0	0	0
	b) Goodwill	23	0	0	0	0
<b>10</b>	<b>Tangible fixed assets</b>	<b>25</b>	<b>712,392</b>	<b>313,730</b>	<b>398,662</b>	<b>417,491</b>
	Of which: Land and buildings for operating activities	26	522,496	146,886	375,610	385,670
<b>11</b>	<b>Other assets</b>	<b>28</b>	<b>845,525</b>	<b>3,672</b>	<b>841,853</b>	<b>1,763,681</b>
<b>12</b>	<b>Subscribed capital unpaid</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>13</b>	<b>Deferred expenses and accrued income</b>	<b>30</b>	<b>14,320</b>	<b>0</b>	<b>14,320</b>	<b>9,492</b>
	<b>Total assets</b>	<b>31</b>	<b>77,928,437</b>	<b>1,213,241</b>	<b>76,715,196</b>	<b>76,062,079</b>

CZK '000	Row no.	2010	2009
<b>LIABILITIES</b>			
<b>1 Amounts owed to banks and savings associations</b>	<b>31</b>	<b>900,010</b>	<b>2,824,227</b>
Of which: a) Repayable on demand	32	0	0
b) Other payables	33	900,010	2,824,227
<b>2 Amounts owed to clients – members of savings associations</b>	<b>34</b>	<b>69,118,894</b>	<b>67,200,824</b>
Of which: a) Repayable on demand	35	243,837	279,588
b) Other payables	37	68,875,057	66,921,236
<b>3 Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>
Of which: a) Issued debt securities	43	0	0
b) Other payables from debt securities	44	0	0
<b>4 Other liabilities</b>	<b>45</b>	<b>479,685</b>	<b>433,288</b>
<b>5 Deferred income and accrued expenses</b>	<b>46</b>	<b>555,475</b>	<b>811,153</b>
<b>6 Reserves</b>	<b>47</b>	<b>14,810</b>	<b>26,052</b>
Of which: a) For pensions and similar liabilities	48	0	0
b) For taxes	49	0	0
c) Other charges	50	14,810	26,052
<b>7 Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>552,366</b>
<b>8 Share capital</b>	<b>52</b>	<b>562,500</b>	<b>500,000</b>
Of which: a) Share capital paid up	53	562,500	500,000
b) Treasury shares	54	0	0
<b>9 Share premium</b>	<b>55</b>	<b>487,500</b>	<b>0</b>
<b>10 Reserve funds and other funds from profit</b>	<b>56</b>	<b>1,107,138</b>	<b>1,107,138</b>
Of which: a) Mandatory reserve funds and risk funds	57	100,000	100,000
b) Other reserve funds	59	1,007,138	1,007,138
c) Other funds from profit	60	0	0
<b>11 Revaluation reserve</b>	<b>62</b>	<b>0</b>	<b>0</b>
<b>12 Capital funds</b>	<b>63</b>	<b>0</b>	<b>0</b>
<b>13 Gains or losses from the revaluation of</b>	<b>64</b>	<b>429,513</b>	<b>477,501</b>
Of which: a) Assets and liabilities	65	429,513	477,501
b) Hedging derivatives	66	0	0
c) The retranslation of equity holdings	67	0	0
<b>14 Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>2,129,530</b>	<b>1,389,862</b>
<b>15 Profit or loss for the period</b>	<b>69</b>	<b>930,141</b>	<b>739,668</b>
<b>Total liabilities</b>	<b>70</b>	<b>76,715,196</b>	<b>76,062,079</b>

## OFF BALANCE SHEET ACCOUNTS

CZK '000	Row No.	2010	2009
1 Issued commitments and guarantees	1	3,737,097	4,677,589
2 Provided collateral	2	114,411	107,974
3 Amounts due from spot transactions	3	0	660,879
4 Amounts due from term transactions	4	2,000,000	0
5 Amounts due from option transactions	5	0	0
6 Receivables written off	6	39,568	43,309
7 Assets provided into custody, administration and safe-keeping	7	0	0
8 Assets provided for management	8	0	0
9 Accepted commitments and guarantees	9	6,622,044	7,857,024
10 Received collateral	10	70,659,982	62,457,629
11 Amounts owed from spot transactions	11	0	0
12 Amounts owed from term transactions	12	2,000,000	0
13 Amounts owed from option transactions	13	0	0
14 Assets received into custody, administration and safe-keeping	14	0	0
15 Assets received for management	15	0	0



# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

CZK '000	Row no.	2010	2009
<b>1 Interest income and similar income</b>	<b>1</b>	<b>3,518,602</b>	<b>3,247,488</b>
Of which: Interest income from debt securities	2	579,507	624,187
<b>2 Interest expense and similar expense</b>	<b>3</b>	<b>(1,879,227)</b>	<b>(1,792,613)</b>
Of which: Interest expense from debt securities	4	0	0
<b>3 Income from shares and equity investments</b>	<b>5</b>	<b>0</b>	<b>0</b>
Of which: a) Income from equity investments in associates	6	0	0
b) Income from equity investments in subsidiaries	7	0	0
c) Other income from shares and equity investments	8	0	0
<b>4 Commission and fee income</b>	<b>9</b>	<b>592,167</b>	<b>660,452</b>
<b>5 Commission and fee expense</b>	<b>10</b>	<b>(431,995)</b>	<b>(521,406)</b>
<b>6 Net profit or loss on financial operations</b>	<b>11</b>	<b>0</b>	<b>0</b>
<b>7 Other operating income</b>	<b>12</b>	<b>24,286</b>	<b>8,416</b>
<b>8 Other operating expenses</b>	<b>13</b>	<b>(43,553)</b>	<b>(34,428)</b>
<b>9 Administrative expenses</b>	<b>14</b>	<b>(592,393)</b>	<b>(582,700)</b>
Of which:	15		
a) Staff costs	16	(278,539)	(273,892)
Of which: aa) Social security and health insurance	18	(61,325)	(59,128)
b) Other administrative expenses	19	(313,854)	(308,808)
<b>10 Release of reserves and provisions for tangible and intangible fixed assets</b>	<b>20</b>	<b>0</b>	<b>0</b>
<b>11 Depreciation, charge for and use of reserves and provisions for tangible and intangible fixed assets</b>	<b>24</b>	<b>(58,141)</b>	<b>(57,265)</b>
<b>12 Release of provisions and reserves for receivables and guarantees, recoveries of receivables written off</b>	<b>30</b>	<b>155,091</b>	<b>138,339</b>
<b>13 Write-offs, charge for and use of provisions and reserves for receivables and guarantees</b>	<b>34</b>	<b>(270,190)</b>	<b>(270,642)</b>
<b>14 Release of provisions for equity investments in associates and subsidiaries</b>	<b>38</b>	<b>0</b>	<b>0</b>
<b>15 Losses on the transfer of equity investments in associates and subsidiaries, charge for and use of provisions for equity investments in associates and subsidiaries</b>	<b>39</b>	<b>0</b>	<b>0</b>
<b>16 Release of other reserves</b>	<b>40</b>	<b>11,430</b>	<b>977</b>
<b>17 Charge for and use of other reserves</b>	<b>41</b>	<b>(187)</b>	<b>492</b>
<b>18 Share of profits or losses of subsidiaries and associates</b>	<b>42</b>	<b>0</b>	<b>0</b>
<b>19 Profit or loss for the period from ordinary activities before taxes</b>	<b>44</b>	<b>1,025,890</b>	<b>797,110</b>
<b>20 Extraordinary income</b>	<b>45</b>	<b>0</b>	<b>0</b>
<b>21 Extraordinary expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>
<b>22 Profit or loss for the period from extraordinary activities before taxes</b>	<b>47</b>	<b>0</b>	<b>0</b>
<b>23 Income tax</b>	<b>48</b>	<b>(95,749)</b>	<b>(57,442)</b>
<b>24 Net profit or loss for the period after taxes</b>	<b>51</b>	<b>930,141</b>	<b>739,668</b>

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

CZK '000	Share capital	Treasury shares	Share premium	Reserve funds	Retained earnings/ accumulated losses of prior periods	Valuation gains or losses	Profit or loss	Total
<b>Balance at 1 January 2009</b>	500,000	0	0	1,107,138	809,607	186,038	580,255	3,183,038
Change of accounting policies								
Corrections of significant errors								
FX differences and valuation differences not included in profit or loss						291,463		291,463
Net profit or loss for the period							739,668	739,668
Dividends								
Directors' fees								
Allocation to funds								
Allocation to retained earnings					580,255		(580,255)	
Share issues								
Share capital decrease								
Acquisition of treasury shares								
Other changes								
<b>Balance at 31 December 2009</b>	500,000	0	0	1,107,138	1,389,862	477,501	739,668	4,214,169
<b>Balance at 1 January 2010</b>	500,000	0	0	1,107,138	1,389,862	477,501	739,668	4,214,169
Change of accounting policies								
Corrections of significant errors								
FX differences and valuation differences not included in profit or loss						(47,988)		(47,988)
Net profit or loss for the period							930,141	930,141
Dividends								
Directors' fees								
Allocations to funds								
Allocation to retained earnings					739,668		(739,668)	
Share issues	62,500		487,500					550,000
Share capital decrease								
Acquisition of treasury shares								
Other changes								
<b>Balance at 31 December 2010</b>	562,500	0	487,500	1,107,138	2,129,530	429,513	930,141	5,646,322

# FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 1. General Information

### 1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

Modrá pyramida stavební spořitelna, a.s., corporate ID: 60192852, registered at Bělehradská 128/222, 120 21 Prague 2, was formed by a Deed of Foundation on 10 June 1993 and was incorporated following its registration in the Register of Companies held at the Municipal Court in Prague, Volume B, File 2281, on 9 December 1993. Modrá pyramida stavební spořitelna, a.s. (hereinafter the "Bank" or the "Company") is a specialized bank and its activities and operations are defined in the Construction Savings and Construction Savings State Support Act 96/1993 Coll., as subsequently amended (the "Construction Savings Act"). The Bank operates a construction savings scheme involving the acceptance of deposits from, and the issuance of loans to, participants in the construction savings scheme, the acceptance of deposits from financial institutions, provision of guarantees in Czech crowns for loans issued from the construction savings, for loans provided pursuant to Section 5 (5) of the Construction Savings Act and for loans defined in Section 9 (1) (a) of the Construction Savings Act, proprietary trading with mortgage bonds and bonds, execution of the payment and settlement system in connection with the operation of the Bank, and conclusion of trades for the purpose of hedging the currency and interest rate risks. The Bank conducts its business only in the territory of the Czech Republic.

During the year 2010, no changes were made to the shareholder structure. The sole shareholder of the Bank is Komerční banka, a.s., corporate ID: 453 17 054, with its registered office at Na Příkopě 33, Prague 1, entered in the Register of Companies maintained by the Municipal Court in Prague, Volume B, File 1360 (hereinafter the "KB").

### 1.2. BOARD OF DIRECTORS AND SUPERVISORY BOARD

#### Changes in the Composition of the Bank's Board of Directors in 2010

As of 31 December 2009, André Léger resigned from the position of the Chairman and member of the Board of Directors. He was removed from the Register of Companies on 1 February 2010.

Pursuant to the resolution of the sole shareholder dated 22 December 2009 Jan Pokorný was appointed as member of the Board of Directors with effect from 1 January 2010. The Board of Directors appointed him Chairman of the Board of Directors at its meeting held on 4 January 2010. The appointment was recorded in the Register of Companies on 1 February 2010.

As of 31 July 2010, Libor Löfler resigned from the position of the Vice-Chairman and member of the Board of Directors. He was removed from the Register of Companies on 18 October 2010.

At the meeting of the Board of Directors held on 22 September 2010 Miroslav Hiršl was appointed Vice-Chairman of the Board of Directors, the appointment was recorded in the Register of Companies on 18 October 2010.

Pursuant to the resolution of the sole shareholder dated 27 October 2010 Jiří Votrubec was appointed as a member of the Board of Directors with effect from 27 October 2010. The appointment was recorded in the Register of Companies on 15 November 2010.

#### Changes in the Composition of the Bank's Supervisory Board in 2010

Pursuant to the resolution of the sole shareholder dated 8 December 2009, Tomáš Tomiczek was appointed member of the Supervisory Board with effect from 8 December 2009. The appointment was recorded in the Register of Companies on 7 January 2010.

The term of member and vice-chairman of the Supervisory Board Peter Palečka ended on 17 November 2010. His function ceases, in accordance with section 200 (3) and section 194 (2), penultimate sentence, the Commercial Code (Act 513/1991 Coll., as amended) on 17 February 2011, or by election a new member of the Supervisory Board in the time before that date.

The term of member of the Supervisory Board Milan Orkáč ended on 15 December 2010. His function ceases, in accordance with section 200 (3) and section 194 (2), penultimate sentence, the Commercial Code (Act 513/1991 Coll., as amended) on 15 March 2011, or by election a new member of the Supervisory Board in the time before that date.

#### Composition of the Board of Directors and the Supervisory Board as of 31 December 2010

	Position	Name
<b>Board of Directors</b>	Chairman	Jan Pokorný
	Vice Chairman	Miroslav Hiršl
	Member	Jiří Votrubec
<b>Supervisory Board</b>	Chairman	Henri Bonnet
	Vice Chairman	Peter Palečka
	Member	Patrice Taillandier-Thomas
	Member	Milan Orkáč
	Member	Josef Květoň
	Member	Tomáš Tomiczek

### 1.3. EVENTS IN THE YEAR 2010

The Board of Directors of the sole shareholder KB approved at its meeting on 30 July 2010 repayment of the subordinated debt in the amount of CZK 550,000 thousand and increase of the bank capital in the same value (of which share capital CZK 62,500 thousand and share premium CZK 487,500 thousand). The appointment was recorded in the Register of Companies on 7 December 2010.

In the legislative process was during November 2010 adopted an act amending the Construction Savings Act (Act No. 96/1993 Coll.) and the Income Tax Act (Act No. 586/1992 Coll.). This Act introduces significant changes to the construction savings:

- reduction of the annual state support for all contracts to 10 percent of the maximum amount of CZK 20,000 (i.e. max CZK 2,000)
- taxation of the state support for year 2010, which will be paid in 2011 with the tax rate of 50 percent.
- abolition of tax exemption on interest income from deposits (implementation rate of 15 percent), which relates to the interests paid after the entry into force of amendments to the Act, after 1 January 2011.

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## 2. Basis of Preparation

### (A) ACCOUNTING PRINCIPLES

The financial statements have been prepared on the basis of the underlying accounting books and records maintained in accordance with Accounting Act 563/1991 Coll., and relevant directives and regulations applicable in the Czech Republic. These financial statements have been prepared on the accruals basis of accounting and under the historical cost convention, the only exception being assets that are measured at fair value. Comparative figures for the previous financial reporting period are reported reflecting the conditions that existed in the period for which the financial statements are prepared.

The financial statements have been prepared in accordance with Regulation of the Czech Finance Ministry 501/2002 Coll., which provides implementation guidance on the composition and substance of the items in the financial statements and scope of information to be disclosed by banks and certain financial institutions (hereinafter "Regulation no. 501"), as amended, and in accordance with Czech Accounting Standards for Financial Institutions.

The Bank is subject to the regulatory requirements of the Czech National Bank (henceforth the "CNB"). These regulations include those pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk and foreign currency position.

The financial statements include the balance sheet, the profit and loss account, the statement of changes in equity and notes to the financial statements. These financial statements are unconsolidated. Data in financial statements are presented in thousands of Czech crowns.

### (B) TRANSACTION RECOGNITION DATE

The date of the recognition of transactions is the date of payment or receipt of cash, the day of purchase or sale of securities, the date on which a payment is made or an amount is collected from the client's account, the day of issuing an order to the correspondent to make a payment, the day of settlement of the Bank's orders with the CNB Clearing Centre, the trade date and the settlement date relating to transactions with securities, the day on which ownership title to assets originates or expires, the day when a receivable or payable originates, changes or is extinguished, a deficit, shortfall, surplus, damage or transfer of assets within the Company are identified or other events that are subject to accounting.

Purchases and sales of financial assets are retained off balance sheet in the period between the trade date and the settlement date. At settlement, the off balance sheet entry is reversed and the settlement is brought onto the face of the balance sheet.

### (C) FOREIGN CURRENCY TRANSLATION

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate prevailing as at the transaction. On the balance sheet date monetary items are adjusted to the exchange rates as published by the Czech National Bank as of 31 December.

Realized and unrealized exchange rate gains and losses were charged or credited, as appropriate, to income for the year.

### (D) PROVIDED LOANS AND PROVISIONS AGAINST LOAN LOSSES

Amounts receivable arising from loans provided to clients are stated at the outstanding principal amount and accrued interest and fees, net of provisions. Accrued interest income is included in the carrying amount of these receivable balances.

Receivables are reviewed for recoverability. Based on such reviews, provisions are created for individual receivables. The level of provisioning is established in accordance with CNB Regulation 123/2007, as amended, stipulating rules for the assessment of receivables arising from financial activities and the creation of provisions and reserves, and rules for the acquisition of certain classes of assets. The guidance used in recognizing provisions for the period is set out in Note 28 (a) of these financial statements. Provisions charged against expenses are presented in 'Write-offs, charge for and use of provisions and reserves for receivables and guarantees' in the sub-ledger accounts for income tax liability reporting purposes.

The tax-deductible portion of the period's charge for the recognition of reserves and provisions for loan losses is calculated in accordance with the requirements of Section 5 ('Banking Reserves and Provisions') of the Provisioning Act 593/1992 Coll.

The write-off of irrecoverable receivables is accounted for as 'Write-offs, charge for provisions and reserves for receivables and guarantees' in the profit and loss account as well as the relevant balance of provisions and reserves. Recoveries from receivables previously written off are included in 'Release of provisions and reserves for receivables and guarantees and recoveries of receivables previously written off'.

## (E) SECURITIES

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Pursuant to Section 9 of the Construction Savings and Construction Savings State Support Act 96/1993 Coll., the Bank acquires Government bonds or bonds guaranteed by the Government, bonds issued by the CNB, mortgage bonds issued by the member states of the Organization for Economic Cooperation and Development (OECD), bonds issued by the OECD states, the central banks and financial institutions of these states and banks seated in these states, and bonds issued by the European Investment Bank (EIB), Nordic Investment Bank (NIB), and the European Central Bank (ECB).

Securities held by the Bank are categorized into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy.

At settlement, debt securities, treasury bills and mortgage bonds are initially recognized in the balance sheet at cost which comprises the net purchase cost, the proportionate part of the discount or premium and direct transaction costs related to the acquisition of securities. Accrued interest income is reflected in the carrying amount of these securities.

### Securities Available for Sale

Securities available for sale are measured at fair value with the changes in fair values being recognized through the balance sheet in equity. If there is objective evidence that a security may be impaired, the amount corresponding to the impairment is included in the profit and loss account with a corresponding entry to gains or losses from revaluation.

The fair value of securities is determined by reference to the market value prevailing at the fair value measurement date if the Bank proves that the security can be sold at the market value.

The fair values of publicly tradable securities are equal to the reference prices of the debt securities published by the Prague Stock Exchange at the fair value measurement date. In circumstances where this price is not readily obtainable, the fair value is equal to the value published by the market maker.

Transactions under which securities are sold with the commitment to repurchase the securities (repo transactions) for a pre-determined price or are purchased with the commitment to sell the securities (reverse repo transactions) are treated as collateralized received or provided loans. Ownership title underlying these securities passes to the entity issuing the loan. Securities transferred under repo transactions continue to be reported within the relevant securities accounts on the Bank's balance sheet, with the amount acquired through the transfer of securities under repo transactions being included in 'Amounts owed to banks'. Securities acquired under reverse repo transactions are maintained off balance sheet in the line 'Received collateral'. Loans provided under reverse repo transactions are presented within 'Amounts due from banks and savings associations'.

Income/expenses arising under reverse repo transactions/repo transactions representing the difference between the cost and the selling price are accrued over the life of the transaction and are reported in the profit and loss account lines 'Interest income and similar income' or 'Interest expense and similar expenses' as appropriate.

### Publicly non-tradable debt securities acquired in primary placements

Upon initial recognition, publicly non-tradable debt securities acquired in primary placements are carried at the acquisition cost which includes direct transaction costs. The valuation from the purchase settlement date to maturity or the sale settlement date is gradually increased (decreased) to reflect accrued interest income (expenses). If debt securities acquired in primary placements not held for trading are sold, the difference between the accrued amount not adjusted for provisions and the selling price at the sale/sale settlement date is recognized in income or expenses as profit or loss from the sale of securities.

## (F) FINANCIAL DERIVATIVES AND HEDGING

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In the ordinary course of business are realized derivative transactions classified at the date of contract as hedging operations.

Hedging derivatives fulfill simultaneously these following conditions:

- appropriate strategy of the Bank within the risk management,
- at the beginning of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged items and hedging instruments, the definition of risk that is being hedged and the approach to identify and authenticate efficiency of the hedge,
- it is expected that the hedge is highly effective at inception and throughout the period,
- current fair value changes, respectively cash flows of the hedged and hedging instruments are almost aligned (in the range 80-125 percent).

Hedging derivatives are accounted according to the type of the hedging relationship which can be either:

- (i) fair value hedge of a recognized asset or liability or firm commitment (fair value hedge) or;
- (ii) hedging of the future cash flow attributable to a recognized asset or liability or a forecasted transaction (cash flow hedge) or;
- (iii) hedging of the investment in a foreign subsidiary.

To the date of the Financial Statements, the Bank uses a type of hedging relationship as fair value hedges. Changes in the fair value of derivatives that are identified as fair value hedges and qualify for hedge accounting in relation to hedged risk, are charged in income along with the change in fair value of the hedged asset or liability, that is attributable to the hedged risk and recognized in "Net interest income".

If the hedge no longer meets the criteria for hedge accounting, an adjustment of the accounting value of a hedged interest-bearing financial instrument is written off to the profit over the period to maturity of the hedged item.

The fair values of derivatives classified as hedges are set out in paragraph 22 of the Notes.

### (G) TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible fixed assets include tangible assets with a cost greater than CZK 40,000 and an estimated useful life exceeding one year.

Intangible fixed assets include assets with the cost of individual components greater than CZK 60,000 and an estimated useful life exceeding one year.

Tangible and intangible fixed assets are stated at cost less accumulated depreciation and are depreciated over their estimated useful lives. Depreciation periods of individual classes of tangible and intangible fixed assets are as follows:

	<b>Depreciation period for accounting purposes</b>
Buildings	40 years
Machinery and equipment	12 years
Energy machines	20 years
Furniture and fixtures	6 years
Vehicles	5 years
Office equipment	4 years
Software	4 years or based on the estimated useful life, as appropriate
Other intangible assets	5 years

Assets with a cost lower than CZK 60,000 and CZK 40,000 are not treated as intangible and tangible fixed assets, respectively, and are expensed in the period of acquisition, except for the collectively acquired licences with a cost higher than CZK 60,000. Assets with a cost higher than CZK 1,000 are maintained in the underlying operating records.

External costs of technical improvements in respect of tangible and intangible fixed assets are capitalized and increase the acquisition cost of the related fixed asset. Asset maintenance costs are charged directly to the profit and loss account when the expenditure is incurred. Internal (staff) costs incurred in respect of the project involving software development are also capitalized.

Assets held under finance leases are depreciated by the lessor.

### (H) RESERVES

The Bank recognizes reserves for liabilities with uncertain timing and amount in the event that:

- it has an obligation (legal or constructive);
- it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; “likely” means the likeliness higher than 50 percent; and
- an appropriately reliable estimate can be made of the amount of the obligation.

Reserves are used only for the purposes for which they were recognized. If there is no longer a reason for maintaining the reserve, the Bank releases the reserve to income.

### (I) PROVISIONING

The Bank recognizes provisions for assets that are not revaluated at fair value in circumstances where the carrying amount of the assets as stated in the books is temporarily impaired. Provisions are recognised in respect of amounts due from clients, tangible and intangible assets and other assets. The recognition of provisions is charged to expenses and credited to the relevant provisioning account. The recognition, use and release of provisions is reported in the relevant profit and loss account lines.

### (J) RECOGNITION OF INCOME AND EXPENSE

Interest income and expense are recognized on an accrual basis, in the period to which they relate, irrespective of when they are paid or received, the only exception being default interest. Accrued interest income and expenses related to assets and liabilities are included in the aggregate balances of those assets and liabilities.

Interest income on securities held is recognized using the effective interest rate method (EIR). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument.

The Bank reports fees and commissions particularly from construction savings schemes and provided loans. Commission and fee income and expenses are recognized on the accruals basis in the period to which they relate, irrespective of when they are paid or received and are classified in Income/expense from fees and commissions. Operating income and expenses and administrative expenses are recognized on the same principle.

Past due interest or interest where management of the Bank expects that it is not likely to be recovered, is recognized in income and provisions in the corresponding amount are recorded and charged to the profit and loss account.

Default interest is recognized when collected (default interest payments are disclosed in the paragraph 3 of the Note).

#### **(K) USE OF ESTIMATES**

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The presentation of financial statements in conformity with the accounting regulations applicable in the Czech Republic requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and their reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the determination of fair values of financial instruments, valuation of intangible assets, impairment of assets and provisions, are based on the information available at the balance sheet date.

Management of the Bank has determined these estimates and assumptions by reference to the relevant information available to it.

The Bank recognizes an estimated receivable also reported as a payable to clients as equal to the amount of the estimated state subsidy which will be added to the deposit accounts of clients in the following year.

#### **(L) FINANCE LEASE**

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A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases is amortized and expensed over the lease period.

Leasehold improvements are depreciated over the lease term. Following the transfer of ownership title to the leased asset to the lessee, the cost of improvements is added to the value of acquired assets and the depreciation of this increased amount continues.

#### **(M) INCOME TAXES**

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The income tax base is calculated using the profit for the period adjusted by adding tax non-deductible expenses and deducting non-taxable income. The income tax base is additionally adjusted to reflect tax relief and tax credits, if any. Taxation is calculated at the period-end in accordance with the Income Taxes Act 586/1992 Coll., as subsequently amended. The currently enacted tax rate is 19 percent for 2010.

Deferred tax is accounted for using the balance sheet liability method. Deferred tax is provided using the balance sheet liability method on all temporary differences between the tax base of an asset or liability and the carrying amounts stated in the balance sheet. The amount of deferred tax asset or liability is calculated as equal to the resulting difference multiplied by the income tax rate effective pursuant to the Income Taxes Act 586/1992 Coll., or the income tax rate that is expected to apply in the period when the tax liability is settled or the asset realized. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

A deferred tax liability is always recognized. A deferred tax asset is recognized only to the extent that there is no doubt about its future recoverability and only up to the amount of likely future taxable income.

Deferred tax assets and liabilities are offset and reported on a net basis in 'Other assets' or 'Other liabilities.'

#### **(N) YEAR-ON-YEAR CHANGES IN VALUATION, DEPRECIATION AND ACCOUNTING METHODS**

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There were no changes in the year ended 31 December 2010.

### 3. Net Interest Income

CZK '000	2010	2009
<b>Total interest income</b>	<b>3,518,602</b>	<b>3,247,488</b>
On deposits (deposits with financial institutions, interbank transactions including repurchase transactions)	511,264	499,130
On loans	2,388,118	2,124,171
On securities (including premium and discount amortization)	579,507	624,187
On interest rate swap	39,713	0
<b>Total interest expense</b>	<b>1,879,227</b>	<b>1,792,613</b>
On client's deposits	1,786,243	1,733,066
On subordinated debt	19,940	27,952
On repo transactions	7,965	19,427
On interest rate swap	56,052	0
Other	9,027	12,168
<b>Net interest income</b>	<b>1,639,375</b>	<b>1,454,875</b>

Net interest income on loans and client's deposits is CZK 601,875 thousand (2009: CZK 391,105 thousand). The increase is due to annual increases in the volume of loans and deposits received from clients.

Net interest expense from hedging interest rate derivatives amounts CZK 16,339 thousand. CZK (2009: CZK 0). Hedging interest rate derivatives are used to provide the fair value. Change in the fair value is given in the paragraph 22 of these Notes.

During the year ended 31 December 2010, the Bank collected default interest of CZK 28,840 thousand (2009: CZK 24,242 thousand). The increase is principally the result of a greater volume of withdrawn receivables and collections. Outstanding default interest which is maintained off balance sheet amounted to CZK 65,935 thousand as of 31 December 2010 (2009: CZK 49,492 thousand).

### 4. Net Fees and Commissions

CZK '000	2010	2009
<b>Commission and fee income</b>		
on client transactions including commissions from the KB financial group and other companies	592,167	660,452
<b>Total</b>	<b>592,167</b>	<b>660,452</b>
<b>Commission and fee expenses</b>		
on transactions with securities	89	103
on client transactions including commissions to the KB financial group	395,245	485,845
Other	36,661	35,458
<b>Total</b>	<b>431,995</b>	<b>521,406</b>
<b>Net fees and commissions</b>	<b>160,172</b>	<b>139,046</b>

### 5. Net Profit or Loss on Financial Operations

As of 31 December 2010, the Bank recorded no transactions with securities available for sale.



## 6. Staff Costs

CZK '000	2010	2009
<b>Staff costs</b>		
Staff salaries and bonuses	202,662	196,326
Social security and health insurance	61,325	59,128
Other social costs	14,552	18,438
<b>Total</b>	<b>278,539</b>	<b>273,892</b>

## AVERAGE HEADCOUNT

	2010	2009
Staff	358	367

Stated as the average number of employees since the beginning of the year.

## 7. General Operating Costs

### ADMINISTRATIVE COSTS

CZK '000	2010	2009
Rent and other services relating to rent	52,929	52,953
Low value assets	10,458	6,879
Costs of technical equipment	39,137	32,001
Consumed material	14,946	16,299
Audit, advisory	2,393	3,194
Taxes and fees	6,917	9,088
Consumed energy	14,169	12,576
Repairs and maintenance	10,839	10,261
Postage, transportation and telecommunication	26,357	27,461
Sale promotion	17,699	16,705
Public relations, advertising	93,361	96,992
Other	24,649	24,399
<b>Total administrative costs</b>	<b>313,854</b>	<b>308,808</b>

### OTHER OPERATING INCOME

CZK '000	2010	2009
Other	23,572	7,840
Income from the transfer of assets	714	576
<b>Total</b>	<b>24,286</b>	<b>8,416</b>

The increase in 'Other' in 2010 principally includes the one-off charging of legal fees for previous years in the amount of CZK 13,817 thousand.

### OTHER OPERATING EXPENSES

CZK '000	2010	2009
Annual contribution to the Deposit Insurance Fund	38,024	27,487
State support covered from internal funding	723	950
Other	4,806	5,991
<b>Total</b>	<b>43,553</b>	<b>34,428</b>

In accordance with the Banking Act, the contribution to the Deposit Insurance Fund amounted 0.05 percent annually to 30 June 2010, from 1 July 2010 0.08 percent annually of the amount of insured deposits.

**8. Depreciation**

CZK '000	2010	2009
Depreciation of tangible and intangible fixed assets	58,141	57,265
<b>Total</b>	<b>58,141</b>	<b>57,265</b>

**9. Write-offs, Charge for, Use and Release of Provisions for Receivables and Recoveries of Receivables Written off****PROVISIONS FOR CLASSIFIED RECEIVABLES**

CZK '000		
<b>Provisions for classified receivables</b>		
<b>Balance at 1 January 2009</b>		<b>491,224</b>
Charge during the year		269,870
Monitored loans		74,340
Substandard loans		76,579
Doubtful loans		53,689
Loss loans		65,262
Use during the year		130,483
Write-off of loans		(1,298)
Release of redundant provisions		(129,185)
<b>Balance of provisions at 31 December 2009</b>		<b>630,611</b>
<b>Balance at 1 January 2010</b>		<b>630,611</b>
Charge during the year		255,436
Monitored loans		51,297
Substandard loans		71,226
Doubtful loans		47,851
Loss loans		85,062
Use during the year		149,323
Write-off of loans		(618)
Release of redundant provisions		(148,705)
<b>Balance of provisions at 31 December 2010</b>		<b>736,724</b>

The Company created non-tax deductible provisions for interest in the year ended 31 December 2010 in the amount of CZK 985 thousand (2009: CZK 1,138 thousand).

**RELEASE OF PROVISIONS AND RESERVES AGAINST RECEIVABLES AND GUARANTEES, INCOME FROM RECEIVABLES PREVIOUSLY WRITTEN OFF**

CZK '000	2010	2009
Release of provisions against receivables	149,269	129,185
Recoveries of receivables previously written off	5,822	9,154
<b>Release of provisions and reserve against receivables and guarantees, recoveries of receivables previously written off</b>	<b>155,091</b>	<b>138,339</b>

**WRITE-OFFS, RECOGNITION AND USE OF PROVISIONS AND RESERVES AGAINST RECEIVABLES AND GUARANTEES**

CZK '000	2010	2009
Recognition of provisions against receivables	(255,436)	(269,870)
Recognition of provisions against other assets	(14,142)	(504)
Write-off of receivables	(2,097)	(1,573)
Use of provisions against written off receivables	618	1,298
Use of provisions against other assets	867	7
<b>Write-offs, recognition and use of provisions and reserves against receivables and guarantees</b>	<b>(270,190)</b>	<b>(270,642)</b>

## 10. Income Tax

CZK '000	2010	2009
Pre-tax profit or loss for the period	1,025,890	797,110
Non-taxable income	(573,287)	(531,437)
Non-tax deductible expenses	39,546	28,571
Other items (tax and accounting depreciation charges)	(59,531)	(58,212)
Sponsorship	(355)	(400)
<b>Tax liability (19 percent)</b>	<b>82,130</b>	<b>47,126</b>
Used tax relief and deductions	(156)	(156)
<b>Income tax charge</b>	<b>81,974</b>	<b>46,970</b>
Deferred tax credit/charge	11,200	11,374
Tax refunds and arrears	2,575	(902)
<b>Total income taxation</b>	<b>95,749</b>	<b>57,442</b>

Refunds and arrears of taxes as of 31 December 2010 include especially the settlement of the corporate income tax for the year 2009 in the amount of CZK 23.5 thousand and refunds for the years 2006-7 in the amount of CZK 487 thousand due to the tax deductibility of state subsidy paid from own resources and additional tax paid for the years 2004-9 in the amount of CZK 3,053 thousand due to the one-off charging of legal fees for the previous years in income.

## 11. Allocation of Profit

The Bank's profit for the year ended 31 December 2010 amounted to CZK 930,141 thousand. Profit distribution proposal for the year 2010 was not available at the date of creation of the annual financial statements. In the year ended 31 December 2009, the Bank's profit amounted to CZK 739,668 thousand and the General Meeting approved the transfer of the total profit for 2009 into retained earnings.

## 12. Cash in Hand and Balances with the Czech National Bank

CZK '000	2010	2009
Cash in hand	0	3,217
Deposits at the Czech National Bank	694,810	1,148,230
Reverse repo loans with the Czech National Bank	0	0
<b>Total</b>	<b>694,810</b>	<b>1,151,447</b>

As of 31 December 2010 the Bank has no cash in hand. Cash in hand as of 31 December 2009 includes cash in transit of CZK 3,217 thousand. Balances with the Czech National Bank represent mandatory minimum reserves. These mandatory minimum reserves with the Czech National Bank bear interest. At the end of 2010, the interest rate was 0,75 percent (the 2009 year-end: 1 percent).

## 13. Amounts Due from Banks

### CURRENT ACCOUNTS AND TERM DEPOSITS

CZK '000	2010	2009
Operating account with KB (repayable at call)	5,737	7,567
Term deposits	0	0
<b>Total amounts due from banks</b>	<b>5,737</b>	<b>7,567</b>

### PUBLICLY NON-TRADABLE DEBT SECURITIES ACQUIRED IN PRIMARY PLACEMENTS NOT ACQUIRED WITH A VIEW TO THEIR SALE IN THE IMMEDIATE OR SHORT FUTURE AND ARE NOT MEASURED AT FAIR VALUE

CZK '000	2010	2009
Mortgage bonds issued by financial institutions	13,133,212	11,460,221
Of which: accrued interest income (including premium and discount)	92,307	125,696

Publicly non-tradable debt securities acquired in primary placements consist of a security in the certificate form with a fixed interest income in the aggregate amount of CZK 3,180,990 thousand and securities in the certificate and booked form with a variable interest rate fixed for determined periods; as of the fixing date, both the investor and the issuer have the possibility to sell/repurchase the securities in the aggregate amount of CZK 9,952,222 thousand (2009: CZK 8,265,542 thousand).

These securities held by the Bank at the balance sheet date are not listed.

## 14. Amounts Due from Clients

### CLASSIFICATION OF AMOUNTS DUE FROM CLIENTS

Since 1996, the Bank has been providing clients with both bridging loans until they become entitled to receive a construction savings loan and loans arising under the Construction Savings Act.

### AMOUNTS DUE FROM CLIENTS

CZK '000	2010	2009
Granted loans	7,125,863	7,324,035
Bridging loans	42,594,583	38,237,069
<b>Total loans (gross)</b>	<b>49,720,446</b>	<b>45,561,104</b>
Other amounts due from clients	59,150	40,629
<b>Total amounts due from clients (gross balance)</b>	<b>49,779,596</b>	<b>45,601,733</b>
Provisions against granted loans	(68,637)	(66,467)
Provisions against bridging loans	(668,088)	(564,144)
Provisions against other amounts due from clients	(13,216)	0
<b>Total provisions</b>	<b>(749,941)</b>	<b>(630,611)</b>
<b>Total amounts due from clients (net balance)</b>	<b>49,029,655</b>	<b>44,971,122</b>

### GRANTED LOANS

CZK '000	2010	2009
Standard	6,979,315	7,169,021
Monitored	44,052	64,042
Substandard	56,542	48,536
Doubtful	5,903	8,807
Loss	40,051	33,629
<b>Granted loans (gross balance)</b>	<b>7,125,863</b>	<b>7,324,035</b>

### BRIDGING LOANS

CZK '000	2010	2009
Standard	40,678,766	36,640,025
Monitored	750,170	620,954
Substandard	532,309	436,854
Doubtful	86,338	118,797
Loss	547,000	420,439
<b>Total bridging loans (gross balance)</b>	<b>42,594,583</b>	<b>38,237,069</b>

## ANALYSIS OF GRANTED LOANS AND BRIDGING LOANS TO CLIENTS BY TYPE OF COLLATERAL

Type of collateral (CZK '000)	2010	2009
Bank guarantees	194,203	109,850
Real estate	32,743,538	29,360,191
Guarantors	3,397,284	4,214,559
Deposits	6,108,165	5,182,180
Uncollateralised	7,277,256	6,694,324
<b>Total</b>	<b>49,720,446</b>	<b>45,561,104</b>

The collateral values presented above represent types of collateral accepted by the Bank but only to the amount of loan balances. If collateral is combined, the loan is split into portions and reported on several lines based on the collateral quality.

## ANALYSIS OF LOANS TO CLIENTS BY SECTOR – GROSS BALANCE

CZK '000	2010	2009
Resident individuals	47,946,519	44,356,638
Legal entities, housing associations, etc.	1,773,927	1,204,466
Municipalities	0	0
<b>Total (gross amount)</b>	<b>49,720,446</b>	<b>45,561,104</b>

## AMOUNTS DUE FROM CLIENTS WRITTEN OFF AND RECOVERIES OF RECEIVABLES WRITTEN OFF

CZK '000	2010	2009
<b>Receivables written off</b>	<b>(2,097)</b>	<b>(1,573)</b>
Amounts due from clients written off	(1,302)	(1,493)
Other amounts due written off	(795)	(80)
<b>Recoveries of receivables written off</b>	<b>5,822</b>	<b>9,154</b>
Of which: Recoveries of amounts due from clients written off	5,822	9,154
Recoveries of amounts due sold	0	0

## 15. Securities Available for Sale

### STATE ZERO-COUPON BONDS AND OTHER SECURITIES ELIGIBLE FOR REFINANCING WITH THE CENTRAL BANK

CZK '000	2010	2009
Carrying amount of state zero-coupon bonds and other securities eligible for refinancing with the central bank	12,086,229	15,774,599
Of which: accrued interest income (including premium and discount)	(203,283)	(4,865)

### DEBT SECURITIES

CZK '000	2010	2009
Mortgage bonds issued by financial institutions	269,815	265,265
Of which: accrued interest income (including premium and discount)	(4,392)	(2,806)

The amount of valuation differences of securities charged against equity before taking into account the effect of deferred tax amounted to CZK 543,245 thousand (2009: CZK 589,507 thousand) as of 31 December 2010.

All securities available for sale held by the Bank at the balance sheet date are listed on the Prague Stock Exchange.

**16. Deferred Expenses and Accrued Income and Other Assets****DEFERRED EXPENSES AND ACCRUED INCOME**

<b>CZK '000</b>	<b>2010</b>	<b>2009</b>
Office material in stock	389	547
Car lease	6,419	2,573
Other (rental, meal tickets, newspaper subscriptions, magazines, etc.)	7,512	6,372
<b>Total</b>	<b>14,320</b>	<b>9,492</b>

**OTHER ASSETS**

<b>CZK '000</b>	<b>2010</b>	<b>2009</b>
Prepayments made to suppliers	13,790	12,002
Various debtors	7,811	7,488
Estimated receivables for state subsidy	813,814	1,728,318
Estimated commission, invoices not issued, other	5,074	11,031
Settlement with the State budget	574	244
Receivables from employees (staff loans)	4,462	8,776
<b>Total other assets</b>	<b>845,525</b>	<b>1,767,859</b>
Provisions against other receivables	(3,672)	(4,178)
<b>Total other assets</b>	<b>841,853</b>	<b>1,763,681</b>

**17. Intangible Assets****SUMMARY OF INTANGIBLE FIXED ASSETS**

<b>CZK '000</b>	<b>Software</b>	<b>Prepayments</b>	<b>Other intangible fixed assets</b>	<b>Investments under construction</b>	<b>Total</b>
<b>Cost</b>					
At 1 January 2009	390,875	0	8,339	47,991	447,205
Additions	71,015	0	0	39,525	110,540
Other movements	0	0	0	0	0
Disposals	(133,450)	0	0	(71,015)	(204,465)
<b>At 31 December 2009</b>	<b>328,440</b>	<b>0</b>	<b>8,339</b>	<b>16,501</b>	<b>353,280</b>
At 1 January 2010	328,440	0	8,339	16,501	353,280
Additions	24,916	0	4,739	33,521	63,176
Other movements	0	0	0	0	0
Disposals	0	0	0	(29,655)	(29,655)
<b>At 31 December 2010</b>	<b>353,356</b>	<b>0</b>	<b>13,078</b>	<b>20,367</b>	<b>386,801</b>
<b>Accumulated amortisation and provisions</b>					
At 1 January 2009	206,545	0	8,339	0	214,884
Annual charges	30,652	0	0	0	30,652
Disposals	(133,450)	0	0	0	(133,450)
<b>At 31 December 2009</b>	<b>103,747</b>	<b>0</b>	<b>8,339</b>	<b>0</b>	<b>112,086</b>
At 1 January 2010	103,747	0	8,339	0	112,086
Annual charges	33,812	0	0	0	33,812
Disposals	0	0	0	0	0
<b>At 31 December 2010</b>	<b>137,559</b>	<b>0</b>	<b>8,339</b>	<b>0</b>	<b>145,898</b>
<b>Net book value</b>					
<b>At 31 December 2009</b>	<b>224,693</b>	<b>0</b>	<b>0</b>	<b>16,501</b>	<b>241,194</b>
<b>At 31 December 2010</b>	<b>215,797</b>	<b>0</b>	<b>4,739</b>	<b>20,367</b>	<b>240,903</b>

## 18. Tangible Assets

### SUMMARY OF TANGIBLE ASSETS

CZK '000	Land and buildings	Tools, office equipments and others	Prepayments	Tangibles under construction	Total
<b>Cost</b>					
At 1 January 2009	522,414	187,790	0	2,878	713,082
Additions	44	7,440	0	5,487	12,971
Other movements	0	0	0	0	0
Disposals	0	(6,186)	0	(8,365)	(14,551)
<b>At 31 December 2009</b>	<b>522,458</b>	<b>189,044</b>	<b>0</b>	<b>0</b>	<b>711,502</b>
At 1 January 2010	522,458	189,044	0	0	711,502
Additions	38	5,133	0	5,502	10,673
Other changes	0	0	0	0	0
Disposals	0	(4,612)	0	(5,171)	(9,783)
<b>At 31 December 2010</b>	<b>522,496</b>	<b>189,565</b>	<b>0</b>	<b>331</b>	<b>712,392</b>
<b>Accumulated amortization and provisions</b>					
At 1 January 2009	126,690	146,862	0	0	273,552
Annual charges	10,098	16,515	0	0	26,613
Disposals	0	(6,154)	0	0	(6,154)
<b>At 31 December 2009</b>	<b>136,788</b>	<b>157,223</b>	<b>0</b>	<b>0</b>	<b>294,011</b>
At 1 January 2010	136,788	157,223	0	0	294,011
Annual charges	10,098	14,233	0	0	24,331
Disposals	0	(4,612)	0	0	(4,612)
<b>At 31 December 2010</b>	<b>146,886</b>	<b>166,844</b>	<b>0</b>	<b>0</b>	<b>313,730</b>
<b>Net book value</b>					
<b>At 31 December 2009</b>	<b>385,670</b>	<b>31,821</b>	<b>0</b>	<b>0</b>	<b>417,491</b>
<b>At 31 December 2010</b>	<b>375,610</b>	<b>22,721</b>	<b>0</b>	<b>331</b>	<b>398,662</b>

In addition to the above stated, at the balance sheet date the Bank reported 24 cars (2009: 10 cars) acquired under a long-term finance lease contract; the acquisition cost of the cars amounts CZK 12,723 thousand (2009: CZK 6,016 thousand).

## 19. Equity Investments

The Bank held no equity investments in other companies.

## 20. Amounts Owed to Banks

As of 31 December 2010, the Bank reported amounts owed to banks arising from term deposits (as of 31 December 2009: from received term deposits, received repurchase loans and subordinated debt). The Bank does not provide other banks with guarantees for loans to its clients and does not accept any bills of exchange.

### AMOUNTS OWED TO BANKS

CZK '000	2010	2009
Term deposits	900,010	800,008
Repurchase loans	0	2,024,219
Subordinated debts	0	552,366
<b>Total amounts owed to banks</b>	<b>900,010</b>	<b>3,376,593</b>

Subordinated debts provided to the Bank in 2004 totaling CZK 550,000 thousand were prematurely repaid on 1 December 2010.

**21. Amounts Owed to Clients****TOTAL AMOUNTS OWED TO CLIENTS**

CZK '000	2010	2009
Deposits received from clients under construction savings schemes	68,177,784	65,323,698
Other payables to clients	127,296	148,808
State subsidy claims	813,814	1,728,318
<b>Total</b>	<b>69,118,894</b>	<b>67,200,824</b>
Of which: Repayable at call	243,837	279,588

The level of state subsidy arising under construction savings schemes as of 31 December 2010 is estimated on the basis of the client deposit balance at the end of the month, while the amount of CZK 813,814 thousand already takes account withholding tax under a special tax rate of 50 percent. The state subsidy for 2010 will be credited to client accounts after its level is approved by the Czech Finance Ministry during 2011.

**22. Accrued Expenses and Deferred Income and Other Liabilities****ACCRUED EXPENSES AND DEFERRED INCOME**

CZK '000	2010	2009
Annual bonuses, over-time hours, outstanding vacation days, fine + social security and health insurance	32,250	31,071
Estimate for advantageous interest	523,185	780,037
Deferred income – (rental)	40	45
<b>Total</b>	<b>555,475</b>	<b>811,153</b>

The estimate for advantageous interest to clients represents accrued expenses for client deposits in respect of the Profit tariff (construction savings contracts concluded prior to 30 June 2001) which are recognised on an ongoing basis and to which the clients become entitled under certain conditions.

**OTHER LIABILITIES**

CZK '000	2010	2009
Estimated payables	200,035	221,866
Of which: Commission for mediating construction savings contracts and loan contracts	120,140	140,564
Other (predominantly unbilled supplies)	79,895	81,302
Suppliers	40,012	40,571
Settlement with employees	11,021	12,837
Settlement with the state budget	45,851	26,240
Settlement with social authorities	5,719	5,032
Deferred tax liability	125,998	126,054
Other temporary liabilities	513	688
Change in fair value of interest rate swap	50,536	0
<b>Total other liabilities</b>	<b>479,685</b>	<b>433,288</b>

**23. Reserves****DEVELOPMENT OF THE RESERVE AND OTHER TAX NON-DEDUCTIBLE RESERVES IN 2010 AND 2009 WAS THE FOLLOWING:**

CZK '000	
Balance at 1 January 2009	27,521
Use of the reserve for default interest	(158)
Recognition of a reserve for employee jubilees and loyalty bonuses (net)	(166)
Recognition of the reserve for operating expenses	750
Recognition of the reserve for legal disputes	637
Release of the reserve for legal disputes	(661)
Use of the reserve for legal disputes	(1,871)
<b>Balance of tax non-deductible reserves at 31 December 2009</b>	<b>26,052</b>



Non-deductible reserves as at 31 December 2009 represents the reserve for the project Neubau in the amount of CZK 10,837 thousand., the reserve for seizure in the amount of CZK 750 thousand, the reserve for penalties from Anti-monopoly Office of CZK 9,100 thousand, the reserve for employee jubilees and loyalty bonuses in the amount of CZK 1,692 thousand and the reserve for legal disputes with sales of CZK 3,386 thousand and with clients in the amount of CZK 287 thousand.

#### CZK '000

Balance at 1 January 2010	26,052
Recognition of the reserve for default interest	730
Use of the reserve for default interest	(730)
Recognition of a reserve for employee jubilees and loyalty bonuses (net)	170
Release of the reserve for operating expenses	(11,287)
Recognition of the reserve for legal disputes	17
Release of the reserve for legal disputes	(142)
<b>Balance of tax non-deductible reserves at 31 December 2010</b>	<b>14,810</b>

Non-deductible reserves as at 31 December 2010 represents the reserve for seizure of CZK 750 thousand., the reserve for penalties from Anti-monopoly Office in the amount of CZK 9,100 thousand, the reserve for employee jubilees and loyalty bonuses in the amount of CZK 1,863 thousand and the reserve for legal disputes with sales in the amount of CZK 2,935 thousand and with clients in the amount of CZK 162 thousand.

## 24. Deferred Tax

Deferred tax is calculated from temporary differences between the tax base and carrying value using tax rates effective in period when the use of temporary tax difference is estimated, i.e. 19 percent applicable in 2011 and used for 2010.

The deferred income tax for the year ended 31 December 2010 reflects a difference between the accounting and tax net book values of assets and the cost of social security and health insurance on planned bonuses for managers and an estimate made in respect of outstanding vacation days for 2010. The deferred tax liability with an impact on equity represents a difference on the fair value remeasurement of the portfolio of securities available for sale.

### DEFERRED TAX ASSET AND LIABILITY

CZK '000	2010	2009
Intangible and tangible fixed assets – difference between accounting and tax net book values	(140,073)	(80,648)
Social security and health insurance on planned bonuses, estimated vacation	7,189	6,713
<b>Total balance of temporary differences</b>	<b>(132,884)</b>	<b>(73,935)</b>
<b>Deferred tax asset with an impact on the profit and loss account at 31 December</b>	<b>(25,248)</b>	<b>(14,048)</b>
Remeasurement of available for sale securities	(530,263)	(589,507)
<b>Balance of the deferred tax asset charged against equity</b>	<b>(100,750)</b>	<b>(112,006)</b>

### DEVELOPMENT OF DEFERRED TAX ASSET AND LIABILITY

CZK '000	2010	2009
Deferred tax asset with an impact on profit or loss at 1 January	(14,048)	(2,673)
Deferred tax asset charged against equity at 1 January	(112,006)	(46,510)
<b>Deferred tax asset (+) / liability (-) at 1 January</b>	<b>(126,054)</b>	<b>(49,183)</b>
Current changes charged against profit or loss	(11,200)	(12,113)
Current changes charged against equity	11,256	(71,392)
Impact of the change in the tax rate	0	6,634
<b>Total current changes charged</b>	<b>56</b>	<b>(76,871)</b>
Deferred tax asset with an impact on profit or loss at 31 December	(25,248)	(14,048)
Deferred tax asset/liability with an impact on equity at 31 December	(100,750)	(112,006)
<b>Deferred tax asset (+) / liability (-) at 31 December</b>	<b>(125,998)</b>	<b>(126,054)</b>

## 25. Equity

The Bank's share capital amounts CZK 562,500 thousand composed of 5,625 registered shares that are not tradable with a nominal value of CZK 100 thousand each. The shares are registered in book-entry form. The sole shareholder of the Bank with the 100 percent equity investment is KB with its registered office at Na Příkopě 33, Prague 1.

As of 31 December 2010, the Bank carries the statutory reserve fund of CZK 100,000 thousand, general reserve fund of CZK 1,007,138 thousand and valuation differences of CZK 429,513 thousand (CZK 530,263 thousand on a gross basis and the relating deferred tax of CZK -100,750 thousand), in the year ended 31 December 2009: CZK 477,501 thousand (CZK 589,507 thousand on a gross basis and the relating deferred tax of CZK -112,006 thousand).

The Board of Directors of the sole shareholder KB approved at its meeting on 30 July 2010 repayment of the subordinated debt in the amount of CZK 550,000 thousand (see note 20) and increase of the bank capital in the same value (of which share capital CZK 62,500 thousand and share premium CZK 487,500 thousand).

Based on the decision of the sole shareholder of 2 November 2010 was proposed the registration of the capital increase in the Register of Companies. The registration was executed on 15 November 2010. Capital increase of CZK 62,500 thousand, i.e. 625 shares was entered in the Register of Companies on 7 December 2010.

## 26. Contingent Assets and Liabilities

The Bank reported no contingent assets and liabilities as of the balance sheet date.

### Legal Disputes and Administrative Proceedings

In 2004, the Anti-monopoly Office initiated administrative proceedings regarding the coordinated approach of construction savings banks to determining fees relating to the construction savings scheme. Based upon a ruling passed by the Antimonopoly Office, a penalty was imposed on the Bank and the Bank was also instructed to reverse, eventually adjust the level of certain fees as appropriate. The Bank filed an appeal against the ruling. The Anti-monopoly Office allowed the appeal and the original ruling was reversed. In new proceedings in 2005 and 2006, the Anti-monopoly Office issued two rulings on the reduction of the penalty.

The Bank filed a complaint with the Administrative Court against the final ruling. The fine was paid and the redundant reserve was released. The verdict of the Regional Court in Brno dated 8 January 2008 revoked the ruling of the Anti-monopoly Office and the fine was refunded to the Bank. On 11 February 2008, the Anti-Monopoly Office filed a complaint based on cassation against the ruling. The Bank recognized a reserve.

In February 2009, the cassation complaint of the Anti-Monopoly Office was dismissed by the court and the case was returned to the Anti-Monopoly Office for a new hearing and ruling. Until 31 December 2010 the ruling of the Anti-Monopoly Office in that case was pending. The Bank records the reserve in the amount of CZK 9,100 thousand.

As of 31 December 2010, in addition to the above-mentioned was the Bank not involved in any litigation, which would have on the company a significant impact.

## 27. Related Party Transactions

### TRANSACTIONS WITH KB FINANCIAL GROUP

CZK '000	2010	2009
<b>ASSETS</b>		
Operating loans with KB	5,737	7,567
KB mortgage loans available for sale	268,056	265,265
KB mortgage bonds – non-current financial investment	13,133,212	11,460,221
Estimate of the commission of the KB financial group (sale of products)	2,940	3,725
Other assets (purchased licenses, deferred expenses)	8	87
<b>Total</b>	<b>13,411,712</b>	<b>11,736,865</b>
<b>LIABILITIES</b>		
Received term deposit from KB	900,010	800,008
Received loan from KB (repurchase)	0	2,023,543
Received loan from KB – interest	0	676
Received subordinated loan from KB	0	550,000
Received subordinated loan from KB – interest	0	2,366
Payables to KB	1,068	2
Estimated payables – services and commissions to KB	2,335	16,694
Difference in the fair value of KB securities	7,497	3,120
Other liabilities	64,791	0
<b>Total</b>	<b>975,701</b>	<b>3,396,409</b>

<b>CZK '000</b>	<b>2010</b>	<b>2009</b>
<b>EXPENSES</b>		
Commissions and fees (KB)	22,085	38,511
Interest (KB)	73,044	31,593
Interest on subordinate debt (KB)	19,940	27,952
Net expenses for securities transactions (KB)	89	103
Other operating expenses (KB)	5,006	4,384
<b>Total</b>	<b>120,164</b>	<b>102,543</b>

<b>CZK '000</b>	<b>2010</b>	<b>2009</b>
<b>INCOME</b>		
Interest KB (term deposit, IRS)	39,945	321
Income from mortgage bonds of KB	513,180	491,457
Other operating income (KB)	60	70
Commission to the KB financial group (sale of products)	39,794	55,262
<b>Total</b>	<b>592,979</b>	<b>547,110</b>

#### REMUNERATION AND RECEIVABLES FROM MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

<b>CZK '000</b>	<b>2010</b>	<b>2009</b>
<b>Salaries and bonuses</b>		
To members of the Board of Directors	14,372	17,672
To members of the Supervisory Board	31	28
<b>Total</b>	<b>14,403</b>	<b>17,700</b>
Number of members of the Board of Directors at 31 December	3	3
Number of members of the Supervisory Board at 31 December	6	6

In case of the Board of Directors the assumption of annual bonus for 2010 was included (payment in 4/2011). The salaries of the members of the Supervisory Board elected by the Bank's employee have not been reflected in the above table.

As of 31 December 2010, the Bank records the loan receivable from the members of the Board of Directors in the amount of CZK 3,267 thousand (2009: CZK 0).

## 28. Risk Management

The inclusion of the Bank into the Société Générale/Komerční banka Group requires a gradual introduction of risk management standards adhered to by the whole Group which has a positive impact on the quality of management of all risks to which the Bank is exposed. The cooperation involves for example the implementation of tools for managing operational risks developed within the Group, introduction of scoring models in the area of retail receivables, and implementation of the IRB approach based on the model established in SG with respect to exposures on the financial market, etc.

### Capital Management

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. As part of the capital planning process, the Bank takes into account both internal and external factors which are reflected in the corresponding internal targets expressed in targeted Tier 1 values and the capital adequacy ratio. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.

The Bank uses the Internal Rating Based Advanced Approach for the credit risk capital requirement calculation in respect of amounts due from banks, central banks and central governments. The Bank uses the Standardised Approach for the credit risk capital requirement calculation in respect of other exposures.

For amounts due from banks the Bank will use a central economic rating model developed by Société Générale. The model is based on variables of a qualitative questionnaire, including quantitative financial criteria, and country support questionnaire. Central models have also been developed for sovereigns (central banks and central governments).

The Bank uses the Standardized Approach for the operational risk capital requirement calculation.

**(A) CREDIT RISK****Credit Risk Arising from Construction Savings (bridging and granted loan)**

In the credit risk management process, the roles of individual departments are established so as to comply with the CNB's regulatory requirements. Risk management and loan approval is separate from business activities at the level of the members of the Board of Directors. Any important decisions in the area of credit risk management are adopted by the Credit Risk Management Committee.

In addition to construction savings loans, the Bank provides 'bridging loans' to clients who have not yet met the criteria to be eligible to receive the construction savings loan. The bridging loans are designed to bridge the period over which the client is not yet entitled to receive a construction savings loan. The client drawing a bridging loan pays interest to a bridging loan account and, at the same time, makes mandatory additional payments to a savings account. The additional payments made to the savings account represent the credit risk indicator and make the client eligible for state support. Once the terms and conditions for the provision of a loan from the construction savings are met, the bridging loan is repaid partly from the amount accumulated on the savings account and partly from the newly provided loan from the construction savings.

Pursuant to the Construction Savings Act, loans advanced to the participants in the construction savings scheme must be used to accommodate their housing needs. The purpose of each loan is subject to the Bank's review.

The Construction Savings Act places a limit on the proportion of loans entered into with legal entities. A similar restriction is put in place in respect of the volume of bridging loans granted to clients. The volume of bridging loans, together with loans to persons whose products and services are designed to meet housing needs, must not exceed 20 percent of the sum of the target amounts of the concluded contracts. In addition to these regulatory limits, the Bank maintains a system of internal limits which, among others, comprises solvency and collateral requirements.

**Individuals ('fyzické osoby')**

The provision of loans to individuals represents the principal business of the Bank. As such, the loan portfolio is composed of a significant number of loan transactions of a relatively small volume and similar characteristics. With a view to limiting situations where the debtor is unable repay the loan as required, the Bank specifically refers to the following information (depending on the product type) in making a loan underwriting decision:

- Assessment of a client's repayment ability based on documented income which is anticipated to be sustained in the future (after taking into account the expenses of a client);
- Assessment of a client using the scoring models that reflect both the savings and credit history of the client in the Bank and other available information on clients;
- Assessment of negative information on a client (the Bank uses Bankovní registr klientů (Client Data Banking Register) operated by CBCB and the register operated by SOLUS as well as other internal or freely available negative information); and
- Assessment of the quality of provided collateral.

Internal rules set out requirements to be followed in collateralizing the provided loans. The Bank uses following forms of collateral: collateral by guarantors, by real estate, by deposits and by bank guarantees. Loans collateralized by real estate are largely issued up to 80 percent of the market value arrived at on the basis of an expert valuation report, for Hypoúvěr 100 mortgage loans up to 100 percent of the value arrived at on the basis of an expert valuation report. The Bank applies a conservative approach with respect to uncollateralized loans which are advanced only to clients with a history with the Bank or using the application scoring. Synergies within the KB Group have been reflected in the area of provided loans where the Bank employs the scoring models developed in close cooperation with KB.

**Legal Entities ('právnické osoby')**

Loans to legal entities are provided specifically to groups of owners of flats and housing associations. Loans provided to legal entities are assessed with reference to the financial position, debt service and payment health of the client at regular intervals.

**Recovery, Restructuring and Write-Offs of Receivables from Debtors**

The loan recovery process has three phases involving the prevention of the origination of classified loans, the out-of-court recovery phase and the court recovery phase. Classified loan receivables are recovered by the Distressed Loan Management Department and each overdue loan transaction is assessed on an individual basis.

At any phase of the loan recovery process, a loan restructuring can be performed. The restructuring is primarily effected by writing a bailiff's deed. Since October 2009, the Bank has also used restructuring in the form of a short postponement of principal payments (additional payments).

A loan receivable is written off when the Bank determines that the receivable has become irrecoverable specifically through its assessment of a debtor's financial and economic position and hence court recovery of the loan cannot be expected to be successful.

**Credit Risk Monitoring**

The Bank regularly monitors the development of the loan portfolio and, as part of its regular monitoring activities, it analyses the loan portfolio by individual types of products, clients, distribution channels, collateral, individual classification grades of receivables and other criteria.

The Bank uses the standard methodology of monitoring according to default rates, i.e. by client default to repay the loan in particular periods. This approach makes it possible to identify early indications of portfolio quality impairment as well to compare the quality of the Bank's portfolio to the quality of the parent company's portfolio.

**Loan Portfolio Quality**

During 2010 the proportion of classified loans increased from 3.85 percent as of the 2009 year-end to 4.15 percent. As part of this category, the proportion of monitored loans increased from 1.50 percent to 1.60 percent, the proportion of distressed exposures increased from 2.34 to 2.55 percent.

In case that the classification was purely based on the observed number of days after the maturity of individual loans, the share of classified loans in the bank would be long-term stable (at the end of 2008: 2.84 percent, 2009: 2.85 percent, 2010: 2.63 percent).

In addition to the number of days over maturity, the final classification of loans into categories influence other factors, see further description below.

### **Loan Categorization**

The Bank classifies loans primarily by reference to the number of past due days. The calculation of the number of the past due days reflects both the outstanding past due amounts on the loan account (interest on bridging loans and annuity repayments of loans under a construction savings scheme) and the savings debts in respect of bridging loans. The savings debts have been reflected in the classification of loans since the end of 2007.

Special rules for classification of receivables are applied to loans which are restructured by the Bank.

The classification of the receivable may also be impacted by 'default transfers', i.e., downgrading in circumstances where the debtor or co-debtor in the assessed loan participates in another classified loan at the Bank either as a debtor, co-debtor or guarantor. The default transfer is partially applied to clients that default on their loans provided by KB.

### **Provisioning**

The Bank recognizes provisions against classified exposures arising from provided loans. In charging the provisions, the Bank does not apply the portfolio approach; provisions are recognized in respect of individual receivables.

Loans are categorized into individual classification grades in accordance with the Czech National Bank Regulation 123/2007 Coll. The Bank categorizes its loans into standard exposures and classified exposures (watch, substandard, doubtful and loss). The substandard, doubtful and loss exposures are collectively referred to as distressed loans. The Bank recognizes provisions against classified receivables.

In determining coefficients to arrive at provisioning for individual classification grades, the Bank refers to its own statistical measurements and reflects the mandated coefficient ranges applicable to individual classification grades according to the CNB Regulation. The settings of the coefficients in the Bank is almost at the maximum level outlined in the Regulation 123/2007 Coll., which leads to a high level of provisioning for classified exposures. In determining the provisions, the Bank additionally takes into account the level and quality of loan collateral. For provisioning purposes, the nominal value of the collateral is adjusted for a discount reflecting the risk of realizing the relevant type of collateral. This adjusted value is offset against the total loan exposure and the adjusted loan exposure serves as a basis for provisioning. The setting of discount coefficients for individual types of collateral is assessed on an ongoing basis by reference to the information regarding the recovery rates of individual forms of collateral.

### **Credit Risk Associated with Financial Markets**

Available funds are primarily invested in zero-risk Government bonds. As such, credit risk is monitored solely in respect of investments in mortgage bonds and transactions in the interbank market. The Bank does not hold any assets issued by any other entity and has no financial markets exposures to any other entities than the Czech state and KB. The Czech state and KB are the only entities for which the Bank maintains a credit limit.

## **(B) MARKET RISKS**

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Given that the Bank complies with the Construction Savings Act 96/1993 Coll., the possibilities of using financial instruments are limited. In 2010, in addition to bridging loans and construction savings loans, the Bank used the following financial instruments: depository transactions on the interbank market, investment in government bonds, and mortgage bonds, and it conducted repo transactions and securities transactions carrying the repurchase or sale commitment and hedging transactions. The Bank does not include any of these instruments in the trading book. The Bank makes these investments to assess available funds and to not increase the exposure to the interest rate risk. The Bank additionally carries no open currency, commodity or other positions that would depend on the development of market prices.

As the Bank does not hold foreign currency assets and liabilities, it does not present an analysis of assets and liabilities by balance sheet categories and principal currencies.

## **ASSETS AND LIABILITIES MANAGEMENT – INTEREST RATE RISK**

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### **Interest Rate Characteristics of the Bank's Assets and Liabilities**

Given the structure of assets and liabilities which show a timing mismatch and have different maturities or repricing dates, the Bank is exposed to interest rate risk. The bulk of liabilities consist of client deposits bearing a fixed interest rate throughout the entire life of the construction savings contract. In respect of the contracts entered into subsequent to 2004, the Bank has the option to revise interest rates on deposits provided that the participant meets the conditions for being granted a loan under the construction savings scheme and assuming that more than six years have elapsed. With regard to the contracts entered into prior to 2004, the interest rate remains valid throughout the contract term.

Provided construction savings loans and the bulk of securities held by the Bank in its portfolio also bear interest at fixed interest rates. The Bank may review the interest rate attached to long-term bridging loans after the lapse of six years. The possibility of reviewing interest rates attached to bridging loans relates only to contracts entered into subsequent to 1 July 2004. This fact is also reflected in the Bank's interest rate model.

### **Interest Rate Risk Management**

The Bank manages interest rate risk through its investment policy, changes in the setting of interest rate terms underlying new construction savings contracts and adjustments of client contractual arrangements. In an effort to improve the possibilities of interest rate risk management, the Bank sought to expand its banking licence to include hedging derivatives. The Czech National Bank approved the expanded licence in early 2008. All investment/hedging transactions are approved by the Assets and Liabilities Management Committee which also approves the rules and techniques used in developing the interest rate and liquidity positions. Cooperation with KB in assets and liabilities management involves KB's representatives taking part in the Assets and Liabilities Management Committee meetings and assistance in modeling the development of balance sheet balances for client products.

### Interest Rate Risk Measurement Techniques

Interest rate risk is the risk that net interest income will fluctuate due to changes in market interest rates. The basic instrument for monitoring and measuring interest rate risk is a gap analysis which represents an analysis of the difference in maturities of individual assets and liabilities. The substance of this technique involves comparing how quickly assets and liabilities respond to changes in market interest rates and how these changes impact the Bank's net interest income. The technique is based on the allocation of assets and liabilities into time bands according to the period of their repricing (contractual change of the interest rate) or maturity.

In measuring interest rate risk, the Bank uses the polo-dynamic model which reflects both the existing balance sheet amounts and the future increase in deposits and loans, but only in respect of the existing construction savings contracts. In addition to the basic scenario, this polo-dynamic model is developed in two stress scenarios envisaging the rise and drop of interest rates and their impact on client behavior.

The Bank additionally uses the sensitivity indicator to quantify the level of interest rate risk taken. The sensitivity indicator quantifies the impact of a parallel shift of the yield curve by 1 percent. The sensitivity indicator is calculated for all time periods. The Bank has established an internal limit in respect of this indicator.

The below table describes balances allocated to individual time buckets at the balance sheet date (static model which does not reflect the increase in the balance sheet amounts in respect of the existing contracts and which the Bank uses only as a supporting model for interest rate risk measurement).

### Interest Rate Sensitivity of the Bank's Assets and Liabilities

CZK million	Up to 1 year	1 year to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	Undefined	Total net balance
<b>At 31 December 2010</b>							
<b>Total assets</b>	<b>9,300</b>	<b>17,342</b>	<b>27,098</b>	<b>22,236</b>	<b>61</b>	<b>678</b>	<b>76,715</b>
Cash in hand and balances with central banks	695	0	0	0	0	0	695
State zero-coupon bonds and other securities eligible for refinancing with the central bank	3,845	3,417	4,824	0	0	0	12,086
Amounts due from banks and savings associations	181	1,342	9,612	2,004	0	0	13,139
Amounts due from clients – members of savings associations	3,763	12,315	12,662	20,232	61	0	49,033
Debt securities	2	268	0	0	0	0	270
Intangible fixed assets	0	0	0	0	0	241	241
Tangible fixed assets	0	0	0	0	0	408	408
Other assets	814	0	0	0	0	29	843
<b>Total liabilities and equity</b>	<b>38,031</b>	<b>19,132</b>	<b>13,401</b>	<b>25</b>	<b>0</b>	<b>6,126</b>	<b>76,715</b>
Amounts owed to banks	900	0	0	0	0	0	900
Amounts owed to clients – members of savings associations	36,461	19,132	13,401	25	0	0	69,019
Other liabilities	0	0	0	0	0	165	165
Deferred income and accrued expenses	670	0	0	0	0	301	971
Reserves	0	0	0	0	0	15	15
Subordinated liabilities	0	0	0	0	0	0	0
Total equity	0	0	0	0	0	5,645	5,645
<b>Gap</b>	<b>(28,731)</b>	<b>(1,790)</b>	<b>13,697</b>	<b>22,211</b>	<b>61</b>	<b>(5,448)</b>	<b>0</b>
<b>Cumulative gap</b>	<b>(28,731)</b>	<b>(30,521)</b>	<b>(16,824)</b>	<b>5,387</b>	<b>5,448</b>	<b>0</b>	<b>0</b>

### LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be able to meet its financial commitments when they fall due or will not be able to refinance its assets. The principal objective of liquidity management is to ensure the Bank's ability to settle its payables at any point of time. The Bank has developed a liquidity management strategy which was approved by the Board of Directors.

The Bank monitors and controls liquidity in the context of managing the mandatory minimum reserves placed on the account in the CNB Clearing Centre. Current liquidity is monitored on a daily basis. The monitoring is performed with no less than a three month forecast.

The Bank outsources short-term liquidity management to KB which enables further drawing from the KB synergy potential as KB is in a better position to deposit and/or lend cash on financial markets.

As a part of its risk management strategy, the Bank maintains a proportion of its assets in highly liquid instruments such as interbank market deposits with maturity less than three months, reverse repo transactions, treasury bills, and government securities. For measurement purposes, the Bank uses, inter alia, the quick assets ratio which represents the proportion of highly liquid assets net of loan commitments to total assets and to the amount of deposits where the blocking period expired.

The Bank additionally uses liquidity gap as liquidity management tool, which shows the liquidity position based on a semi-dynamic model and shows the situation that would occur if the Bank ceased entering into new construction savings contracts and providing bridging loans. It simulates the state in which the Bank would only settle the current contracts and all payables arising therefrom. The model foresees the acceptance of new deposits and conclusion of new construction savings loans but only as part of the already existing construction savings contracts. This indicator is prepared and reported to the management on a monthly basis. The bank has set the limit for this indicator.

For liquidity risk management purposes, the Bank uses the limits specified in its internal regulations.

The below table shows the allocation of balances to individual time buckets as of the balance sheet date (using a static model which does not reflect the increase in balances of the existing contracts and which serves only as a liquidity risk measurement supporting tool). In 2009, the Bank introduced a product for which clients undertake to maintain funds on savings accounts after the blocking period. These contracts set out a new blocking period at 3 or 6 years. The new blocking period is reflected in the below table of remaining maturity.

### The remaining maturity of the bank's assets and liabilities

CZK million	Up to 7 days	7 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Maturity undefined	Total for remaining maturity
<b>At 31 December 2010</b>										
<b>Total assets</b>	<b>818</b>	<b>500</b>	<b>768</b>	<b>1,593</b>	<b>5,523</b>	<b>4,655</b>	<b>12,356</b>	<b>48,512</b>	<b>1,990</b>	<b>76,715</b>
Cash in hand and balances with central banks	695	0	0	0	0	0	0	0	0	695
State zero-coupon bonds and other securities eligible for refinancing with the central bank	0	263	0	73	3,509	0	3,417	4,824	0	12,086
Amounts due from banks and savings associations	6	0	58	0	117	1,342	0	11,616	0	13,139
Amounts due from clients – members of savings associations	117	237	710	706	1,895	3,313	8,671	32,072	1,312	49,033
Debt securities	0	0	0	0	2	0	268	0	0	270
Intangible fixed assets	0	0	0	0	0	0	0	0	241	241
Tangible fixed assets	0	0	0	0	0	0	0	0	408	408
Other assets	0	0	0	814	0	0	0	0	29	843
<b>Total liabilities and equity</b>	<b>1,172</b>	<b>94</b>	<b>33,663</b>	<b>1,548</b>	<b>1,593</b>	<b>4,053</b>	<b>15,080</b>	<b>13,425</b>	<b>6,087</b>	<b>76,715</b>
Amounts owed to banks	900	0	0	0	0	0	0	0	0	900
Amounts owed to clients – members of savings associations	221	94	33,140	1,413	1,593	4,053	15,080	13,425	0	69,019
Other liabilities	0	0	0	39	0	0	0	0	126	165
Deferred income and accrued expenses	51	0	523	96	0	0	0	0	301	971
Reserves	0	0	0	0	0	0	0	0	15	15
Subordinated liabilities	0	0	0	0	0	0	0	0	0	0
Total equity	0	0	0	0	0	0	0	0	5,645	5,645
<b>Gap</b>	<b>(354)</b>	<b>406</b>	<b>(32,895)</b>	<b>45</b>	<b>3,930</b>	<b>602</b>	<b>(2,724)</b>	<b>35,087</b>	<b>(4,097)</b>	<b>0</b>
<b>Cumulative gap</b>	<b>(354)</b>	<b>52</b>	<b>(32,843)</b>	<b>(32,798)</b>	<b>(28,868)</b>	<b>(28,266)</b>	<b>(30,990)</b>	<b>4,097</b>	<b>0</b>	<b>0</b>

### (C) OPERATIONAL RISK

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All significant decisions relating to operational risk management are adopted by the Operational Risk Management Committee.

The Bank collects data on losses arising from operational risks and data on loan fraud which also relates to credit risks. The loss data are forwarded to KB who uses them in calculating capital requirements under the Advanced Measurement Approach (AMA) developed by the Bank and applicable to the whole KB Group. However, the capital requirements are calculated by reference to the standard method (TSA) on the Bank's level.

Other advanced instruments that the Bank uses for operational risk management, involves monitoring the Key Risk Indicators (KRI), First Level Control (FLC) and the Risk Control Self Assessment (RCSA). The RCSA implementation has started in 2009 but it has not been fully completed yet. Key Risk Indicators were regularly monitored during 2010 and First Level Controls were performed in the entire Bank.

The Bank's internal regulations define practices and procedures to be followed in recovering IT systems in disaster situations (disaster recovery planning) and IT security management principles. In 2009, new plans for business continuity were developed under the applicable methodology of the SG group principles were documented in guidelines and work procedures.

The Bank eliminates operational risk through internal operating controls existing within processes and activities, such as liquidity management and trading on financial markets. Internal regulations define responsibilities for individual processes and the approach to monitoring, record-keeping and dealing with events that trigger damage.

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### 29. Post Balance Sheet Events

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There were no significant events after the financial statements as of 31 December 2010.



# REPORT ON RELATIONSHIPS AMONG CONNECTED ENTITIES FOR THE 2010 ACCOUNTING PERIOD

(hereinafter referred to as the "Relationship Report")

**Modrá pyramida stavební spořitelna, a.s.**, having its registered office at Bělehradská 128, č.p. 222, 120 21 Praha 2, ID No 60192852, registered in the Commercial Register, maintained by the Municipal Court in Prague, Section B, Insert 2281, (hereinafter referred to as the "Company"), is part of the business group (group) of **Société Générale S.A.**, having its registered office at 29, BLD Hausmann, 75009 Paris, France, registration number in the French Commercial Register: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter referred to as "SG" or "SG Paris"), in which the following relationships exist between the Company and the entity controlling it, as do the relationships between the Company and the other entities controlled by the same controlling entity (hereinafter referred to as the "connected entities"), which are included in this report. The only shareholder of the Company is **Komerční banka, a.s.**, having its registered office at Na Příkopě 33 č.p. 969, 114 07 Praha 1, ID No 453 17 054, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 1360. SG is a 60.35% shareholder of Komerční banka, a.s.

This report on relationships among the entities specified below has been prepared in accordance with the provision of Article 66a(9) of Act No 513/1991 Coll., as amended (the Commercial Code), for the period of 2010, i.e. from 1 January 2010 to 31 December 2010 (hereinafter referred to as the "accounting period")

## I. Introduction

In the 2010 accounting period, the Company had relations with the following connected entities:

<b>Company</b>	<b>Registered office</b>	<b>SG's share of voting rights in the Company</b>
Société Générale S.A.	29, BLD Hausmann, 75009 Paris, France	–
Komerční banka, a.s.	Na Příkopě 33 č.p. 969, 114 07 Prague 1	60.35%
Komerční pojišťovna, a.s.	Karolinská 1, č.p. 650, 186 00 Prague 8	100%
Penzijní fond Komerční banky,a.s.	Lucemburská 1170/7, 130 11 Prague 3, Vinohrady	100%
Factoring KB a.s.	Lucemburská 1170/7, 130 11 Prague 3, Vinohrady	100%
ALD Automotive s.r.o.	U Stavoservisu 527/1, 100 40 Prague 10	100%
Investiční kapitálová společnost KB, a.s.	Dlouhá 34, č.p. 713, 110 15 Prague 1	100%
ESSOX s.r.o.	Senovážné náměstí 231/7, 370 01 České Budějovice	100%
SG Equipment Finance Czech Republic s.r.o.	Antala Staška 2027/79, 140 00 Prague 4, Krč	100%
Societe Genarale Algerie S.p.A.	16105 – Gu de Constantine, Résidence El Kerma BP 55 – BIRKHADEM, Wilaya d' ALGER, ALGERIE	100%
ECS International, s.r.o.*	Radlická 14/3201, Anděl Park, 150 00 Prague 5, Smíchov	100%

\*) till 28 October 2010

## II. Relationships with connected entities

### A. CONTRACTS AND AGREEMENTS WITH THE CONTROLLING ENTITY AND OTHER CONNECTED ENTITIES

#### I. CONTRACTS AND AGREEMENTS ENTERED INTO OVER THE ACCOUNTING PERIOD

Type of contract (or subject matter of the contract – unless specified by name)	Party	Service rendered by the Company	Consideration	Injury suffered by the Company
Subordinated Debt Agreement and Addendum 1, CZK 245,000,000.00 and Addendum 2 on Early Repayment as at 30 November 2011	Komerční banka, a.s.	payment of interest and fees under the Agreement	granting a credit	none
Subordinated Debt Assignment Agreement CZK 160,000,000.00	Komerční banka, a.s.	payment of interest and fees under the Agreement	granting a credit	none
Subordinated Debt Assignment Agreement CZK 145,000,000.00	Komerční banka, a.s.	payment of interest and fees under the Agreement	granting a credit	none
1 Agreement on Issuing and Using Current Account Payment Card GOLD CARD	Komerční banka, a.s.	interest and fees under the Agreement	supply of a service	none
1 Agreement on Issuing and Using Current Account Payment Card VISA	Komerční banka, a.s.	interest and fees under the Agreement	supply of a service	none
Master Agreement on Financial Market Trading dated 6 January 2010	Komerční banka, a.s.	commission	financial market trading	none
Agreement on Custody Services Provided by KB dated 7 July 2010	Komerční banka, a.s.	contractual remuneration	supply of a service	none
Non-disclosure Agreement pertaining to the "Service Agreement – Outsourcing (HR Services)"	Komerční banka, a.s.	keeping information confidential	keeping information confidential	none
Service Agreement – Outsourcing (HR Services)	Komerční banka, a.s.	paying the service price and providing assistance	supply of a service	none
Non-disclosure Agreement pertaining to the "Agreement on Cooperation in Sourcing and Purchasing"	Komerční banka, a.s.	keeping information confidential	keeping information confidential	none
Adopting the Cooperation Rules of KB and Members of FS in Sourcing and Purchasing dated 16 September 2010	Komerční banka, a.s.	paying the service price and providing assistance	supply of a service	none
Stock Subscription Agreement	Komerční banka, a.s.	issue of new stock	payment of the stock price, including share premium	none
2x orders no. 522100064 and no. 522100087 (architect's solution for a project of a study in respect of external data centres)	Komerční banka, a.s.	payment of the service prices	supply of a service	none
Agreement on the Provision of Employee Training at KB	Komerční banka, a.s.	payment of the service prices in line with individual orders	supply of a service	none
Re-invoicing of agency commission from KB under an agreement	Komerční banka, a.s.	payment of re-invoiced agency commission from KB	supply of a service	none
Agreement on the Organisation of Periodic Control	Komerční banka, a.s., Societě Générale plc	payment of services	supply of a service	none
Cooperation Agreement in respect of waging a motivation campaign to promote the sales of insurance products of Komerční pojišťovna, a.s. for agents of Modrá pyramida stavební spořitelna, a.s.	Komerční pojišťovna, a.s.	supply of a service	assistance and payment for a service	none
Re-invoicing of costs from KP to MPSS under an agreement	Komerční pojišťovna, a.s.	payment of an amount re-invoiced from KP	supply of a service	none
7 Purchase Contracts to Sell Used Cars	ALD Automotive s.r.o.	sale of a vehicle	payment of a purchase price	none
13 Financial Lease Contracts with a Subsequent Purchase of the Item Leased, No. 310047279, No. 310047136, No. 310047133, No. 310047132, No. 310047131, No. 310044804, No. 310044803, No. 310045802, No. 310045801 and No. 310045800, No. 310045799, No. 310044806, No. 310045804, No. 310045803	ALD Automotive s.r.o.	making lease payments	supply of a service	none
Re-invoicing of costs from MPSS to SOCIETE GENERALE ALGERIE S.p.A., Algeria under an agreement	SOCIETE GENERALE ALGERIE S.p.A.,	transfer of costs	payment of costs transferred	none

## II. SERVICES RECEIVED AS WELL AS SUPPLIED OVER THE ACCOUNTING PERIOD IN RESPECT OF CONTRACTS ENTERED INTO IN PREVIOUS ACCOUNTING PERIODS

Type of contract (or subject matter of the contract – unless specified by name)	Party	Service rendered by the Company	Consideration	Injury suffered by the Company
Agreement on Opening and Managing a Current Account, including Addenda	Komerční banka, a.s.	payment of interest and fees under the Agreement	current account management and interest payment	none
2 Agreements on Issuing and Using a Current Account Payment Card, 2x1 VISA Business Silver Card	Komerční banka, a.s.	payment of interest and fees under the Agreement	supply of a service	none
5 Agreements on Issuing and Using a Current Account Payment Card, 3X Gold Cards – for business use, 2X Gold Cards – VISA for business use	Komerční banka, a.s.	payment of interest and fees under the Agreement	supply of a service	none
3 Agreements on Issuing and Using a Current Account Payment Card – Gold Cards for business use (cancelled during 2010)	Komerční banka, a.s.	payment of interest and fees under the Agreement	supply of a service	none
Agreement on Providing Direct Banking Services (internet banking in respect of current account)	Komerční banka, a.s.	interest and fees under the Agreement	supply of a service	none
Master Agreement on Financial Market Trading of 2005 – deals	Komerční banka, a.s.	commission	financial market trading	none
Master Agreement on Financial Market Trading of 2006 – deals	Komerční banka, a.s.	commission	financial market trading	none
Agreement on Arranging a Purchase or Sale of Securities of 1996 – deals	Komerční banka, a.s.	commission	financial market trading	none
Deposits – deals	Komerční banka, a.s.	provision of funds	interest under a contract	none
Agreement on Providing Services on the Short-Term Bond Market, including Addendum 1	Komerční banka, a.s.	service fee payments	supply of a service	none
Agreement on Using a Safe-Box of Komerční banka, a.s., No. 863, Box No. 723	Komerční banka, a.s.	service fee payment	supply of a service	none
Agreement on Using a Safe-Box of Komerční banka, a.s., No. 867, Box No. 921	Komerční banka, a.s.	service fee payment	supply of a service	none
Agreement on Using a Safe-Box of Komerční banka, a.s., No. 494, Box No. 833	Komerční banka, a.s.	service fee payment	supply of a service	none
Agreement on Using a Night Safe Deposit Box with a Current Account	Komerční banka, a.s.	service fees	supply of a service	none
Agreement on Using the KB Sales Network (including Addenda 1 and 2 dated 30 September 2010)	Komerční banka, a.s.	payment of brokering commission	brokering	none
Master Agreement on Providing Favourable Conditions for Employees of KB and Subsidiaries – building savings participants	Komerční banka, a.s.	provision of favourable conditions	provision of favourable conditions	none
Agreement on Modifying, Using and Running the “web914” Software	Komerční banka, a.s.	payment for a service	supply of a service	none
Confidentiality Agreement – a four-party agreement	Komerční banka, a.s.	keeping information confidential	keeping information confidential	none
Transitional IT Services Agreement – a four-party agreement	Komerční banka, a.s.	obligation to provide assistance	providing assistance	none
Master Agreement on the Temporary Assignment of Employees, including Addendum 1	Komerční banka, a.s.	payment of the costs of the temporary assignment of an employee	supply of a service	none
Agreement on Back-up Media Storage	Komerční banka, a.s.	payment for a service	supply of a service	none
Cooperation Agreement between KB and VSS in Granting Consumer Credits, including Addendum 1	Komerční banka, a.s.	supply of services under the Agreement	supply of services under the Agreement	none
Lease Contract – garage parking places	Komerční banka, a.s.	supply of a service	rent	none
Mutual Cooperation Agreement dated 31 August 2007 (including Addendum 1 dated 1 July 2010)	Komerční banka, a.s.	benefits for MPSS employees at KB	provision of benefits for MPSS employees at KB	none
General Distribution Agreement dated 31 August 2007	Komerční banka, a.s.	mutual cooperation in selling products	mutual cooperation in selling products	none
Cooperation Agreement – re-invoicing of costs from KB to MPSS, from MPSS to KB dated 31 August 2010	Komerční banka, a.s.	mutual cooperation, supply of a service, payment for a service	mutual cooperation, supply of a service, payment for a service	none
Separate Distribution Agreement (‘Blue’ Loan)	Komerční banka, a.s.	credit intermediation	commission	none
Separate Distribution Agreement (‘Blue’ Account, ‘Blue’ Account PLUS, G2) including Addenda 1 and 2 dated 31 March 2010	Komerční banka, a.s.	credit intermediation	commission	none
Separate Distribution Agreement (‘Blue’ Credit Card) including Addendum 1 dated 31 March 2010	Komerční banka, a.s.	credit intermediation	commission	none

<b>Type of contract (or subject matter of the contract – unless specified by name)</b>	<b>Party</b>	<b>Service rendered by the Company</b>	<b>Consideration</b>	<b>Injury suffered by the Company</b>
Separate Distribution Agreement (Mortgage loan, Pre-mortgage Loan, Bridging Loan)	Komerční banka, a.s.	credit intermediation	commission	none
Cooperation Agreement – Client Scoring	Komerční banka, a.s.	providing assistance	supply of a service	none
Separate Distribution Agreement dated 14 December 2007 (Investment Instruments) including Addenda 1 and 2	Komerční banka, a.s.	investment intermediation	commission	none
Investment Intermediation Agreement dated 14 December 2007	Komerční banka, a.s.	investment intermediation	commission	none
Outsourcing Agreement – treasury	Komerční banka, a.s.	fees under the Agreement	supply of a service	none
Arrangement (Intermediation) Agreement in respect of the “Assessment of Risks Associated with a Real Estate Collateral” in the form of DTS according to KB specification and methodology	Komerční banka, a.s.	paying the service price and providing assistance	supply of a service	none
Non-disclosure Agreement in respect of the “Agreement on Use of HP OV SD Licences”	Komerční banka, a.s.	keeping information confidential	keeping information confidential	none
Agreement on the Payment of Costs of Using Licences (replaced the Oral Agreement on the Payment of Costs of Using Licences of 2007) including Addendum 1 dated 11 February 2010	Komerční banka, a.s.	paying the service price and providing assistance	supply of a service	none
Cooperation Agreement within the Group pursuant to Article 5a of Act No 235/2004 Coll. as amended, on Value Added Tax, including Addendum 1	Komerční banka, a.s.	providing assistance and paying for agency services	supply of a service	none
1 Rental Agreement for Non-residential Premises and on the Payment for Services Associated with Use of Them (Hranice na Moravě)	Komerční banka, a.s.	payment for a service	supply of a service	none
1 Rental Agreement for Non-residential Premises and on the Payment for Services Associated with Use of Them (Uherský Brod)	Komerční banka, a.s.	payment for a service	supply of a service	none
Master Agreement on Personal Data Processing (KB as the administrator, MPSS as the processor) dated 30 May 2009 – replaced the Agreement dated 31 August 2007	Komerční banka, a.s.	personal data processing	providing assistance	none
Master Agreement on Personal Data Processing (MPSS as the administrator, KB as the processor) dated 30 May 2009 – replaced the Agreement dated 31 August 2007)	Komerční banka, a.s.	providing assistance	personal data processing	none
Agreement on the Method of Insurance Premium Payments (premium discount within the FS KB) dated 1 July 2009	Komerční banka, a.s.	providing assistance	supply of a service	none
Agreement on KB Call Centre Services dated 31 December 2009, replaced the original Agreement, including Addenda 1 and 2	Komerční banka, a.s.	paying the service price and providing assistance	supply of a service	none
Agreement on Collective Joint Insurance of VSSKB Clients against Death to secure the credit facility no. 37-9861	Komerční pojišťovna, a.s., Česká pojišťovna, a.s.	intermediation of client insurance	commission	none
Operational Agreement to Arrange the Collective Joint Insurance of Clients of VSSKB, Česká pojišťovna, a.s., Komerční pojišťovna, a.s.	Komerční pojišťovna, a.s., Česká pojišťovna, a.s.	intermediation of client insurance	commission	none
Sales Agency Agreement, including Addenda 1 and 2, dated 31 August 2010	Komerční pojišťovna, a.s.	brokering	commission payment	none
Master Cooperation Agreement No. 3010000246 (SPECTRUM PROGRAMME)	Komerční pojišťovna, a.s.	providing assistance	supply of a service to MPSS employees	none
Agency Agreement and Addenda 1, 2, 3, 4 and 5, cooperation in supplementary pension insurance	Penzijní fond Komerční banky a.s.	brokering	commission payment	none
Agreement on Personal Data Processing dated 28 November 2003, with PFKB as the administrator and MPSS as the processor	Penzijní fond Komerční banky a.s.	personal data processing	providing assistance	none
Agreement on Personal Data Processing dated 09 November 2004, with MPSS as the administrator and PFKB as the processor	Penzijní fond Komerční banky a.s.	providing assistance	personal data processing	none
Cooperation Agreement in Supplementary Pension Insurance with a State Contribution	Penzijní fond Komerční banky a.s.	brokering	commission payment	none
Agency Agreement to Facilitate Requests of MPSS Employees for Participation in Supplementary Pension Insurance	Penzijní fond Komerční banky a.s.	brokering	commission payment	none
Agreement on Providing Favourable Conditions for Employees of PF KB a.s. – MPSS building savings participants	Penzijní fond Komerční banky a.s.	provision of favourable conditions	provision of favourable conditions	none
Agreement on Providing Favourable Conditions for Employees of ESSOX s.r.o. – MPSS building savings participants	ESSOX s.r.o.	provision of favourable conditions	provision of favourable conditions	none

Type of contract (or subject matter of the contract – unless specified by name)	Party	Service rendered by the Company	Consideration	Injury suffered by the Company
Cooperation Agreement (including Procedural Rules of Cooperation and Financial Terms of Cooperation) dated 16 May 2007	ESSOX s.r.o.	credit intermediation	commission	none
Agreement on Personal Data Processing (MPSS as the administrator, ESSOX as the processor) dated 16 May 2007	ESSOX s.r.o.	providing assistance	personal data processing	none
Agreement on Providing Favourable Conditions for Employees of Factoring KB a.s. – MPSS building savings participants	Factoring KB a.s.	provision of favourable conditions	provision of favourable conditions	none
Agreement on Providing Favourable Conditions for Employees of Investiční kapitálová společnost KB, a.s. – MPSS building savings participants	Investiční kapitálová společnost KB, a.s.	provision of favourable conditions	provision of favourable conditions	none
Agreement on Providing Favourable Conditions for Employees of ECS International, s.r.o. – MPSS building savings participants	ECS International, s.r.o.	provision of favourable conditions	provision of favourable conditions	none
Agreement on Providing Favourable Conditions for Employees of SG Equipment Finance Czech Republic, s.r.o. – MPSS building savings participants	SG Equipment Finance Czech Republic, s.r.o.	provision of favourable conditions	provision of favourable conditions	none
Transfer of Evolution Agreement No. 20070040.1 from ECS International Czech Republic, s.r.o., Transfer Deed dated 30 August 2007	SG Equipment Finance Czech Republic, s.r.o.	making lease payments	supply of a service	none
Agreement on Providing Favourable Conditions for Employees of ALD Automotive s.r.o. – MPSS building savings participants	ALD Automotive s.r.o.	provision of favourable conditions	provision of favourable conditions	none
Master Agreement dated 18 October 2007 – entering into financial leases	ALD Automotive s.r.o.	providing assistance	supply of a service	none
10 Financial Lease Contracts with a Subsequent Purchase of the Item Leased No. 310035090, No. 310035146, No. 310035147, No. 310035148, No. 310035149, No. 310035971, No. 310038081, No. 310038082, No. 310038083 and No. 310040492	ALD Automotive s.r.o.	making lease payments	supply of a service	none

## B. OTHER LEGAL TRANSACTIONS MADE BY THE COMPANY IN THE INTEREST OF THE CONTROLLING ENTITY AND OTHER CONNECTED ENTITIES

In 2010, the sole shareholder, Komerční banka, a.s., decided to raise the Company's capital to CZK 562,500,000.00. The sole shareholder subscribed 625 new shares at the issue price of CZK 550,000,000.00. The capital increase took effect on 7 December 2010.

## C. MEASURES ADOPTED OR TAKEN BY THE COMPANY IN THE INTEREST OF THE CONTROLLING ENTITY AND OTHER CONNECTED ENTITIES OR AT THEIR INITIATIVE

During 2010, the Company adopted or took no measures in the interest of the controlling entity and other connected entities or at their initiative.

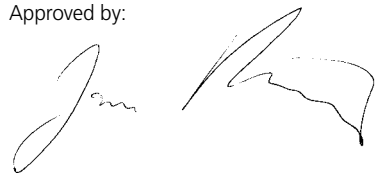
## III. Conclusion

The Company's Board of Directors reviewed all relationships between the Company and connected entities for the 2010 accounting period, and declares that the Company suffered no injury out of any concluded contract, agreement, other legal transaction, or other measures taken or adopted by the Company over the accounting period.

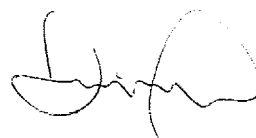
In Prague, on 10<sup>th</sup> February 2011

Prepared by: Josef Květoň, Head of Legal Department

Approved by:



Jan Pokorný  
Chairman of the Board of Directors  
and Company Director



Miroslav Hiršl  
Vice Chairman of the Board of Directors  
and First Deputy Director of the Company

# DATA ON ADHERENCE TO RULES OF CAUTIOUS ENTREPRENEURIAL ACTIVITY

## 1. DATA ON CAPITAL

a) The share capital of the Bank is fully subscribed and paid, it amounts to CZK 562.5 million and is divided into 5 625 pcs. of registered shares of a nominal value CZK 100,000 per share. The shares have a form of book-entered securities and are not publicly traded.

Besides the share capital, the following is also included in the original capital (Tier 1): share premium in the amount of CZK 487.5 million, reserve funds and other funds from profit in the amount of CZK 1,107 million and undistributed profit from previous periods in the amount of CZK 2,130 million; intangible assets in the amount of CZK 241 million are deducted on the contrary.

The subordinated debt in the total nominal volume of CZK 550 million was early repaid as at 1<sup>st</sup> December 2010.

The capital of the Bank consists of the original capital (Tier 1) only and is reduced by insufficiency in coverage of expected credit losses in the amount of CZK 2.3 million.

<b>CZK thousand</b>	<b>31.12.2010</b>	<b>30.9.2010</b>	<b>30.6.2010</b>	<b>31.3.2010</b>
<b>Total amount of original capital (Tier 1 component)</b>	<b>4,045,766</b>	<b>3,492,949</b>	<b>3,495,793</b>	<b>2,757,679</b>
thereof paid share capital registered in commercial register	562,500	500,000	500,000	500,000
thereof share premium	487,500	0	0	0
thereof reserve funds and undistributed profit	3,236,668	3,236,668	3,236,668	2,497,001
– mandatory reserve funds	100,000	100,000	100,000	100,000
– other funds from profit distribution	1,007,138	1,007,138	1,007,138	1,007,138
– undistributed profit from previous periods	2,129,530	2,129,530	2,129,530	1,389,862
<b>Total amount of supplementary capital (Tier 2 component)</b>	<b>0</b>	<b>441,613</b>	<b>441,655</b>	<b>552,181</b>
thereof other supplementary capital	0	441,613	441,655	552,181
– subordinated debt A	0	441,613	441,655	552,181
<b>Total amount of capital for coverage of market risk (Tier 3 component)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total amount of deductible items</b>	<b>243,239</b>	<b>246,076</b>	<b>242,942</b>	<b>241,359</b>
thereof insufficiency in coverage of expected credit losses at IRB	2,337	2,357	2,067	2,038
<b>Total amount of capital after consideration of deductible items from original and supplementary capital and set limits of capital items</b>	<b>4,043,429</b>	<b>3,932,205</b>	<b>3,935,381</b>	<b>3,307,823</b>

## 2. DATA ON CAPITAL REQUIREMENTS

<b>CZK thousand</b>	<b>31.12.2010</b>	<b>30.9.2010</b>	<b>30.6.2010</b>	<b>31.3.2010</b>
Amount of capital requirements	2,417,625	2,416,581	2,397,803	2,378,909
a) 1. of credit risk in total	2,249,256	2,248,212	2,229,434	2,230,202
1.1 of credit risk according to standardized approach, therein:	1,886,462	1,897,637	1,896,684	1,900,988
Cap. requir. at STA in IRB of exposures towards central governments and banks	0	0	0	0
Cap. requir. at STA in IRB of exposures towards institutions	0	0	0	0
Cap. requir. at STA in IRB of corporate exposures	95,270	78,102	59,281	53,366
Cap. requir. at STA in IRB of retail exposures	1,791,192	1,819,535	1,837,402	1,847,622
Cap requir. at STA in IRB of the other exposures	0	0	0	0
1.2 of credit risk according to IRB approach in total	362,794	350,575	332,750	329,214
Cap. requir. of credit risk at IRB of selected exposures in total	324,190	310,322	292,579	288,040
Cap. requir. at IRB of exposures towards central governments and banks	71,987	81,428	82,985	86,613
Cap. requir. at IRB of exposures towards institutions	252,204	228,894	209,594	201,427
Cap. requir. at IRB of corporate exposures	0	0	0	0
Cap. requir. at IRB of retail exposures	0	0	0	0
Cap. requir. of credit risk at IRB of share exposures	0	0	0	0
Cap. requir. of credit risk at IRB of securitized exposures	0	0	0	0
Cap. requir. of credit risk at IRB of the other exposures	38,604	40,253	40,171	41,173
b) of settlement risk	0	0	0	0
c) of position, currency and commodity risk	0	0	0	0
d) of operational risk	168,369	168,369	168,369	148,707
e) of engagement risk of business portfolio	0	0	0	0
f) of other tools of business portfolio	0	0	0	0
g) Transition cap. requir. – evening up to Basel	0	0	0	0

## 3. RATIO INDICATORS

<b>CZK thousand</b>	<b>31.12.2010</b>	<b>30.9.2010</b>	<b>30.6.2010</b>	<b>31.3.2010</b>
1. indicator of capital adequacy	13.38	13.02	13.13	11.12
2. return on average assets (ROAA)	1.22	1.26	1.25	1.23
3. return on average equity (ROAE)	28.10	30.32	31.09	34.07
4. assets per 1 employee	215,492	217,761	210,244	211,607
5. administrative costs per 1 employee	1,664	1,480	1,435	1,389
6. profit or loss after taxation per 1 employee	2,613	2,687	2,625	2,602

## INFORMATION ON POST BALANCE SHEET EVENTS

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There were no significant events after the financial statements as of 31 December 2010.



# CONTACTS

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eH bH IL jŠ iP IB dS vB jP rV aV bČ eN bS  
pK pH mK aJ jH zŠ bV oT jK šŠ aŠ sB hE  
gO hA iD hF mZ hM iB iC hB iH pTT iK  
mH iR pL iS jA mK jB vK jČ bZ mV rS jS  
rM jŠ rG dT iS jA mK jB mG iM mJ hH mR  
zV mL pC IH sS rV hZ dZ mG iM mJ hH  
mR IS tB jN bD tF aH vG mP jP aL jT pT jJ  
sK kK šK IS tB jN bD tF aH vG mP vJ mS